Which Pipeline Operator Should Dividend Investors Buy?

Description

If you're looking for solid dividend-paying companies, the pipeline operators are a great place to start. After all, they own critical infrastructure, make money from long-term contracts, and benefit from increasing production in Western Canada.

But which one is right for your portfolio? Below we take a look at the three biggest pipeline companies in Canada.

The case for Enbridge

Enbridge Inc. (TSX: ENB)(NYSE: ENB) is Canada's largest pipeline operator, and is also one of Canada's most reliable dividend payers. In fact, the company hasn't missed a dividend payment in over six decades.

More recently, Enbridge has been impressively growing its payout. Over the past decade, its dividend per share has increased every year, growing by 13% annually. And remember, these years saw the worst economic crisis since the great depression, a time when oil prices fell by nearly 80% from their peak.

That being said, there are reasons to avoid Enbridge. One is the fairly low yield of 2.6%. Even worse, the company has had to raise a lot of money to pay that dividend. Just from 2011 to 2013, the average shares outstanding increased by 7%, and the year-end debt level increased by nearly $10 billion. If Enbridge falls short on its growth ambitions, then shareholders could suffer some serious consequences.

The case for Pembina

Pembina Pipeline Corp. (TSX: PPL)(NYSE: PBA) has been one of Canada's hottest stocks recently, having more than tripled over the past five years. Better yet, it has a better dividend yield than Enbridge, currently standing at 3.7%. Investors looking for more frequent income may also want to consider Pembina, since its payout occurs monthly.

But there are issues with Pembina too, again surrounding the dividend. To illustrate, last year the company made only $1.12 per share in income, and free cash flow was negative. This makes its $1.74 per share dividend seem unaffordable.

To compensate, Pembina offers a dividend reinvestment plan (DRIP), which encourages shareholders to receive their dividends in shares rather than cash. In fact shareholders get a 5% discount for doing so (compared to only 2% under Enbridge's DRIP). As a result, Pembina paid out less than half of its dividends in cash last year.

Unfortunately, that results in some serious dilution. From 2011 to 2013, Pembina's shares outstanding increased by 83%. Once again, shareholders better hope that the company executes on its growth strategy.

The case for TransCanada

At first glance, **TransCanada Corp.** (TSX: TRP)(NYSE: TRP) seems like the least desirable option of the three companies. Its stock has badly lagged its peers – in fact, its stock has only doubled in the past 10 years, while both Enbridge and Pembina have roughly quadrupled.

Worse still, TransCanada's Keystone XL pipeline is stalled, awaiting White House approval. And even if the project is approved, the project's cost could reach $10 billion, far above the original $5.4 billion estimate.

That being said, there are reasons to like TransCanada. First of all, it has a reasonable dividend yield, currently standing at 3.3%. But even better, this dividend is perfectly affordable – when looking at the 2011 to 2013 period, TransCanada's shares outstanding increased by less than 1%.

So TransCanada shareholders can rest a little easier, knowing that their dividends are safe, and that their stake won't be diluted.

CATEGORY

1. Dividend Stocks
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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)
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