



## Energy Infrastructure Companies May Be Sought Out to Provide Shelter from Storm

### Description

In the wake of today's huge resource focused sell-off, investors are no doubt considering getting out-of-the way of free-falling commodities. One of the sub-sectors that is likely to garner some attention from those seeking an alternative way to play Canadian equities is energy infrastructure.

### Observations

There are two things to realize before rushing out of your plummeting gold stocks and into a "safe" pipeline alternative. First of all, this has been one of the hottest groups in the Canadian market over the past five years. You wouldn't think a pipeline company could throw up a triple digit return over this relatively short period of time, but tabled below are three that accomplished just that. To put these returns into context, over this period, the S&P/TSX Composite has declined by about 10%.

Company Name	5 Yr. Return	Current Yield	Price/Book
<b>Pembina Pipeline</b> ( <a href="#">TSX:PPL</a> )	186.0%	5.1%	2.2
<b>Inter Pipeline</b> (TSX:IPL.UN)	148.7%	4.7%	3.9
<b>Enbridge</b> (TSX:ENB,NYSE:ENB)	116.9%	2.7%	5.5
<b>Keyera</b> ( <a href="#">TSX:KEY</a> )	65.0%	3.7%	5.1
<b>TransCanada Corp.</b> (TSX:TRP,NYSE:TRP)	31.5%	3.8%	2.2

Source: Capital IQ

Part of the reason these stocks have moved ahead so aggressively is that all pay a reasonable, and in some cases generous, yield. Given the market's thirst for income, this group has been a natural fit and benefitted significantly from a flow-of-funds into yield related securities. This has left valuations, as indicated by the P/B multiples, at levels that most consider rather elevated.

## #2

The second observation is that NONE of these companies actually generate enough free cash to cover their apparently "safe" dividends. For a group that has attracted an income-loving investor base, this is somewhat remarkable!

The following table conveys the cumulative free cash that each generated over the past 5 fiscal years and compares this to total dividends paid out. As you can see, the shortfalls, especially for the bigger cap names, Enbridge and TransCanada, are rather significant.

Company Name	Cash from Ops	Cap Ex	Free cash	Dividends	Shortfall
Enbridge	\$12,067	\$20,079	-\$8,012	\$2,326	\$10,338
TransCanada	16,279	18,035	-1,756	4,196	5,952
Pembina	1,347	1,578	-231	1,123	1,354
Inter Pipeline	1,788	2,076	-288	728	1,016

Keyera	988	900	88	629	541
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Source: Capital IQ

So, where did the cash come from to fund the respective dividends? The final table provides an indication of the joy that each of these companies has brought to the country's investment banking community. All 5 were hugely reliant on the capital markets (debt and equity) to fund not just their cap ex, but dividends too.

Company Name	Net debt issued	Net equity issued	Total
TransCanada	\$8,136	\$4,341	\$12,477
Enbridge	8,882	654	9,536
Pembina	1,240	437	1,677
Inter Pipeline	1,243	184	1,426
Keyera	574	363	936

Source: Capital IQ

### The Foolish Bottom Line

There is little doubt that each of these companies could cover their annual dividends out of cash flow if they were to stop pursuing growth projects. The problem is, the group is not priced as a bunch of cash cow, dividend payers. They are, for the most part, valued to grow and should access to the growth capital they obviously require be blocked for one reason or another, their valuations will suffer. Growth oriented investors will head for the exits and the income crowd that has been attracted to these relatively "safe" names will be left holding on to a collection of depressed stocks. Be mindful of what's priced in before rushing out of commodities and into another sector of the Canadian market!

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*Fool contributor Iain Butler does not own shares in any of the companies mentioned at this time. The Motley Fool has no positions in the stocks mentioned above.*

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:ENB (Enbridge Inc.)
2. TSX:KEY (Keyera Corp.)
3. TSX:PPL (Pembina Pipeline Corporation)
4. TSX:TRP (TC Energy Corporation)

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