

## 2 Cash Cows With High Yields and Outstanding Upside

### Description

**Altagas Ltd.** ([TSX:ALA](#)) and **Inter Pipeline Ltd.** (TSX:IPL) are cash cows which give back cash to shareholders. These investments are characterized by high yields and growing dividends.

#### Altagas

Altagas's dividend yield of 7.1% is enticing and supported by a payout ratio of about 88% of cash flows. The energy infrastructure and utility company increased its dividend per share (DPS) at a compound annual growth rate (CAGR) of 8.7% from 2011 to 2016.

Altagas's cash flow generation more than covers its dividend and the capital required for its power and gas maintenance and utility depreciation.

Currently, the company earns ~40% of its earnings before interest, taxes, depreciation, and amortization (EBITDA) from generating and storing clean and renewable power; ~35% from distributing gas via its regulated utilities; and ~25% from processing and transporting gas products. The EBITDA generation is split roughly equally between Canada and the U.S.

What has been looming around the stock is the fact that Altagas is working on merging with **WGL Holdings**, which is a large \$8.4 billion transaction with a long way to go before closing by Q2 2018.



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However, Altagas isn't only banking on WGL; it's also investing in other areas. For example, in May Altagas partnered up with Royal Vopak to build the first propane export terminal on Canada's west coast.

Royal Vopak is the world's leading independent tank storage company with a 400-year history. It operates a global network of terminals situated at strategic locations along key trade routes.

Altagas expects to invest \$450-500 million in this relatively large project, and partnering with Royal Vopak helps reduce risk.

## Inter Pipeline

Inter Pipeline is another cash cow investors should consider. It offers an impressive yield of ~6.4% at about \$25.20 per share.

The energy infrastructure company generates more than 50% of its EBITDA from its oil sands transportation business. It also has assets of conventional oil pipelines, bulk liquid storage, and natural gas liquids processing.

Inter Pipeline's yield is supported by a payout ratio of about 69% of cash flows, and more than 80% of its cash flows are sourced from investment-grade clients. Notably, the company increased its DPS at a CAGR of 10.1% from 2011 to 2016.

## Investor takeaway

With sustainable payout ratios and management that seems to be committed to paying increasing dividends, there's reason to believe that Altagas and Inter Pipeline will continue to hike their dividends.

The cash cows don't just offer alluring yields of 6.4-7.1%. Their upside potential is just as bright. **Thomson Reuters** estimates Altagas and Inter Pipeline shares have upside potential of 19% and 22%, respectively, in the next 12 months.

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## Date

2025/08/12

## Date Created

2017/06/28

## Author

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