TFSA Investors: Is Inter Pipeline Ltd. or Corus Entertainment Inc. a Better Income Pick?

Description

Income investors are constantly searching for high-yield stocks to add to their dividend portfolios.

Let's take a look at **Inter Pipeline Ltd.** (TSX:IPL) and **Corus Entertainment Inc.** (TSX:CJR.B) to see if one is more attractive.

IPL

IPL owns natural gas liquids (NGL) extraction assets, conventional oil pipelines, oil sands pipelines, and a Europe-based liquids storage business.

The balanced revenue stream has enabled the company to negotiate the oil rout in pretty good shape, and management is positioning the firm to benefit from the recovery.

IPL recently closed a $1.35 billion acquisition of two NGL extraction facilities and related infrastructure from **The Williams Companies**. The assets were sold at a significant discount, so IPL is set to see strong returns on the investment when the market recovers.

The deal also included a planned $1.85 billion propane dehydrogenation facility that has received a $200 million royalty grant from Alberta. The facility should be in operation by mid-2021.

An additional $1.3 billion processing facility is currently under evaluation. Assuming IPL secures the required long-term fee-based sales contracts needed to build the plant, the site could be operational by the end of 2021.

These developments, along with a handful of other smaller projects, should drive cash flow higher in the coming years and support rising dividends.

The current monthly payout of $0.135 per share yields 5.6%.

Corus

Corus had a transformational 2016 after it purchased Shaw Media from **Shaw Communications**.

The deal provided Corus with a strong portfolio of assets that should enable it to compete successfully in the new world of pick-and-pay TV subscriptions in Canada.

In fact, Corus now controls roughly 35% of the English language TV programming in the country.

Corus just released its Q1 2017 results, giving investors a chance to see how things are going as pick-and-pay heads toward its first full year.

Pro forma year-over-year segment profit dipped 3%, but profit margins held steady at 41%. As the Shaw Media integration continues, costs should continue to fall.

Income investors are focused on sustainability of payouts, and it looks like Corus is capable of maintaining its dividend. The company generated net income of $80.7 million, or $0.36 per share, and free cash flow of $33.9 million in fiscal Q1 2017, while paying out $26 million in dividends.

Corus pays a monthly distribution of $0.095 per share for a yield of 8.6%.

What are the risks?

Last year management indicated intentions to maintain the dividend, but that message was omitted in the latest earnings release. Instead, Corus said it plans to focus on debt repayment in 2017.

There are different ways to achieve this goal, but one tool in the arsenal is to reduce dividend payments and allocate the cash to debt reduction. As a result, investors should keep the possibility in mind when evaluating the stock.

One other item to watch is the large number of shares Corus issues under its dividend-reinvestment structure. This tends to bloat the float, meaning every dollar of cash available for distributions has to be spread out over a wider pool of shares.

Which is a better pick?

Corus offers a higher yield, but IPL is probably the more attractive choice right now. The energy sector appears to be on the mend, and IPL has a strong development portfolio, which should pave the way for continued dividend increases.

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