

This High-Yield Dividend Stock Is a Cash Cow

Description

In a sector that is notorious for high debt and high dividend-payout ratios, it is important to consider an energy stock that is right for you. High debt is not a bad thing, because this is the price to pay for massive capital and infrastructure costs. Established entities in this sector do not grow massively year over year, but they are strong on dividend income. Consider the following energy companies:

Enbridge Inc. ([TSX:ENB](#))([NYSE:ENB](#)): diversified across energy sectors.

Pembina Pipeline Corp. ([TSX:PPL](#))([NYSE:PBA](#)): oil and gas.

Hydro One Ltd. ([TSX:H](#)): electricity generation and transmission.

Altagas Ltd. ([TSX:ALA](#)): oil and gas.

Parkland Fuel Corp. ([TSX:PKI](#)): oil refining.

Company Name	Market Cap (\$b)	Dividend (%)	Payout (% TTM)	Dividend History	Average Payout (%)
Enbridge Inc.	82.4	4.9	166	Pass	82
Pembina Pipeline Corp.	16.2	5.0	152	Pass	144
Hydro One Ltd.	13.8	3.8	79	Pass	NA
Altagas Ltd.	4.7	7.6	321	Fail	121
Parkland Fuel Corp.	3.5	4.3	274	Fail	123

Sources: Ycharts, Google, Morningstar

Dividend history

Investors seeking income will look at dividend history as an indication of the dividend's sustainability. Enbridge, Pembina, and Hydro all pass the test, with sustained or increased dividend payments over recent stretches.

In the case of Altagas and Parkland, the dividends were cut around 2010. Prior to that, Altagas had an eight-year streak of increasing its dividend from 2002 to 2010. Parkland dropped its dividend from 2010 to 2011 by a small amount. This information, alongside a consistently higher dividend-payout ratio, puts Altagas and Parkland in a higher-risk category compared to the other three purely on the basis of dividend investing.

Consider the front-runner: Enbridge

Enbridge has a lot of good things going as a company. It is diverse across several energy sectors. Its dividend history is strong if you go all the way back to the 1990s.

Enbridge's debt-to-equity ratio dropped precipitously in 2017. This was due to the merger (read: equity inherited) with Spectra Energy, which is now officially on Enbridge books. The company increased market capitalization by 51%. As one of the biggest energy companies in North America, Enbridge gets

tailwinds from stealthy investments. An example of this is the sweet yield Enbridge gets from its 39% ownership of a major distributor of natural gas in Quebec called Noverco. Through its preferred shares holdings, Enbridge receives a dividend payment from Noverco at 4.38% above the Canadian bond yield. Enbridge's investment in Noverco has risk but is easy money to help round out the company's revenue stream.

Enbridge's goodwill impairment

In 2015, Enbridge took a sizable hit to its earnings with a \$440 million payment called goodwill impairment within its gas pipeline business. This was due to a prolonged decline in natural gas prices. Enbridge was forced to eat the losses, which affected the bottom-line earnings. Since this time, the price of natural gas has stabilized; over the summer, for instance, natural gas goes for about \$3 per unit. Hopefully, there are no such surprises in the future.

Bottom line for Enbridge

If Enbridge were on your watch list, now would be the time to buy. The stock has bounced off a price of \$49 twice this year, looking to establish a support level. If the stock holds this price level, then it means the selloff of Enbridge for the year is over. Ultimately, you buy Enbridge for the dividend income. Recent activities suggest the dividend is as healthy now as it has ever been.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:ALA (AltaGas Ltd.)
4. TSX:ENB (Enbridge Inc.)
5. TSX:H (Hydro One Limited)
6. TSX:PKI (Parkland Fuel Corporation)
7. TSX:PPL (Pembina Pipeline Corporation)

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Author

bmacintosh

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