3 Must-Own, High-Yield Energy Dividend Stocks With a High ROE

Description

Income investors love high-yield dividend stocks. A company's yield is one of the most important factors for dividend investors. But be warned, don't fall into the dividend trap.

What's a dividend trap? Simply put, don't chase high yield while ignoring fundamentals.

One good way to judge a company's performance is by taking a look at the company's return on equity (ROE). It measures a company's profitability against the money invested by shareholders. What I like about ROE is that it considers three key performance metrics: profit margin, asset turnover, and leverage.

The higher the ROE, the better.

Over the last month, there has been significant buzz in the energy sector. Let's jump on the bandwagon. Here are the three highest-yielding stocks with the highest ROEs in the energy sector.

Highest yield

Enbridge Income Fund Holdings Inc.'s (TSX:ENF) 8.13% yield leads the trio. The company has grown net income by a compound annual growth rate (CAGR) of 40% of the past five years. Yes, you read that correctly; that is 40% on average!

The company is a Canadian Dividend Aristocrat, having raised dividends for eight consecutive years. As impressive, its five-year dividend-growth rate is 10.5%.

Enbridge's dividend is well covered. Its payout ratio as a percentage of cash flows is only 72%. The company recently posted earnings, and its cash flows are trending towards the upper end of guidance. As a result, the company announced that it has extended its 10% dividend-growth guidance through 2020.

Highest ROE

Would it surprise you if another pipeline made the list? Not me. The oil bottleneck in western Canada has put downward pressure on these high-quality companies. Thus, the growing yields.

Inter Pipeline Ltd. (TSX:IPL) and its 15.85% ROE tops the group. Inter currently sports a 7.09% yield, which, once again, is well covered by cash flows. It has a five-year dividend-growth CAGR of 7.4% and is also a Canadian Dividend Aristocrat.

The company is building Canada’s first integrated petrochemical complex. The project is expected to add $450-500 million to annual earnings before interest, taxes, depreciation, and amortization (EBITDA). This will underpin its high ROE and future dividend growth.

Best valued

This one may surprise you. No, it’s not a pipeline.

Completing our list is **Peyto Exploration and Development Corp.** (TSX:PEY). Peyto’s stock has been pummeled over the past year, losing almost 60% of its value. The sell-off is overdone. I smell opportunity.

Peyto trades at a cheap 9.7 times earnings and at 1.1 times book value, well below industry averages. It is also trading at a ridiculously cheap enterprise value to EBITDA of 5.1. *This is about half the industry average!*

The company’s 6.46% yield is well covered by cash flows. As of its most recent earnings, dividends accounted for only 20% of funds from operations. Stripping out dividends and capital expenditures, Peyto still generated cash flows of $84 million.

As always, invest wisely and do your own due diligence.

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