Attention Dividend Investors! 2 Oil Pipelines to Buy Today

Description

As a dividend investor, I believe that opportunities only come when there is a significant amount of negative news. The trick is to determine whether the news is a real concern for the company in the long term or if it is merely a short-term issue that presents a buying opportunity for the long-term investor. Oil pipelines have had two types of bad news: rising rates and low oil prices.

As it seems that oil prices are on the mend, this could be an opportune time for dividend investors to begin establishing a position in oil pipeline stocks. Two pipelines that are at attractive levels are **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA).

Enbridge Inc.

With a yield of almost 7% at current prices, Enbridge is extremely attractive. Enbridge has been paying dividends and raising its payout for decades. Management does not have any plans to change this strategy and has forecasted double-digit dividend growth several years into the future.

One of the biggest company-specific reasons for the decline in Enbridge's share price is the company's substantial debt load. The debt is primarily due to the 2017 Spectra acquisition in the United States. While large amounts of debt are never a good thing, management believes that the acquisition was necessary to strategically grow the company's business in the United States.

Enbridge has expressed confidence in its ability to pay down the debt to a more reasonable level. Many of Enbridge's businesses are regulated utilities that provide predictable cash flows, and others are contracted for years at a time, giving the company clear earnings visibility. It is also exploring non-core asset sales to expedite debt repayment.

Pembina Pipeline Corp.

Pembina is much smaller in scale than Enbridge, operating primarily in western Canada. This makes Pembina a leveraged play on an improving western Canadian oil sector. Pembina also benefits from the fact that there are no company-specific issues putting pressure on the stock. It is purely a victim of dividend and oil sector negativity.

The company recently acquired the pipeline company Veresen, which expanded Pembina's pipeline capacity across western Canada. Most of Pembina's revenues come in the form of long-term pay-for-service contracts, which provide the company with predictable cash flows.

Pembina is paying a dividend of over 5% at current market prices and has indicated that maintaining and increasing the payout is a primary focus for the company. Pembina has an excellent balance sheet, which it has used to its advantage. The company increased revenues 30% year over year in 2017. It also had a 106% increase in profits in large part due to the Veresen acquisition and generally increasing business profitability.

Searching for value is not easy. Where there is value, there is a risk. It is because of this risk that investors must do their homework to determine whether the lack of confidence in a stock is warranted or whether it is irrational. In the case of Enbridge and Pembina, it is highly likely that in the long run, this is merely short-term noise and a point for long-term dividend investors.

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