2 High-Yield Dividend Stocks I'd Buy With $2,000

Description

Amid the lower interest rate environment, dividend stocks with higher yields have become more attractive than ever. However, buying dividend stocks solely based on higher yields could prove detrimental. It's important to look at the stability of a company's payout ratio and its potential to consistently generate strong cash flows before putting in your money.

Here, I'll focus on two high-quality stocks that have been paying dividends for decades and are offering high yields. Further, these companies have resilient cash flows and a sustainable payout ratio, implying that investors can easily rely on these stocks.

Stock #1: Enbridge

Energy infrastructure company **Enbridge** (TSX:ENB)(NYSE:ENB) has paid dividends for more than six-and-a-half decades, while its dividends have a CAGR (compound annual growth rate) of 10% in the last 26 years. Further, Enbridge's dividend of $3.34 a share translates into a high yield of 6.5%, making it a top stock to generate reliable passive income.

Enbridge's solid dividend payments are supported through its diverse cash flow streams with continued momentum in its core business and contractual arrangements. Looking ahead, the recovery in its mainline throughput, $17 billion secured capital program, higher asset utilization rate, strategic acquisition, and growth opportunities in the renewable business indicate that Enbridge's distributable cash flow (DCF) should increase at a healthy pace.

Management projects 5-7% annual growth in its DCF per share over the coming years and expects to grow its dividends at a similar pace. It is interesting to note that Enbridge's dividend growth has not come at the expense of its investments in growth initiatives. Its dividend-payout ratio of 60-70% of DCF is sustainable in the long run and provides enough fuel for the company to pursue new growth opportunities.

Stock #2: Pembina Pipeline

Pembina Pipeline (TSX:PPL)(NYSE:PBA) has been paying and growing its dividends for more than two decades. Since its inception, Pembina has paid over $10 billion in dividends, while its dividend has a CAGR of 5% in the last 10 years. It pays dividends monthly and offers a solid yield of over 6.2%.

Pembina's dividends payments are supported by its resilient fee-based cash flows. Its diversified and highly contracted assets generate a significant amount of fee-based cash flows, implying that its dividends are safe. Further, its standard payout ratio of 55% of fee-based distributable cash flows is sustainable in the long run. Investors should note that take-or-pay or cost-of-service arrangements back Pembina's long-term contracts, and these arrangements remove volume or price risk.

Looking ahead, the recovery in energy demand, higher volumes and pricing, and new projects will likely drive Pembina's financials and support higher dividend payments. Further, its contracted assets should continue to generate strong fee-based distributable cash flows.

Bottom line

With the resurgent virus in the background, I expect the lower interest rate environment could stay for an extended period. Thus, if you have $2,000 to invest, adding these two high-yield dividend stocks to your portfolio could help generate a reliable fixed income.

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