2 Dividend Stocks Yield 5%: Only 1 TSX Stock Is a Buy Now

Description

Sun Life (TSX:SLF)(NYSE:SLF) stock and **Inter Pipeline** (TSX:IPL) stock both offer yields of about 5%. However, one is a better buy.

Sun Life stock

Sun Life stock tends to outperform its peers and has greater price growth momentum. Its diversified business helps it in this regard. In 2019, its earnings diversification is as follows: 31% from asset management, 24% from individual insurance, 19% from group insurance, and 15% from wealth solutions.

Sun Life stock is a Dividend Aristocrat. It has increased its dividend for five consecutive years. However, it has actually maintained or increased its dividend for at least 19 consecutive years.

SLF stock's five-year dividend-growth rate is nearly 8%. Its payout ratio is estimated to be about 41% of this year's earnings. Therefore, the insurer's dividend is sustainable. At writing, the insurance stock offers a nice yield of 5%.

The stock has declined 26% year to date. At $44 per share at writing, Sun Life stock trades at a low valuation of 8.4 times earnings. Compare that to its long-term estimated earnings growth rate of 8-10%. Assuming a multiple expansion to its normal multiple of 12, the stock can appreciate 75% from current levels in three years.

Sun Life's five-year return on equity of 12% is decent. As an insurance business, Sun Life generates revenue streams from existing customers without having to make new sales. Therefore, it is much better positioned than other types of businesses that rely on new sales to make money.

Inter Pipeline stock

Inter Pipeline's 2019 results weren't good. And this was *before* the coronavirus pandemic hit. Its pipeline assets, which contributed almost 70% of its funds from operations (FFO), had volumes that declined by 1.7% against 2018.

Its NGL processing volumes increased by 3.6%. However, the FFO from this segment was almost slashed in half. Its bulk liquids storage FFO climbed 75% thanks partly to the NuStar acquisition in late 2018. Unfortunately, the boost wasn't nearly enough to offset the FFO loss in the NGL processing segment.

Inter Pipeline also has 95% of its capital program in the Heartland Petrochemical Complex project. Initially, it planned to sell its bulk liquid storage business to help fund the project.

As that did not work out, the company reduced its common dividend and the compensation for management and board of directors. The savings allow the company to prevent additional dilution for current shareholders via external equity or dividend reinvestment (which it suspended).

The bulk liquid storage business appears to be good assets to keep, especially in today's low natural gas pricing environment. It's also a good thing that external equity and dividend reinvestment capital is not needed, because the stock is trading at less than half of where it was a few months ago!

At writing, IPL stock trades at $9.85 per share and yields 4.9%.

The Foolish bottom line

Although Sun Life stock and Inter Pipeline stock both offer yields of roughly 5%, Sun Life is a better buy, as it offers greater stability and upside in the near term.

That said, Inter Pipeline's Heartland project is expected to be complete by the end of 2021, at which time it will boost the company's cash flow significantly. Interested investors have a couple of years to aim to buy the stock at an even lower price.

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