Which Pipeline Belongs in Your Portfolio?

Description

There are very few industries more attractive to investors than pipelines. The companies involved operate critical infrastructure, demand is growing, and revenue is typically made based on long-term contracts. As a result, these companies tend to have very stable revenue, predictable cash flow, and steadily rising dividends. It's exactly what every investor should be looking for.

But one important question remains: Which one should you buy? Should you buy all of them? Or are their stock prices too high? Below we take a look at each of the major pipeline operators.

Enbridge

Canada's largest pipeline company is **Enbridge Inc** (TSX: ENB)(NYSE: ENB), with a market capitalization of over $40 billion. The company offers very compelling value to shareholders.

Like any other pipeline company, Enbridge generates earnings you can count on. The company's services are mission-critical for its customers, and based on long-term contracts. Less than 5% of revenues are based on macroeconomic factors like commodity prices, interest rates, or foreign exchange.

As a result, the company has been able to generate steadily rising dividends, growing at about 13% per year over the last 10 years. Looking ahead, the growth looks set to continue. The company has $36 billion worth of commercially secured projects in its pipeline (no pun intended), and with energy production from Alberta set to increase so drastically over the next 20 years, there will be plenty of demand of Enbridge's services.

The only problem with Enbridge is the stock price. Despite paying out 60-70% of its earnings as dividends, the stock only yields 2.7%. By comparison, the banks pay out less than 50% of earnings as dividends, but still offer a yield close to 4%.

TransCanada

Canada's second largest pipeline company, **TransCanada Corp** (TSX: TRP)(NYSE: TRP) has a lot of the same qualities as Enbridge: predictable income, a steadily rising dividend, and a large portfolio of commercially secured projects. Is the stock any cheaper?

This year, TransCanada is set to pay out a total of $1.92 per share in dividends, meaning the stock currently yields 3.8%. And while the dividend has not grown as fast as Enbridge's over the past decade (only 5% per year), TransCanada seems to have a similar growth trajectory looking forward. The company has $38 billion of commercially secured projects.

So it appears that TransCanada offers slightly more to dividend investors than Enbridge.

Pembina Pipeline

A third option that investors may want to consider is **Pembina Pipeline Corp** (TSX: PPL)(NYSE: PBA). The company yields 3.9% and, unlike its larger peers, pays out its dividend monthly.

More importantly, Pembina has the same attractive characteristics as its larger peers: critical infrastructure, predictable earnings, and a great outlook for growth, with 2014 capital expenditures increasing by 76% over 2013 levels.

There are clearly strong arguments for each of these companies. Dividend investors should seriously consider owning all three.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. NYSE:TRP (Tc Energy)
4. TSX:ENB (Enbridge Inc.)
5. TSX:PPL (Pembina Pipeline Corporation)
6. TSX:TRP (TC Energy Corporation)

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