Energy Sector Alert: 2 High-Yield Canadian Stocks to Buy Today

Description

Retirees and other income investors are searching for stock that offer stable payouts and above-average yield.

The energy sector used to be a go-to for this crowd, but it's largely fallen out of favour in recent years, providing investors with some interesting opportunities today.

As the industry begins its recovery, several off-the-radar businesses might be more attractive than the traditional producers.

Let's take a look at **Russel Metals Inc.** (TSX:RUS) and **Inter Pipeline Ltd.** (TSX:IPL) to see why they might be interesting picks right now.

Russel Metals

Russel Metals is one of North America's largest metals distribution companies, with operations that include metals service centres, energy products, and steel distributors.

The company took a hit during the oil downturn after making a large energy sector acquisition right before the crash, but the stock has bounced back amid the recovery in oil prices, and more gains could be on the way.

Revenue for 2017 came in at $3.3 billion compared to $2.6 billion in 2016; net income rose to $124 million from $63 million. Fourth-quarter 2017 revenue in the energy segment, jumping 24% year-over-year.

Free cash flow, the most important metric for income investors, rose to $2.92 per share in 2017 compared to $1.25 per share in 2016. Strong Canadian and U.S. economies combined with a rebound in the energy sector bode well for Russel Metals and its shareholders.

The company has grown over the years through strategic acquisitions, and that trend continues.Russel Metals recently closed its purchase of U.S.-based DuBose Steel.

Management kept the dividend steady during the downturn. Despite the rally in the share price from $15 in early 2016 to the current level above $28, the stock still offers a solid 5.3% yield. With margins and free cash flow expanding, investors could see dividend increases in the near-term.

IPL

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

A pullback in the broader energy infrastructure sector has knocked IPL's share price down from $28 this time last year to the current price of $24. At that level, the dividend provides a 7% yield.

Is it sustainable?

IPL finished 2017 with a payout ratio of 62%, so the distribution should be safe. The company reported record funds from operations for the year of $991 million, thereby representing a 17% increase over 2016. Net income rose 10% to a record $527 million.

Management raised the distribution near the end of 2017, representing the 15th consecutive annual hike to the payout.

IPL took advantage of the downturn to add strategic assets at discounted prices and recently gave the green light to a $3.5 billion development. The Heartland Petrochemical Complex should be complete by the end of 2021, and IPL expects the facility to generate long-term annual EBITDA of $450-500 million.

As oil prices recover, funds should start to move back into the energy sector and IPL could see its stock price move significantly higher.

Is one more attractive?

Both companies provide investors with a great opportunity to benefit from a recovery in the energy sector without taking on the direct risks associated with the producers.

If you have some cash sitting on the sidelines, I would probably split a new investment between the two stocks today to get above-average yield and exposure to both Canada and the United States.

While Russel Metals and IPL are great picks, additional opportunities also deserve to be on your radar.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:RUS (Russel Metals)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/17
Date Created
2018/04/23
Author
aswalker