



## Which of These 2 Pipeline Stocks Should You Buy?

### Description

The oil and gas midstream industry is a pretty good place to look for income. **Inter Pipeline Ltd.** (TSX:IPL) and **Keyera Corp.** ([TSX:KEY](#)) are mid-cap dividend stocks in the industry. Which is a better investment today?

### Inter Pipeline

Inter Pipeline transports, processes, and stores energy products in western Canada and Europe. It has four business segments: oil sands transportation contributes the bulk of its earnings before interest, taxes, depreciation, and amortization (EBITDA) at 49%, followed by natural gas liquid processing, conventional oil pipelines, and bulk liquid storage, which contribute 26%, 17%, and 8% of its EBITDA, respectively. About 25% of its EBITDA is exposed to commodity prices.

Inter Pipeline has maintained a strong balance sheet, while increasing its dividend. The company has an investment-grade S&P credit rating of BBB+, and it has increased its dividend for eight consecutive years. Its dividend per share is 3.8% higher than it was a year ago.

The shares have pulled back to trade near its 52-week low. At about \$26.50 per share, Inter Pipeline offers a juicy yield of 6.1%, which is sustained by a payout ratio of 61% in the first quarter. Even after accounting for capital spending in the quarter, the company still had +\$34 million remaining from its cash flows.

Analysts at **Thomson Reuters** have a mean 12-month price target of \$30.90 per share on the stock, which represents upside potential of 16.6%, or a total return of 22.7% in the near term.



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## Keyera

Keyera's business is largely based on fee-for-service contracts involving gathering and processing of natural gas, and transportation, storage and marketing of natural gas liquids and iso-octane in Canada and the U.S. This means that the company's cash flows should be pretty stable.

Keyera has increased its dividend for six consecutive years. Its dividend per share is nearly 5.7% higher than it was a year ago.

At about \$40.50 per share, Keyera offers a yield of almost 4.2%, which is sustained by a payout ratio of about 61% in the first quarter. Management expects to spend \$600-700 million this year to grow the business. So, Keyera's dividend should continue to grow.

Analysts at Thomson Reuters have a mean 12-month price target of \$45.40 per share on the stock, which represents upside potential of 12%, or a total return of 16.2% in the near term.

## Investor takeaway

Analysts believe Inter Pipeline can deliver higher near-term returns than Keyera because Inter Pipeline is better valued and offers a bigger yield. That said, Keyera will probably deliver higher growth in the long run.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

## TICKERS GLOBAL

1. TSX:KEY (Keyera Corp.)

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