Passive-Income Investors: 2 High-Yield Utilities for Dividend Income

### Description

GICs used to be a secure way to get decent passive income while protecting your principal. However, with the best one- to five-year GIC rates at historic lows of 1%-1.5%, increasingly, income investors are looking to the stock market for higher-yield alternatives — even though that means taking on a bit more risk and volatility.



Utility stocks are one of the safest places to seek passive income. By incorporating just a portion of your portfolio in these dividend stocks, it'll make a big difference in boosting your income.

Right now, you can consider **Enbridge** (TSX:ENB)(NYSE:ENB) stock and **Capital Power** (TSX:CPX) for dividend yields of 6-8%.

The dividend stocks are investment grade. Enbridge has an S&P credit rating of BBB+, while Capital Power's S&P credit rating is BBB-.

Both stocks are at least reasonably valued, which means that barring a market crash, with an investment horizon of at least three years, you should experience some nice price appreciation on top of getting above-average yields.

## Enbridge stock yields 7.9%

Enbridge stock remains one of the best ideas for passive income. Some investors treat it as a utility or bond-like proxy for its cash flow stability and predictable.

Earlier this month, the state of Michigan sought to shut down Enbridge's Line 5 pipeline, but the company noted that the pipeline was deemed fit for service.

Additionally, it's the safety regulator, the federal Pipeline and Hazardous Materials Safety Administration, which oversees the safety of that pipeline, not Michigan. Accordingly, Enbridge has sought to stop Michigan by filing a complaint in federal court.

Enbridge also made progress on getting the needed permits to build its Line 3 oil pipeline across northern Minnesota. This was needed good news that helped lift the stock this month.

Despite economic shutdowns, low energy prices, and all the hurdles that Enbridge has to overcome, the company has delivered incredibly resilient results. Year to date, it reported adjusted EBITDA and distributable cash flow (DCF) that were essentially flat.

Management reaffirmed its guidance for DCF of about $4.65 per share this year, resulting in a safe 2020 payout ratio of approximately 70%. At about $41 per share, Enbridge stock has 22% 12-month upside potential and yields 7.9%. The company's quarterly dividend is $0.81 per share.

## Capital Power yields 6.2%

Earlier this month, Capital Power reported its Q3 results. Year to date, it increased its adjusted EBITDA by 8.6% to $735 million. Normalized earnings per share increased by 3.8%, and its adjusted FFO per share climbed marginally. This resulted in an adjusted FFO payout ratio of 36% in the period.

The power producer owns roughly 6,500 MW of power generation capacity across 28 facilities in North America. The company further secured its long-term cash flow in Q3.



First, Capital Power extended a 10-year contract (through 2032) for its natural gas facility in Alabama. Second, it signed 20-year contracts for three solar development projects in North Carolina. With other wind and solar projects in advanced development, the utility expects to add about 350 MW of renewable capacity by the end of 2022.

Capital Power is a Canadian Dividend Aristocrat with six consecutive years of dividend increases. Its five-year dividend-growth rate is 7.2%. The roughly 7% increase is expected to continue through next year.

Capital Power is fairly valued. The dividend stock pays a quarterly dividend with an annualized payout of $2.05 per share. At about $33 per share, it yields 6.2%.

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