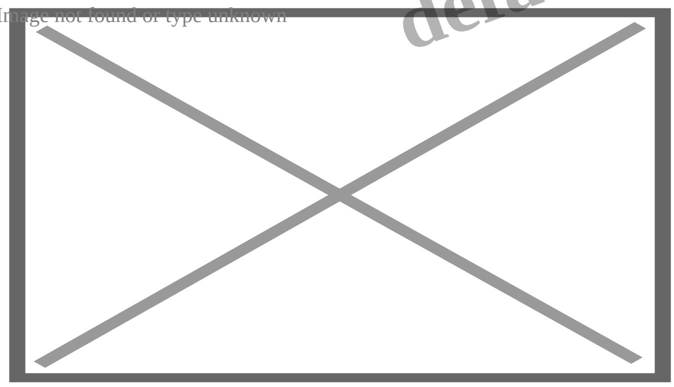
Which Stock Is More Attractive for Income?

Description

There has been concern that higher interest rates will make bonds compete with stocks for investors' money. As a result, debt-heavy pipeline stocks have been under pressure in the recent past, including **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) and **Keyera Corp.** (TSX:KEY).

However, these stocks are still better income generators with their dividend yields at least double that of the 10-year government bond yield. Is Pembina or Keyera is the better buy today?

Image not found or type unknown



First, here's an overview of the businesses.

Pembina

Pembina is a fully integrated midstream energy infrastructure company with +18,000 km of pipelines, which have a net capacity of about three million barrels of oil equivalent per day, including its conventional, transmission, and oil sands pipelines.

Pembina also has processing and fractionation facilities, which are primarily in the Western Canada Sedimentary Basin (WCSB) and provide natural gas and natural gas liquids (NGL) services to its customers.

Finally, Pembina has a marketing and new ventures division, which aims to maximize the value of hydrocarbon liquids and natural gas originating in the basins that Pembina operates in.

This year, Pembina will generate roughly 60% of its earnings before interest, taxes, depreciation, and amortization from its pipelines, 29% from its facilities, and 11% from its marketing and new ventures segment.

Keyera

Keyera is a midstream energy infrastructure company, which provides NGL gathering and processing, fractionation, storage, transportation, logistics, and marketing services in the WCSB.

Dividends

Pembina has at least maintained its dividend per share for +16 years, and it has increased its dividend for six consecutive years with a three-year dividend-growth rate of 5.9%. Its payout ratio is estimated to be ~56% of its cash flow this year. So, its 5.2% dividend yield should be sustainable.

Keyera has increased its dividend for seven consecutive years with a three-year dividend-growth rate of 9.4%. Its payout ratio is estimated to be ~55% this year. Therefore, its ~4.7% dividend yield should be sustainable.

Investor takeaway

Pembina and Keyera are great income vehicles because of their stable monthly dividends. Between the two stocks, Pembina can deliver higher returns in the next 12 months, because it offers a bigger dividend yield and more upside potential.

Specifically, the consensus from **Thomson Reuters** has a 12-month target of $52.10 per share on Pembina stock, which represents ~25% upside potential and ~30% total returns in the near term. As for Keyera, the 12-month target is $42.10 per share, which implies ~19% upside potential and ~24% total returns in the near term. Notably, though, Keyera is higher quality as its cash flow covers its debt better.

For a bigger margin of safety, begin scaling in Pembina stock at $38 per share and Keyera stock at $32 per share for initial yields of ~5.6% and ~5.2%, respectively.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:KEY (Keyera Corp.)

3. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/22
Date Created
2018/04/24
Author
kayng