2 Stocks to Improve the Safety of Your Energy Portfolio

Description

If you're looking for relatively safe exposure to the energy sector, you can consider energy infrastructure companies **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Inter Pipeline Ltd.** (TSX:IPL).

They're in the business of storing, transporting, distributing, or processing energy, which make their profitability more stable than oil and gas producers whose earnings are more sensitive to the ups and downs of the underlying commodity prices.

Enbridge and Inter Pipeline offers another area of safety — decent yields of 4.7-6.5%, which should appeal to income investors. Moreover, both companies will likely continue increasing their dividends in the future.

Enbridge

Enbridge has a track record of dividend growth which spans 21 consecutive years. Over the last decade, it managed to increase its dividend at an impressive compound annual growth rate (CAGR) of 13.9%.

After the merger with Spectra Energy, Enbridge has the highest-quality liquids and gas infrastructure assets in North America. It has about $26 billion of secured near-term projects and $48 billion of potential projects to support long-term dividend growth.

In fact, the energy infrastructure leader aims to grow its dividend at a CAGR of 10-12% through 2024. If we do the math, an investment in Enbridge today will reach a yield on cost of almost 9.3% by 2024 using the low end of that estimate.

Enbridge’s cash flows are largely underpinned by long-term contracts with little exposure to volumetric or commodity price. It targets a long-term payout ratio of 50-60% of its available cash flow from operations. These help improve the stability and safety of its dividend.

At $51.30 per share, Enbridge offers a yield of nearly 4.8%. The analyst consensus from a recent **Thomson Reuters** report indicates a 12-month target price of $62.50 on the stock. This represents almost 22% upside potential, or a total return of 26%.

Inter Pipeline

About 25% of Inter Pipeline’s earnings are commodity based. About half of its earnings come from transporting oil sands, while 26% are from processing natural gas liquids and 17% are from conventional oil pipelines.

The company has increased its dividend for eight consecutive years. In the last three years, it hiked its dividend at a CAGR of 10.1%.

At about $25 per share, Inter Pipeline offers a yield of nearly 6.5%. The analyst consensus from a recent Thomson Reuters report indicates a 12-month target price of $30.90 on the stock. This represents almost 24% upside potential, or a total return of 30%!

Investor takeaway

If you like dividends, you should consider Enbridge and Inter Pipeline now and on any further dips. As their shares have pulled back recently, they currently offer decent yields and attractive upside potential.

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