2 Cheap Dividend Stocks Yielding 7%–12% for Contrarian Investors

Description

Income investors are on the hunt for high-yield stocks to boost returns on their savings funds.

Using the TFSA is a great option for holding these names, as the distributions are not taxed and the payouts do not count toward your net income. That is important if you are collecting OAS and your pension earnings are at or above the clawback limit.

Let's take a look at two stocks that might be interesting picks right now for a contrarian investor's income portfolio.

Inter Pipeline

Inter Pipeline (TSX:IPL) has raised its dividend every year for the past decade. The stock is down on concerns that its ambitious capital program might be too much for the balance sheet to handle.

The company is making good progress on its $3.5 billion Heartland Petrochemical Complex, which is expected to go into service in late-2021 and ultimately generate annual additional EBITDA of $450–$500 million. This should give cash flow a nice boost and support ongoing dividend increases.

Management is floating the idea of selling the company's European liquids storage business to raise funds to cover a good chunk of the cost for the Heartland project. A sale would likely alleviate investor concern and potentially drive the stock higher.

IPL said it turned down an offer to buy the company. A media report on the rumour said a potential buyer had offered $30 per share.

IPL currently trades at $23.60 per share and provides a dividend yield of 7.25%.

Vermilion Energy

Vermilion Energy (TSX:VET) (NYSE:VET) is an interesting player in the Canadian energy patch. The company owns oil and gas assets in Canada and the U.S., but also has production sites in Europe and Australia. The international operations can benefit from Brent oil and global natural gas prices, which are higher than the prices producers get in Canada and the U.S.

The weakness in the oil market combined with a challenging start to 2019 has resulted in a steep sell-off for the share price, but the pullback appears overdone, and bargain hunters have started to buy the stock.

Vermilion Energy traded below $19 in recent weeks, but is back up to $22.50.

The CEO has indicated that the dividend distribution is covered by cash flow and is not at risk of a cut. At the time of writing, the stock offers a 12% yield.

Any time a dividend yield gets this high, it means the market is expecting a reduction. As such, investors have to be careful. Vermilion is definitely a higher-risk dividend bet, and I would only allocate a small amount of my portfolio to the stock.

That said, in the near term the payout should be safe and a rebound in the oil market could quickly drive the shares back toward $30.

The bottom line

Buying IPL and Vermilion Energy at current levels takes some courage, and investors should expect ongoing volatility. In the case of Vermilion, a cut to the payout would be on the horizon in the event oil prices plunge in 2020.

However, the two stocks appear oversold today and investors can pick up attractive yields to boost their TFSA income while booking a shot at some nice upside if oil prices rally.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

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2. TSX:VET (Vermilion Energy Inc.)

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