Want More Income? Get Higher Yields From the Pipeline Sell-Off

Description

President Obama has rejected **TransCanada Corporation's** (TSX:TRP)(NYSE:TRP) Keystone XL pipeline project. The rejection led to TransCanada's price decline of 4% on November 6.

This not only affected TransCanada, but also other energy infrastructure companies, including **Enbridge Inc.** (TSX:ENB)(NYSE:ENB), which fell over 2%, and **Inter Pipeline Ltd.** (TSX:IPL), which dropped over 1% on November 6.

Lower prices imply higher yields

In fact, all three businesses have experienced meaningful price declines in the last year. The sell-off is mostly due to lower oil prices.

On the bright side, the price declines have led to higher yields. That means more income for dividend investors.

TransCanada has fallen 27% from its 52-week high of $59 to $43. It now yields a juicy 4.8%.

Enbridge has dropped 21% from its 52-week high of $66 to $52. It now yields a more attractive 3.6%.

Inter Pipeline has retreated close to 32% from its 52-week high of $36 to $24.6. It now yields 6%.

The sell-off is overdone

If one year ago, you told others that these companies will eventually be at fire-sale prices, you'd get some weird looks. The energy infrastructure industry-wide sell-off should be less severe than that of energy stocks, which are more closely related to the underlying commodities. This is because companies like TransCanada generate more stable cash flows from transporting energy.

However, it seems the market is selling off anything that's related to oil. In my opinion, the sell-off is overdone, and the price declines do not reflect the strong cash flow generation from these businesses.

Strong cash flows

In TransCanada’s trailing 12 months (TTM), it generated operating cash flows of $3.7 billion. In the same period, it paid out about $1.5 billion of dividends. So, based on the operating cash flow, its payout ratio was about 39% and its dividends were well covered.

In Enbridge’s TTM, it generated operating cash flows of $4.4 billion. In the same period, it paid out roughly $1.5 billion of dividends. So, the payout ratio was about 34% and its dividends were well covered.

In Inter Pipeline’s TTM, it generated operating cash flows of $690 million. In the same period, it paid out roughly $445 million of dividends. So, the payout ratio was about 64%.

Still…

No matter how attractive these opportunities look, these energy infrastructure companies will continue to trade low if the oil price remains low. So, there’s no need to rush into the shares. However, with the price declines that have occurred, their yields are looking much juicier than before.

So, investors can employ the dollar-cost averaging strategy and buy some shares every quarter or so in your favourite company. The shares should be a part of a diversified portfolio with constituents that don’t trade in line with oil prices.

Of the three, TransCanada is the most financially sound with an S&P credit rating of A-. Enbridge and Inter Pipeline both have S&P credit ratings of BBB+.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:ENB (Enbridge Inc.)
4. TSX:TRP (TC Energy Corporation)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/27
Date Created
2015/11/10
Author
kayng