TFSA Income Investors: 2 High-Yield Energy Infrastructure Picks for Your Portfolio

Description

Retirees and other income investors are finally getting an opportunity to pick up some top-quality dividend stocks at very attractive prices.

Let’s take a look at two companies that might be getting oversold.

Inter Pipeline (TSX:IPL)

IPL owns natural gas liquids (NGL) extraction facilities, oil sands pipelines, conventional oil pipelines, and a liquids storage business in Europe.

The company’s stock is down considerably in the past year, falling from a high of $28 per share to the current price of close to $21.50. The weakness is partly due to a general pullback in the entire energy infrastructure sector amid concerns about rising interest rates, but IPL is also pushing ahead with a major project that could put a pinch on dividend growth in the near term.

At this point, the sell-off might be overdone.

Why?

IPL took advantage of the downturn to add strategic assets at attractive prices, including the $1.35-billion purchase of two NGL plants from **The Williams Companies Inc**. As the market improves, IPL should see strong returns on the investments.

In addition, IPL is moving ahead with its $3.5-billion Heartland Petrochemical Complex. The project is targeted for completion in 2021 and is expected to generate $450-500 million in additional long-term annual EBITDA, which should provide support for steady dividend growth.

The company finished 2017 with a payout ratio of 62%, so the distribution should be safe. At the time of writing, investors can pick up a yield of 7.8%.

Altagas Ltd. (TSX:ALA)

Altagas owns natural gas, power, and regulated utility businesses in Canada and the United States. The company has grown over the years through organic projects and strategic acquisitions, and that trend continues.

Altagas completed two B.C.-based projects in late 2017 and is making good progress on its Ridley Island propane export facility.

In addition, the company is working through its $8.3-billion purchase of Washington D.C.-based WGL Holdings. The deal should close this year and provide a nice boost to cash flow.

In fact, Altagas is targeting dividend growth of at least 8% per year for 2019-2021.The existing assets are performing well and the company raised the payout by 4% in the fall of 2017.

The stock is down from $31 per share a year ago to the current price of $24. Based on the current dividend, an investor who buys today can pick up a yield of 9%.

Is one a better bet?

Both stocks look oversold at this point. If you have some cash sitting on the sidelines, I would probably split a new investment between the two names today.

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1. TSX:ALA (AltaGas Ltd.)

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