1 Top Dividend-Growth Stock Yielding 5% and Primed to Soar

Description

Among the easiest paths to investing success is to invest in companies paying stable, steadily growing dividends. This is because those companies typically have wide economic moats, mature businesses, reliable sources of revenue, and provide products or services that have unchanging demand. Those characteristics endow them with stable earnings, which enhances the sustainability of their dividends.

An impressive opportunity for investors seeking both yield and strong potential growth is midstream services provider and pipeline company **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA). The company is growing at a rapid clip and is well positioned to benefit from growing demand for energy as well as higher natural gas and oil prices while offering investors a sustainable dividend with a juicy 5% yield.

Now what?

Over the last 10 years, Pembina's operating cash flow has grown more than fivefold, which has underpinned five straight years of dividend hikes, and there are signs that impressive rate of growth will continue. Earlier this month, Pembina completed the needle-moving $9.7 billion purchase of Veresen Inc., which significantly expanded its pipelines, storage, and processing infrastructure. This has enhanced its presence in the energy patch, making it one of the leading energy infrastructure companies in North America.

One of the notable assets acquired by Pembina is Veresen's 50% share of the Alliance Pipeline, which connects Canada's energy patch to the Chicago energy market via the Bakken. The deal is expected to give Pembina's earnings an impressive lift, adding up to $850 million in EBIDTA by 2018.

Another crucial driver of earnings growth for Pembina is its extensive portfolio of projects under development, which was boosted by the Veresen deal. It now has $2.9 billion of projects under development, encompassing pipeline and storage expansion as well as boosting gas-processing capacity. Those projects are forecast to be completed between now and 2018. These are estimated to have the capability to generate up to an additional $711 million of annual EBITDA once complete.

Such an impressive bump in earnings will not only lift Pembina's stock, but it will also support the sustainability of its dividend and that appealing 5% yield. This is especially important to note because the current dividend has a payout ratio of ~150% of net income, which, on first impressions, indicates that it is not sustainable.

However, when the substantial growth in cash flow is accounted for, along with the payout ratio falling to 57% as a portion of operating cash flow, it certainly appears sustainable and should see further dividend hikes.

It is also worth noting that the recent recovery in crude, which sees the North American benchmark price West Texas Intermediate trading at ~US$50 per barrel, will act as incentive for oil producers to step up production. As oil and gas output rises, there will be greater demand for the use of Pembina's pipeline, storage, and processing infrastructure, thus further bolstering earnings growth.

So what?

It is hard to ignore Pembina, because it offers investors a rare combination of attractive yield, solid growth prospects, and defensive characteristics, making it a stock that should be considered as a core holding for all portfolios. The company can only continue to grow, as the demand, and consequently the prices, for natural gas as well as crude rise, because it is a critical link between upstream energy producers and major energy markets.

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Author
mattdsmith