2 High-Yield Income Investments I'd Consider Today

Description

Rich pickings are sometimes widely available in a beaten-down market, and locking in some great dividend yields on trusted stocks for a long-term holding period could generate wonderful income yields and set the portfolio up for phenomenal capital gains as equity prices correct over time. With a 12% dividend yield, **Bonterra Energy** (TSX:BNE) is one heavily punished stock that value investors may want to look into today, while **BTB Real Estate Investment Trust** (TSX:BTB.UN) is another potentially rich pick.

Let's take a closer look.

Bonterra Energy

Bonterra is a conventional oil and gas corporation with operations in Alberta, Saskatchewan, and British Columbia that has greatly benefited from the protracted recovery in oil prices throughout the first nine months of 2018. However, the sudden increase this quarter of the differential between Canadian crude against its Western Texas (WTI) equivalent has resulted in a significant plunge in the stock.

Bonterra stock has lost 42% of its equity value in one month to November 22, 2018, to trade at 64.6% of its book value, as investors fret over the increased discount on Canadian light oil to its WTI equivalent as well as the sudden plunge in world oil prices since early October, as a surplus oil supply is forecasted for the near term.

Pipeline capacity shortages and "recent refinery maintenance has led to material apportionment and price weakness for Canadian light oil, making Canadian oil much cheaper relative to the U.S. benchmark. Light oil has been trading at discounts up to US$30 per barrel in Q4 compared to a differential of approximately US$6-7 per barrel in Q3," says Bonterra management during the third-quarter results release on November 7.

The company recorded revenue growth of 27% for the first nine months of 2018, as compared to the same period last year. Funds flow grew 42.7% for the third quarter, and cash flow from operations grew 32% over a comparable quarter last year for a dividend payout ratio of 30%, down from 40%

during the same quarter last year.

Bonterra's $0.10 monthly cash dividend seems well covered for now, but the sudden oil price rout (if protracted) — compounded by the deep western Canada oil differential — could threaten both the dividend and stock price in the long term.

Trading near a 52-week low, Bonterra's stock is heavily depressed today. However, the Canadian oil differential may be gone soon as new pipeline capacity comes online over the next two years, and refinery maintenance shouldn't be a long-term factor to worry about.

The stock is a speculative buy today, but contrarian investors could lock in a 12% dividend yield while waiting patiently for things to normalize on the Canadian oil front.

BTB REIT

One of the stable growth REIT offerings, BTB has an asset portfolio of 65 properties spread across the retail, office, and industrial segments, and its units have outperformed the underlying S&P/TSX Capped REIT index so far this year on a total-return basis.

The REIT offers a distribution yield of 9.15% on an annualized basis with an ever-improving coverage ratio. BTB saw an increase in distributable income per unit of 17.5% during the third quarter of 2018, and adjusted funds from operations (AFFO) per unit increased by 12.9% over a comparable quarter last year.

The AFFO payout ratio improved to 92.11% for the quarter, down from nearly 104% in a comparable quarter last year, adding more safety to the $0.035 monthly distribution.

As previously highlighted, management is registering success with its disciplined asset portfolio rationalization program, where poorly performing assets are being sold and better properties being bought.

One nagging issue with BTB is an elevated leverage during an increasing interest rate environment, with a debt ratio that has been reduced from 65.8% to 63.8% exit last quarter, but the interest cost on the mortgages has not been that expensive, with a weighted average interest rate on mortgage debt of 3.89% by September 30 this year.

Although the REIT has higher leverage than peers to justify a 14% discount to net asset value on the units, the interest seems manageable, and the trend towards debt reduction is a significant plus.

The valuation discount on the units provides a valuable margin of safety on investment. Further, BTB offers a distribution-reinvestment plan where units are paid at a 3% discount to their five-day average weighted price on the TSX. This discount could add significant annual return if the DRIP option is taken in a long-term growth-oriented income portfolio.

CATEGORY

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1. Editor's Choice

TICKERS GLOBAL

1. TSX:BNE (Bonterra Energy Corp)
2. TSX:BTB.UN (BTB Real Estate Investment Trust)

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