



Does Pembina Pipeline Corp. or Inter Pipeline Ltd. Have the Better Dividend?

Description

After **Crescent Point Energy Corp.** slashed its dividend by 70%, the two largest dividend yields (depending on the day) are from pipeline operators **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)) and **Inter Pipeline Ltd.** (TSX:IPL). So which of these dividends is the better option?

The benefit of owning pipelines

First, one thing must be made clear: there is a big difference between pipeline operators and energy producers. While energy producers are subject to changing commodity prices, pipeline operators make revenue based on long-term contracts that result in smooth earnings and cash flow. Better yet, pipeline companies operate critical infrastructure, meaning that once a pipeline is built, it won't have to face the same substitution threats that most businesses face.

That being the case, these dividends can still come with risks. Some pipeline operators have taken on too much debt or pay a very high dividend. Others face the risk of counterparties going bankrupt. And let's not forget that North America's largest pipeline operator, **Kinder Morgan Inc.**, cut its dividend by 74% in December.

Pembina Pipeline

Pembina Pipeline operates a network of 9,100 km of conventional liquids pipelines, 1,650 km of oil sands pipelines, as well as some processing and storage facilities. And there are some things to like about Pembina.

First of all, roughly 80% of net operating income comes from fee-for-service contracts, and this number should increase to 85% by 2018. Secondly, Pembina has an excellent track record of delivering projects on time and on budget. Finally, the company has one of the lowest debt/EBITDA ratios in the industry. Importantly, Pembina has a BBB rating from S&P, which is two notches above junk status.

The dividend is equivalent to \$1.83 per share per year, which is well under the \$2.53 in adjusted cash flow per share that Pembina earned last year. So, for now at least, the dividend appears safe. And with a yield of 5.4%, that's not a bad trade off.

Inter Pipeline

Inter Pipeline has a lot of the same advantages that Pembina has. The vast majority of profit (in this case, over 90%) is generated from cost plus or fee-based contracts, which once again makes cash flow smooth. Inter also has an investment-grade credit rating of BBB+, which is one notch above Pembina's.

Inter also has a fantastic record of growing its dividend; over the past five years, its payout has grown by 10% per year. That number is only 3.2% at Pembina.

A big reason for this discrepancy is that Pembina incentivizes shareholders to reinvest their dividends into new shares by offering a 3% discount. Inter no longer offers such a discount. This means that anyone who accepts cash dividends from Pembina gets diluted.

Better yet, Inter's dividend yield is over 6%, well ahead of Pembina's.

If you're looking for a big cash dividend, then Inter is the better option between these two.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

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