

My Top 3 Dividend Stocks From the Oil Patch

Description

What could be a better feeling than cashing a dividend cheque? It's fun to watch as the income pile up in your brokerage account month after month. And while steady eddy dividend payers don't garner the attention of high-flying growth stocks, those little payouts can really add up.

No doubt, income investing is profitable. So I scoured the oil patch looking for the top three names that should be considered by any income investor. My three criteria for inclusion:

1. A big, juicy yield. Investors should be able generate income today.
2. Ample growth opportunities. Yield is great. But the best dividend stocks should be able to grow their payouts in the future.
3. A sustainable payout. A small hiccup in the economy shouldn't cut off our income stream.

Let's take a look at the results.

Big is beautiful

Someone once said that the best things come in small packages. That person clearly wasn't an energy investor. In this industry you need raw size and scale to tackle the toughest energy challenges. And in the Canadian oil patch, it doesn't get any bigger than **Suncor** (TSX: SU, NYSE: SU).

New Chief Executive Steve Williams has a simple goal: he wants to line shareholders' pockets with as many dividend cheques and share buybacks as possible. Since taking over last year, Williams has doubled Suncor's payout and has pledged to buy back 10% of the company's outstanding shares. Today, the stock yields 2.2%

Yet Suncor still has a variety of profitable growth projects that can drive dividend hikes in the future. Williams has pledged to increase production by 100,000 bpd over the next three years through debottlenecking operations and increasing upgrader reliability. The benefit of these types of projects is that they're relatively low-risk but provide a high return on investment in comparison to new mining projects.

Pipelines to profits

North America is in the midst of an energy renaissance. New energy plays like the Alberta oil sands, the North Dakota Bakken, and the Texas Eagle Ford are pumping out double-digit production growth. But here's the problem: we don't have enough pipelines in the ground to move it all.

Enbridge (TSX: ENB, NYSE: ENB) solves this issue. The company's single mission is to make sure all of this crude reaches refineries while making a nice profit in the process. Through its Market Access Initiative, Enbridge is expanding its system to boost Canadian oil exports by 1 million bpd by mid-2015, from nearly 2 million b/d it transports today. The company has \$28 billion in commercially secured projects over the next three years and management expects this to drive 10% to 12% annual earnings growth over that time frame. Not bad for a boring pipeline company.

Income investors love Enbridge because of its 50-year track record of paying a continuous dividend. And because of the nature of its business — pipelines and gas distribution — the company's profits are protected by a wide competitive moat. So shareholders can count on a growing stream of dividend cheques for years to come. Today, the stock yields 2.9%.

End that pain at the pump

Gas prices neared a record high this summer and no doubt many motorists felt the pain at the pump. It's time to get a little bit of that cash back with **Parkland Fuels** ([TSX: PKI](#)).

Parkland is Canada's largest independent fuel supplier, operating hundreds of retail and commercial service stations across the country. You may have visited one of its Fast Gas Plus, Race Trac Gas, or Esso locations. If so, your purchase undoubtedly funded the stock's juicy 5.8% dividend yield.

Of course the gas distribution industry is a mature space. But Parkland is still finding growth opportunities. The company continues to expand through acquisitions, building economies of scale. Parkland is also growing margins through cost-cutting and business efficiencies — all of which will fund future dividend hikes.

Foolish bottom line

Pipelines and gas stations by not be the most exciting investments around. It's the sexy growth stocks that hog the conversation around the water cooler. But what they lack in excitement, they make up for in profit. That's why steady dividend payers serve as a good foundation for any portfolio.

Two top stock recommendations

Our senior investment analyst just unveiled his [top two stock ideas](#) for new money now. And YOU can be one of the select few investors to find out first — just [click here](#) for all the info.

Disclosure: Robert Baillieul doesn't own any of the stocks mentioned in this article.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:ENB (Enbridge Inc.)
4. TSX:PKI (Parkland Fuel Corporation)
5. TSX:SU (Suncor Energy Inc.)

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