2 Dividend Stocks Paying More Than 5%: 1 to Buy, 1 to Avoid

### Description

Dividends are a great source for additional income. Below are two stocks that attract investors with their yields of more than 5%. However, one seems to be a safer investment than another at this part of the economic cycle.



## Dividend hike bumps NFI Group's yield above 5%

**NFI Group** (TSX:NFI) is formerly known as New Flyer. The stock has corrected significantly, falling about 45% from its 2018 (and all-time) high. Management has attempted to instill confidence by increasing the dividend by 13.3% this month.

A reduced stock price and a boosted dividend is a great marriage, leading to a juicy yield of more than 5.1% as of writing.

NFI and its predecessors have been around since 1930. It is the largest bus manufacturer in North America and provides a range of mass production solutions, including heavy-duty transit buses, low-floor cutaway and medium-duty buses, motor coaches, and parts, support, and services.

That said, 85% of revenue was related to manufacturing and 15% to aftermarket. So, NFI's earnings depend heavily on the demand for new buses and motor coaches.

NFI had super growth, with earnings increasing by 16 times from 2012 to fiscal 2017, which begs the question if the bus cycle has ended for now. The 11% decline of the 2018 backlog compared to 2017 seems to support that theory. If so, the stock could be a lackluster investment for price appreciation in the near term.

The dividend doesn't seem to be in danger at the moment, though.

# A safer dividend stock for a 6.4% yield

For a safer dividend stock that's less subject to cyclicality, consider **Brookfield Property Partners** ( TSX:BPY.UN)(NASDAQ:BPY). The dividend stock offers a whopping dividend yield of about 6.4% thanks partly to a high U.S. dollar against the Canadian dollar.

Brookfield Property pays a U.S. dollar-denominated cash distribution, which can comprise interest, corporate dividend, REIT dividend, other income, and return of capital. So, personally, I hold the stock in an RRSP for simplicity.



Brookfield Property's diversified real estate portfolio is rock solid. It largely holds core office and retail assets that serve as the foundation for stable rental income. This is about 80% of its balance sheet.

Simultaneously, Brookfield Property is on the lookout for opportunistic investments that can deliver higher returns in the range of 18-20%. These are mispriced assets that the experienced management team can add value to and resell at a higher price after making improvements.

Brookfield Property also strategically buys back shares for cancellation when they're cheap. In fact, it just completed the purchase of about US$294 million worth of shares at US$21 per unit for cancellation.

The stock currently trades at a slight discount from the US$21 price tag, which indicates a fabulous buying opportunity for income investors.

Brookfield Property's cash distribution is safe and growing. In 2018, its payout ratio was about 85%. This ratio was improved to about 60% after accounting for capital gains from asset sales, which is a part of its ongoing strategy for outsized long-term returns.

## Investor takeaway

Between the two dividend stocks, Brookfield Property is a safer option for income. It offers a yield of about 6.4% and aims to increase its cash distribution by 5-8% per year.

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1. Dividend Stocks
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2. TSX:NFI (NFI Group)

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