2 Stable Passive-Income Stocks With Yields Higher Than 7%

Description

If you're an income investor who subscribes to the "4% rule" with your income fund, it's time to reconsider higher-yielding securities without having to worry about whether a dividend cut is looming around the corner. Nobody wants a dividend reduction because it usually accompanies massive capital losses, as income investors collectively throw in the towel.

While a higher yield typically means less financial flexibility for the firm that's paying the dividend, and more "baggage" for stocks that have suffered big declines to make way for the higher yield, I believe we're now in an era where the "4% rule" is outdated and needs a bump. In a way, the "5% rule" could be the new "4% rule" now that we're no longer in an environment where interest rates are near zero.

In any case, here are two 7%-plus yielders that are safe for owning in your passive-income fund.

Automotive Properties REIT

Technically speaking, this is a REIT, not a stock, but the distribution yield is just as bountiful, currently sitting at 7.69%.

Now, I know what you're thinking. The auto industry stinks. Why would I want to expose my income fund to an industry that fickle?

While "peak auto" is a term that's been thrown around by bearish folks in the media a lot lately, I believe the fears are overdone when it comes to the providers of real estate. **Automotive Properties REIT** (TSX:APR.UN) nosedived late last year when everybody was so convinced that the Fed would send us into a recession.

Shares have since bounced back considerably, but are still undervalued in my books, hence the above-average yield. The REIT's name may be unattractive, but the fundamentals and the leasing profile (13.5-year weighted average lease term) are anything but.

Auto Properties REIT is a growth-oriented REIT, and given the potential for AFFO growth over a longterm time horizon, I see the 7.69% growing further, warranting for an upside correction to shares at some point down the road.

Inter Pipeline

Up next we have my top pick for July: **Inter Pipeline** (TSX:IPL). The stock has been roaring this month, and although the 8.5% yield is now unattainable, there's a juicy 7.73% yield and the potential for huge capital gains as we head into year-end.

The pipelines have been battered, but fortunately for Inter Pipeline, there's relief on the way with cash flow-generative projects slated to come online over the medium term. With that relief comes more support for the dividend and potentially another generous dividend increase.

At today's valuations, Inter Pipeline still looks like a big steal. So, I'd continue to back up the truck while the name trades at just 12.4 times EV/EBITDA. It's an underrated company that's about to exit the penalty box, and Canadian value investors are just starting to take notice.

And the better buy is…

Both securities are undervalued with reliable dividends. If I had to choose one, I'd go with Inter Pipeline because of the coming catalysts and the slightly higher yield.

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