



Which Big Energy Pipelines Can Sustain Their Dividends?

Description

Although the WTI oil price is back above US\$30 per barrel, oil prices are still low, and if they remain low for an extended period of time there could be bankruptcies in the energy industry before the survivors recover.

Large-cap energy infrastructure companies are safe investments in the energy industry. Their earnings and cash flows are less influenced by oil prices, and they're bigger in scale than mid-cap energy infrastructure companies such as **Inter Pipeline Ltd.**

The big energy pipelines have come a long way down from their 2014 highs when the WTI oil price was above US\$100:

- At \$47, **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) is about 23% below its 2014 high.
- At \$48, **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) is about 25% below its 2014 high.
- At \$31, **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)) is about 40% below its 2014 high.

TransCanada has been the best performer of the group, but which company is the most financially sound?

Financial health

The current ratios of the pipeline companies from the last quarter show whether or not these companies can meet their short-term obligations with their short-term assets. A current ratio of less than one implies that a company might need to tap into other resources for liquidity.

From the last quarter, TransCanada's ratio was 0.55, Enbridge's was 0.81, and Pembina's was 0.83.

Generally, the more leveraged a company is, the riskier it is. From the last quarter, TransCanada's financial leverage was 3.89 times, Enbridge's was 7.11 times, and Pembina's was 2.21 times.

Because Enbridge is the most financially leveraged company, it is the riskiest.

Dividend sustainability

TransCanada pays a yield of 4.4%. Its annual payout is \$2.08 per share. Based on its estimated cash flows for the fiscal year 2016, its payout ratio is 33%. Based on its estimated earnings per share (EPS) for the fiscal year 2016, its payout ratio is 80%.

Enbridge pays a yield of 4.5%. Its annual payout is \$2.12 per share. Based on its estimated cash flows for the fiscal year 2016, its payout ratio is 37%. Based on its estimated EPS for the fiscal year 2016, its payout ratio is 85%.

Pembina pays a yield of 6%. Its annual payout is \$1.83 per share. Based on its estimated cash flows for the fiscal year 2016, its payout ratio is 72%. Based on its estimated EPS for the fiscal year 2016, its payout ratio is 134%.

Based on their anticipated payout ratios, TransCanada's dividend is the most sustainable, followed by Enbridge. However, TransCanada has yet to announce its dividend hike in the first quarter, which will increase its payout ratio. Pembina's earnings do not cover its dividend.

Companies that have a history of growing their dividends are likely to continue doing so. TransCanada has increased its dividend for 15 consecutive years, Enbridge has hiked its dividend for 20 consecutive years, and Pembina has increased its dividend for four consecutive years.

All these companies pay eligible dividends for Canadian income tax purposes.

Valuation and credit rating

TransCanada has a price-to-funds-from-operations ratio (P/FFO) of 7.6. Enbridge has a P/FFO of 9.1. Lastly, Pembina has a P/FFO of 14. So, Pembina is the most expensive.

TransCanada has an S&P credit rating of A-, Enbridge's rating is BBB+, and Pembina's is BBB.

Conclusion

If I had to choose one large-cap pipeline to invest in today, I'd go with either TransCanada or Enbridge. Both of their dividends are well covered by their cash flows.

However, TransCanada is the safer investment. It has a higher S&P credit rating, and it's priced at a lower multiple. Then again, its lower multiple (compared with Enbridge's multiple) could be viewed as having lower growth.

Enbridge's anticipated higher growth will be fueled by its higher financial leverage. However, the leverage makes it riskier than TransCanada. Investors will need to decide if it's worth taking on more risk to invest in Enbridge for its higher growth.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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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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