

RESP Investors: These 5% Dividend-Yielding Stocks Are Top of Their Class

Description

Investors assessing the suitability of Canadian energy stocks for their RESP portfolio should definitely consider **Inter Pipeline Ltd.** (TSX:IPL) and **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)). Both companies have nearly 5% dividend yields and, more importantly, they have demonstrated that they're able to grow these dividends over the long term. Inter Pipeline and Pembina had compounded annual dividend-growth rates in the last five years of approximately 53% and 15%, respectively.

While growth prospects in the oil and gas industry have been fairly dismal, pipeline companies have managed to sustain and even grow both their earnings and dividends. Their cash flows are normally secured by long-term financial contracts, where producers pay an indexed capacity payment, usually in the form of a financial contract.

This means that if the producer chooses or is unable to utilize the full capacity outlined in the contract, they are still liable for the full payment.

In this market the credibility of their customers is worth scrutinizing, and it is something both companies address in their financial results. The majority of both companies' revenues are generated from investment-grade-rated customers. A total of 70% of Inter Pipeline's revenue is generated from investment-grade entities, and 80% of Pembina's comes from similarly rated customers.

Another key factor to consider when examining cash flow and dividend stability is the strong barriers to entry in the industry. Once a company has constructed a network of pipelines in a certain region, it's rare that a competitor will build its own network to shadow the existing one. If it decides to branch off a current line, it may be limited by capacity or the tolling charges for using a competitor's pipeline, which could make the project uneconomical.

Often, pipeline companies will expand their networks into regions where production is fairly sparse. The risk and reward is that when activity in the area increases, they will be the only option to transport the product. To overcome these geographic constraints, companies will often grow by acquisition.

Inter Pipeline recently announced a \$1.35 billion acquisition of the **Williams Companies Inc.'s** and **William Partners L.P.'s** Canadian natural gas liquids midstream businesses. The acquisition included two plants near Fort McMurray that extract natural gas liquids, a gas processing plant north of Edmonton, Alberta, and a 420 kilometre pipeline system connecting the sites.

Pembina continues to develop its core infrastructure in the province with \$5 billion of growth projects coming into service in 2017. Notwithstanding, the company did announce earlier in the year a \$556 million purchase of some of **Paramount Resources Ltd.'s** sour natural gas-processing assets.

Similar diversification strategies

Both Inter Pipeline and Pembina have development-stage projects that are vying for \$500 million worth

of incentives from the Alberta government. These incentives are a part of the government's Petrochemicals Diversification Program announced on February 1, 2016, which will encourage companies to invest in the development of new Albertan petrochemical facilities. Up to \$500 million in incentives is available through royalty credits.

Inter Pipeline's deal to acquire the William's Canada operations included a proposed \$1.85 billion facility north of Edmonton, Alberta, that is designed to turn propane into polypropylene pellets used in plastics manufacturing. Inter Pipeline says it plans to make a decision by the end of 2016 as to whether or not to go ahead with the facility, which Williams has already spent \$250 million developing.

Pembina has a similar venture in its infancy that includes construction of a processing plant that's capable of taking 35,000 barrels a day of propane from western Canada and processing it into 800,000 tonnes of plastic pellets. Customers of these pellets would include auto parts, medical supplies, and home appliances. The project is currently in its development stage with a final notice to proceed in mid-2017 and a commercial operations date in 2020.

Investors looking for two companies with impressive dividend yields and a track record of growing their dividends should consider Inter Pipeline Ltd. and Pembina Pipeline Corp. Not only will these companies continue to expand their core businesses, but they're also leveraging their stable cash flows and strong balance sheets to pursue opportunities that many of their peers in the industry are unable to pursue.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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1. Editor's Choice

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

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