3 Factors That Will Drive Pipeline Returns in 2018

Description

Pipeline companies can be a great place to park your money, particularly in challenging market environments.

Companies like **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA), **TransCanada Corporation** (TSX:TRP)(NYSE:TRP), and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) all pay dividend yields in excess of 4% per year with the available capacity to continue to grow those payouts for years to come.

On top of that, most pipeline owners use "take-or-pay" contracts, which means their revenue streams and cash flows are, for the most part, guaranteed for the foreseeable future, which can go a long way to removing any uncertainty during times of duress.

But there has been a lot in the news involving pipelines recently, so it's important that you do a little homework before you put your hard-earned money at risk.

Demand for pipeline capacity is at all-time highs

On its most recent conference call last week, Enbridge's CEO Al Monaco said the company's system will remain full through the rest of the year and should remain at its capacity limits, even after the company's Line 3 replacement project comes online.

The statement was intended to address concerns that with oncoming pipelines expected from TransCanada and **Kinder Morgan Canada Ltd.** (TSX:KML) over the next few years, this could limit demand across the industry.

But following the Keystone pipeline spill late last year, that is far from being a problem in the market today.

Volumes sent through Keystone have been restricted since November's spill, and that fact combined with the acceleration of production coming out of Canada's oil sands has led to a massive supply glut that has plagued Canada's energy sector.

Without question, more capacity coming online through the end of the decade will raise competitive pressures, but today the demand for volumes is so high that crude by rail is once again a viable option.

Pipelines help Canada's economy prosper

Currently, TransCanada's Keystone XL project and Kinder Morgan's Trans Mountain pipeline are still subject to regulatory hurdles, which may be enough to scare some investors off.

But there's good reason to believe that there is enough incentive that the government will help to push those initiatives through.

Owing to a lack of throughput capacity in place today, some economists suggest the discounted price of Canadian crude will cost the economy up to $15.6 billion.

The re-emergence of a crude-by-rail strategy will help to offset some of those losses, but with so much at stake, it's pretty easy to understand how public and private interests would be willing to take a stand for some of the more significant pipeline projects.

Bad news: Steel tariffs will hurt the energy industry

Recently announced tariffs on steel by the U.S. government stand to hurt the oil and gas industry, particularly Canada's pipeline industry.

A study last year by the Association of Oil Pipelines suggested that a 25% increase in pipeline costs could raise the cost of TransCanada's Keystone XL pipeline by as much as $300 million.

Bottom line

Despite a positive long-term outlook for Canada's pipeline operators, the sector as a whole is on sale right now thanks to the current discount being applied on Canadian oil. And the sector only got "cheaper" following the introduction of steel tariffs.

There's no telling how long the tariffs will stay in place, but now might be the right time to add a pipeline or two to your RRSP account.

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