2 Defensive Dividend Stocks Against COVID-19 Disruptions

Description

The COVID-19 pandemic disrupted too many companies — some more than others. With the earnings season well underway, it's easier to identify defensive stocks against the current economic downturn. Here are some nice dividend stocks that have had little impact from the pandemic.

Brookfield Infrastructure Partners

Brookfield Infrastructure Partners (TSX:BIP.UN)(NYSE:BIP) just reported its second-quarter results on Wednesday. During Q2, the COVID-19 related economic shutdown led to a US$27 million reduction in funds from operations (FFO).

If it weren't for the 27% depreciation of the Brazilian real, which reduced BIP's FFO by US$30 million, the company would have increased FFO per unit by 3%.

When accounting for all this, BIP's FFO of US$333 million was only down marginally by 1% against Q2 2019. On a per-unit basis, the FFO was US$0.72, down 5%.

Additionally, BIP's ongoing capital recycling program also helped with the quarterly results. In the last year, the company deployed US$1.2 billion of capital at an average going-in FFO yield of 12%. It funded the new investments largely from US$1 billion of asset sale proceeds and refinancing transactions.

This shows the essential nature and strength of BIP's diversified global infrastructure portfolio, as well as its proven model that involves capital recycling.

Currently, the stock offers a yield of 4.5% with a payout ratio of about 65%.

BIP is reasonably valued. According to analysts, it has about 10% upside over the next 12 months. This calls for returns potential of about 15% over the next 12 months.

If they don't own any shares, conservative investors should consider buying a starter position. Of course, the Canadian Dividend Aristocrat will be an even stronger buy on meaningful dips.

Capital Power

Not surprisingly, the second defensive stock, **Capital Power** (TSX:CPX), is also a utility.

At the end of July, Capital Power reported its Q2 results. It increased its adjusted EBITDA by 13.6% to $217 million versus Q2 2019. Normalized earnings per share (EPS) increased 21%, and its adjusted FFO per share climbed by 12% to $0.92.

The company is making good progress on its growth strategy. First, it expects to finish building the largest wind facility in Alberta by the end of 2021. Second, it's also working on its first solar facility in Canada. So, it reaffirmed its 2020 guidance that it set out in December 2019.

Results in the first half of the year show a bigger picture. Adjusted EBITDA increased 14.8% to $451 million, normalized EPS was flat at $0.44, and adjusted FFO per share climbed 3.6% to $2.04. Consequently, its adjusted FFO payout ratio was 47% in the first half of the year.

Because Capital Power raised its dividend by 6.8%, equating to an annualized payout of $2.05 per share, the company provides a yield of almost 7.2%. So, investors can already get the long-term average market returns of 7% from the utility's dividend alone.

Moreover, the utility has planned for more dividend increases — 7% next year and 5% the year after.

Capital Power is a good value. According to analysts, it has about 18% upside over the next 12 months. So, the estimated total returns potential is about 25% over the next 12 months.

The Foolish takeaway

Brookfield Infrastructure and Capital Power are defensive in a few ways. Firstly, both stocks are reasonably valued. Secondly, their cash flows are resilient against this economic downturn. Finally, they offer meaningful returns from their quarterly payouts.

CATEGORY

1. Coronavirus
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TICKERS GLOBAL

1. NYSE:BIP (Brookfield Infrastructure Partners L.P.)
2. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
3. TSX:CPX (Capital Power Corporation)

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