Need Income? Start Earning 5% Yields Right Now!

Description

Despite bond yields on the rise, the interest income they generate is still very low. The Bank of Canada indicates the recent five- and 10-year government bond yields are about 0.88% and 1.35%, respectively. A full portfolio of such bonds isn't going to generate enough income to keep up with the 2% long-term rate of inflation.

If you're planning to (at least partially) live off of your investment income, you need to populate your portfolio with bigger yields.

Here are two dividend stocks that provide secure yields of about 5% right now. Below, I spell out some of the risks investors are taking by getting a higher income.

Get nice dividend income from Emera stock

Emera's (TSX:EMA) business primarily consists of regulated electric and natural gas utilities, natural gas pipelines, and energy marketing and trading. In 2020, it generated about $1.5 billion of revenues and $284 million of net income. It also ended the year with $31 billion of assets.

Emera has a rate base of approximately $19 billion. With a $7.5 billion capital program to drive growth, the utility expects rate base growth to be about 4% per year from 2020 to 2022. This will, in turn, allow the utility to drive dividend growth of 4-5% through the period.

The utility last increased its quarterly dividend by 3.9% in Q4 2020 and is on schedule to declare another dividend increase in October. Its current annualized payout is $2.548 per share, which equates to a yield of 5% at about $51 per share at writing.

Notably, its payout ratio will be about 90% this year. That's a little high even for a safe utility that has been increasing its dividend for the past 14 years. (In the last decade, Emera's payout ratio ranged from 66% to 92%.)

So, even if Emera is able to increase its earnings at a higher pace, it would be a good idea for it to increase its dividend at the lower end of its dividend-growth guidance range at 4% over the near term to improve its payout ratio.

Get monthly income from H&R REIT

Investors don't need to watch **H&R REIT's** (TSX:HR.UN) payout ratio as closely as Emera's. The diversified real estate investment trust (REIT) cut its cash distribution in May 2020, bringing its payout ratio to a very sustainable level of about 50% this year.

At the end of 2020, H&R REIT had total assets of roughly $13.4 billion. Primarily because of the pandemic, there were large reductions in the fair-value estimates of its office and retail properties (partially offset by fair value increases in its industrial and residential real estate portfolios).

However, so far, the pandemic has had little impact on H&R REIT's underlying power in generating strong cash flows from its diversified real estate portfolio. In 2020, H&R REIT's funds from operations (FFO) fell only 5% year over year. The FFO is the key metric that management looks at to pay out the monthly cash distributions.

About 85.5% of the REIT's revenues come from investment-grade tenants.85.5% of the REIT's revenues come from investment-grade tenants. In January 2021, H&R REIT's overall rent collection was 94%. This shows resiliency. Its retail portfolio's rent collection of 86% was what dragged down results.

A low FFO payout ratio and a diversified and resilient portfolio should keep H&R REIT's monthly cash distribution safe. Right now, investors can lock in a yield of close to 5% at just under $14 per unit.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)
2. TSX:HR.UN (H&R Real Estate Investment Trust)

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