3 Pipeline Operators to Buy Now

Description

With oil prices down 50% over the past year, many investors are searching across the energy sector for values. Instead of looking at oil producers however, investors should strongly consider pipeline MLPs (master limited partnerships). These firms offer a high-yield alternative to volatile oil companies, with very limited exposure to falling oil prices.

Considering their stellar dividend histories and the expected growth in energy production over the next few years, pipelines present an attractive risk-reward opportunity compared to other prospective investments in the energy space.

Here are three pipeline operators that strongly warrant your consideration.

AltaGas Limited

With a $5.4 billion market cap and a solid 4.8% dividend yield, **Altagas Ltd.** (TSX:ALA) is a classic example of a well-run pipeline. Since its IPO in 1994, investors have experienced a total return of over 900%.

Roughly 40% of earnings come from its natural gas pipeline segment that is operated largely on a volume-basis, mitigating the risk of energy price swings. Another 40% of earnings come from its utilities segment, resulting in 80% of profits stemming from stable and predictable sources.

Since 2012, the company has reduced its debt-to-capitalization ratio from nearly 60% to the current 45%. Management believes there is ample room to take on more leverage, providing the flexibility needed to grow the business comfortably.

This dry powder should help AltaGas execute on its $5 billion growth initiative over the next four years, with multiple projects that will boost growth including a significant expansion to its natural gas pipeline. Currently, the company operates the only existing natural gas pipeline that connects to the Kitimat and Prince Rupert ports.

Inter Pipeline Limited

With a 4.8% yield, **Inter Pipeline Ltd.** (TSX:IPL) has a dividend that is on par with AltaGas Limiteds. At $10.3 billion in market cap however, it is nearly twice the size.

The company operates a 3,800 km pipeline network across western Canada, one of the largest in the country. Inter Pipeline also has over 2.2 million barrels a day of contracted capacity to serve the nations oil sands.

As with most MLPs, Inter Pipeline has been able to grow its dividends impressively since its IPO. Over the past 10 years, the company has grown its dividend at an annual rate of 6.9%. Strong success in some of the company's more recent growth projects meanwhile have allowed it to achieve a 10.2% annual dividend growth rate in the past five years alone. Only one other pipeline operator has been able to match this 5-year growth rate.

The firm's customer base is well-established and reliable, comprising reputable names such as **ExxonMobil Corp.**, **ConocoPhillips**, and **Chevron**.

Gibson Energy Inc.

With a market cap of only $4.2 billion, **Gibson Energy Inc.** (TSX:GEI) is the smallest of the three pipelines discussed here. And with a yield of only 3.2%, it also has the smallest dividend payment. Still, there are numerous reasons to believe Gibson will grow into a behemoth.

Only 50-60% of free cash flow is distributed to shareholders, leaving the company ample capital to deploy towards growth initiatives. Canadian oil production is forecast to grow 20% to 5.3 million barrels a day by 2020. Gibson is positioning itself to meet this growing demand.

Nearly 70% of its growth capital is targeted towards pipelines and terminals. Despite spending a combined $300 million in capital expenditures over 2012 and 2013, Gibson is set to spend nearly $600 million across 2014 and 2015.

With a cash balance of $324 million, in addition to a $500 million revolving credit facility, the company is primed to exploit the growing demand for their services.

The best of both worlds

Pipelines are paid based on the volume of fuel they deliver, not the underlying price of the fuel. This model nearly eliminates the short-term effects of changes in energy prices. Pipelines could actually stand to benefit from lower prices, as it tends to drive higher consumption levels, resulting in the delivery of higher volumes of fuel.

Regardless of your expectations for the energy markets, these three pipelines stand to benefit, growing their attractive yields along the way.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. Editor's Choice

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