



6 Recession-Proof Dividend Stocks Yielding Up to 6.5%

Description

I know from talking with other income investors that virtually all of them are concerned about dividend cuts impacting their cash flow.

For investors who count on those distributions to cover daily expenses, the prospect of a dividend cut can create real problems. That's why when building an income portfolio to last over the long haul, you need to look for more than the highest yielding stocks. You have to find companies with sustainable distributions that can survive the regular economic ups and downs.

Unfortunately, few companies meet this criteria. However, there is one industry prized for its recession resistance. In fact, the sector has been counted on by investors for steady dividend income since the 1860s. And thanks to sheer economics, this industry is likely to continue producing stable distributions for another century to come.

Dividends that outlast recessions, crises, and bubbles

I love the pipeline business. The steel and concrete pipes that carry crude oil, natural gas, and refined petroleum products underneath the ground is beautiful from an investor's perspective.

While pipelines can require a large upfront investment, they're actually not that expensive to maintain. Only a small percentage of operating cash flow is needed for maintenance. The rest, as evident in the chart below, can be paid out in big, juicy dividends to shareholders.

Company	Market Cap (\$ in billions)	Yield
TransCanada (TSX: TRP)(NYSE: TRP)	\$36.2	3.75%
Pembina Pipelines (TSX: PPL)	\$12.1	4.00%

Inter Pipeline (TSX: IPL.UN)	\$9.3	4.41%
Versen (TSX: VSN)	\$3.3	6.03%
Valener (TSX: VNR)	\$0.6	6.45%
Gibson Energy (TSX:GEI)	\$3.5	4.19%

Source: Google Finance

The pipeline business is also remarkably stable. Few companies try to profit from changes in the price of the oil and gas they carry. Instead, they charge fees based on the volume transported or negotiate in advanced with customers in exchange for guaranteed capacity.

So while energy prices can be volatile, the actual volume of commodities flowing to market tends to remain fairly stable year to year. This makes the industry almost immune to recessions, financial crises, and asset bubbles.

Given the high barriers to entering the industry, investors can count on those steady dividend payments year after year. Even today, alternative methods of transportation like trucks and rail can't compete once a pipeline is in place. The only viable threat to a pipeline is another pipeline.

Best of all, pipelines rarely face head-to-head competition. Obtaining the necessary right-of-ways from landowners and regulators is a long and expensive process. And even if allowed, a competing pipeline would only split the existing business, greatly reducing the returns the new pipeline could earn. Just because someone might see high returns being earned by an existing line, it doesn't mean laying down a second pipe would be an attractive proposition.

Dividend hikes on the way

While pipeline stocks can be counted on to deliver steady dividend cash flow, the growth prospects for the industry have never been brighter.

Canada needs more pipelines and we need them now. Across the continent, new technologies like hydraulic fracturing, steam-assisted gravity drainage, and horizontal drilling have unlocked billions of barrels of hydrocarbons. And today, existing pipelines are operating at capacity.

The demand for new capacity to actually move all of this new energy has created unprecedented growth opportunities for Canada's pipeline companies. For example, Pembina Pipelines, one of Western Canada's largest pipeline operators, has seen the number of barrels shipped through its network almost double over the last four years. Management projects this figure to double again to 1.4 million barrels per day by 2017.

All of this means investors can expect a consistent stream of dividend hikes over the next decade.

Foolish bottom line

Thanks to the economics of the industry and the surging growth in Canadian pipeline industry, this sector presents a striking opportunity for income-hungry investors. The list above is a great place to begin your search for recession-proof dividends.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:GEI (Gibson Energy Inc.)
2. TSX:PPL (Pembina Pipeline Corporation)
3. TSX:TRP (TC Energy Corporation)

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Date

2025/08/25

Date Created

2014/04/08

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