



## Which Mid-Cap 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.

Energy infrastructure companies are more resilient against low oil prices because these companies' earnings and cash flows are less influenced by oil prices.

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

- At \$22, **Inter Pipeline Ltd.** (TSX:IPL) is about 43% below its 2014 high.
- At \$14, **Gibson Energy Inc.** ([TSX:GEI](#)) is about 62% below its 2014 high.
- At \$31, **Altagas Ltd.** ([TSX:ALA](#)) is about 40% below its 2014 high.
- At \$38, **Keyera Corp.** ([TSX:KEY](#)) is about 22% below its 2014 high.

Keyera 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 ratio of less than one implies a company might need to tap into other resources for liquidity.

From the last quarter, Inter Pipeline's ratio was 0.16, Gibson Energy's was 1.31, Altagas's was 1.25, and Keyera's was 0.86.

Generally, the more leveraged a company is, the riskier it is. From the last quarter, Inter Pipeline's financial leverage was 3.2 times, Gibson Energy's was 2.5 times, Altagas's was 2.8 times, and Keyera's was 2.98 times.

Based on these two metrics, Inter Pipeline seems to be the riskiest and Gibson Energy and Altagas

seem to be the safest.

## **Dividend sustainability**

Inter Pipeline pays a yield of 7.2%. After hiking its dividend by 6.1% in November, its annual payout is \$1.56 per share. Based on its estimated cash flows for the fiscal year 2016, its payout ratio is 68%.

Gibson Energy pays a yield of 9.2%. After hiking its dividend by 6.7% in March, its annual payout is \$1.28 per share. Based on its estimated cash flows for the fiscal year 2016, its payout ratio is 48%.

Altagas pays a yield of 6.3%. After hiking its dividend by 11.9% in October compared with one year earlier, its annual payout is \$1.98 per share. Based on its estimated cash flows for the fiscal year 2016, its payout ratio is 50%.

Keyera pays a yield of 3.9%. After hiking its dividend by 15.7% in August compared to one year earlier, its annual payout is \$1.50 per share. Based on its estimated cash flows for the fiscal year 2016, its payout ratio is 40%.

Based on their anticipated payout ratios, Keyera's dividend is the most sustainable, followed by Gibson Energy and Altagas. Although the four mid-cap companies have the ability to sustain their dividends, whether they end up maintaining them or not also depends on the board of directors of the companies.

Companies that have a history of growing their dividends are likely to continue doing so. Inter Pipeline has increased its dividend for seven consecutive years; Gibson Energy has hiked its dividend for four consecutive years; Altagas has also hiked its dividend for four consecutive years; and Keyera has increased its dividend for five consecutive years.

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

## **Valuation and outlook**

Inter Pipeline has a price-to-funds-from-operations ratio (P/FFO) of 9.7. Gibson Energy has a P/FFO of 4.9. Altagas has a P/FFO of 9.2. Lastly, Keyera has a P/FFO of 10.9. Every company's FFO is expected to trend higher this year, except for Gibson Energy. Perhaps that's why it's the only one that has fallen 60% from its 2014 high.

## **Conclusion**

If I had to choose one mid-cap pipeline to invest in today, I'd likely go with Altagas. It seems to be one of the safer investments, and it's also priced at a good value.

## **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

## **TICKERS GLOBAL**

1. TSX:ALA (AltaGas Ltd.)

2. TSX:GEI (Gibson Energy Inc.)
3. TSX:KEY (Keyera Corp.)

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