Attention Retirees: 2 Stocks With 7% Dividend Yields That Should Be Safe

Description

In normal economic times income investors need to be careful once a dividend yield gets above 7%.

High-yield stocks

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Time and again, we have seen CEOs say their distributions are safe, and then proceed to cut them months later after situations change. This is particularly common in the commodity sector where energy companies with weak balance sheets can get into trouble when oil prices fall.

The market, however, has a knack for identifying distributions that might not be sustainable. Share prices often fall in anticipation of a payout cut. Sometimes the market gets it wrong and investors who buy at the lows scoop up great yield. In other cases, the market concerns turn out to be valid.

While not a pure science, analysts often say any yield that drifts above 7% should be considered at risk.

Opportunities

The market crash of 2020 hammered the share prices of top dividend stocks, which includes quality names that have long track records of distribution growth. The plunge pushed yields into territory not seen since the Great Recession. In many cases, the payouts should be safe during the downturn.

Let's take a look at two stocks offering 7% yields today that might be interesting picks for an income portfolio.

Power Corporation

Power Corporation (TSX:POW) is a holding company with investment interests in a number of high-profile businesses in the insurance and wealth management sector. The portfolio includes **Great-West Lifeco** and **IGM Financial**, which in turn own names such as Canada Life, IPC, Makenzie, Investors

Group. Wealth Simple is also part of the mix.

Other divisions have investment interests in Europe and China.

Insurance companies should generate solid results through the pandemic as people are not using up their coverage. Hospital visits for care that falls outside the provincial coverage are down significantly, and people with generous company plans have not been able to go to the dentist, chiropractor, or massage studio.

While funds invested in equities took a hit in March, the market rally has recovered most of the losses. Nimble fund managers at the subsidiaries likely put some cash to work and the benefits should turn up in the Q2 results.

Power Corporation trades at $25.50 at the time of writing and provides a 7% yield. The stock bottomed out below $18 in March and was above $34 earlier this year.

Enbridge

Enbridge doesn’t produce oil or gas. The company simply acts as a toll booth as it moves the commodities from the producers to their customers, such as refineries.

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The oil crash hammered the U.S. shale sector. Big players are going to disappear. In addition, producers have slashed capital programs to protect cash until things get better.

Enbridge saw volumes drop on its Mainline Liquids pipelines in Q1 and the Q2 results will likely show weak traffic, as well. As the Canadian and U.S. economies reopen, demand for fuel should rebound through the end of the year, which means refineries will need feedstock to produce gasoline and diesel fuel.

Despite the challenging near-term conditions, Enbridge is maintaining its 2020 guidance for distributable cash flow. The majority of the revenue comes from regulated assets and Enbridge has a solid balance sheet.

The stock trades near $44.50 and provides a yield of 7.25%.

The bottom line

Power Corporation and Enbridge pay attractive high-yield dividends that should be safe. Investor can get 7% returns at current stock prices and could see decent gains once economic growth resumes.

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