2 Top Pipeline Picks for Dividend-Growth Investors

Description

The oil rout has taken a toll on most stocks in the broader energy sector, but the sell-off looks overdone in some of the pipeline names.

This is especially true when looking at the stocks that continue to raise their dividends.

Here are the reasons why I think **Inter Pipeline Ltd.** (TSX:IPL) and **TransCanada Corporation** (TSX:TRP)(NYS:TRP) look like solid picks right now.

Inter Pipeline

Inter Pipeline is often overlooked by investors who prefer to buy the larger pipeline names.

The company is a niche player, transporting 35% of oil sands output as well as 15% of western Canadian conventional oil production. That doesn't sound like a great place to be right now, but Inter Pipeline continues to deliver solid results.

Funds from operations in Q4 2015 hit a record $211 million, up 32% over the same period in 2014. Net income hit a new quarterly record of $138 million.

The oil sands division saw funds from operations jump 62% in the fourth quarter compared with the same period in 2014. Two new pipelines went into service last year and Inter Pipeline's customers continue to produce despite the tough market conditions.

Why?

The oil sands operators are big names with deep pockets, and they will continue to produce at low oil prices because the costs are simply too high to shut down the facilities.

Inter Pipeline's European liquids storage business is also doing well. The unit delivered a 79%increase in Q4 funds from operations compared with the previous year as utilization rates hit 97%, upfrom 84% in the same period in 2014.

Inter Pipeline recently increased its monthly dividend by more than 6% to 13 cents per share. The distribution offers a yield of 6.6% and looks very safe with an annual payout ratio of less than 70%.

TransCanada

TransCanada is a giant in the North American energy space, and the business continues to grow despite some recent setbacks on big projects.

Last year President Obama rejected TransCanada's Keystone XL pipeline. The decision wasn't a surprise, but the controversy around the project proved to be a distraction in a negative energy environment. As a result, investors bailed out of TransCanada's stock through most of 2015.

Keystone is on the shelf for the moment, but TransCanada has another $13 billion in infrastructure projects under development that will be completed and in service by 2018.

These will boost revenue and cash flow significantly, and investors should see strong dividend growth as a result. In fact, TransCanada plans to raise its payout by 8-10% per year through 2020.

The stock has rebounded in recent weeks on hopes that the company's other major project, Energy East, might actually get the green light despite ongoing battles among the provinces and other stakeholders.

At this point, TransCanada remains an attractive pick, and investors can secure a solid 4.5% yield while they wait for the broader energy sector to recover.

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