2 High-Yielding Energy Stocks: Which Dividend Is Safe?

Description

After a powerful rally in oil prices this year, some energy stocks are looking attractive again. In the high-yielding space, I like the following two energy infrastructure companies. Let's find out which stock's dividend is safe.

Inter Pipeline

Inter Pipeline Ltd. (TSX:IPL) is a Calgary-based energy infrastructure company operating four business segments in western Canada and Europe. Its pipeline systems span over 7,800 kilometres in length and transport approximately 1.4 million barrels per day.

In Europe, IPL operates 16 strategically located petroleum and petrochemical storage terminals, which have a combined storage capacity of approximately 27 million barrels. Its NGL business is one of the largest in Canada, processing an average of 2.8 bcf/d in 2017 with the capacity to produce over 240,000 b/d of NGL.

Despite this impressive combination of energy assets, trading in IPL stock remains volatile due to investor perception that the company's profitability is prone to the cyclical nature of commodities.

But I find IPL a stable energy infrastructure provider that can be a solid long-term investment. During the recent oil slump, IPL strengthened its position in the industry, acquiring Williams Canada for $1.35 billion. It also plans to build a $1.85 billion polypropylene manufacturing plant by 2021. These growth initiatives have put the company in a position to produce steady cash flows for its investors in the years to come.

Trading at $23.58 and with an annual dividend yield of 7.35%, IPL may look risky to some risk-averse investors. But I don't think these dividend payments are under threat. The company is increasing its cash flows and maintaining a healthy payout ratio, which was 59% for the fourth quarter.

AltaGas

AltaGas Ltd. (TSX:ALA), a Calgary-based power and gas utility, is another high-yielding energy stock in Canada. With an 8.9% annual dividend yield, AltaGas pays a $0.1825-a-share monthly distribution, which comes to $2.19 a share yearly.

The amount of the distribution has increased ~50% from the $0.12 a share that was being paid five years ago. The company plans to hike it payouts by 8% each year through 2019.

By following the footsteps of big Canadian utilities, AltaGas is seeking growth opportunities south of the border, and the company is in the middle of seeking regulatory approvals for its $8.4 billion merger deal with U.S.-based **WGL Holdings, Inc**. in 2018.

Early this month, the companies announced that it has received a regulatory approval from the Maryland Public Service Commission to the proposed merger with some conditions. AltaGas expects to complete the process by the middle of this year, which will create a combined entity with over $20 billion in energy infrastructure assets and an enterprise value over $17 billion.

This provides a strong platform for growth with approximately $4.5 billion in secured growth projects and approximately $1.5 billion of additional growth opportunities in advanced stages of development through 2021.

Which dividend stock is safe?

I find both stocks a good bet for high-risk, high-reward investors. AltaGas's yield of close to 9% is probably one of the best returns in the energy space if you are comfortable buying this stock just before a major event. IPL is less risky with a more stable financial outlook. I would favour IPL for long-term income investors and avoid AltaGas, if I have to choose between the two.

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