Dividend Investors: Is it Time to Buy Inter Pipeline Ltd. or TransCanada Corporation?

Description

A pullback in the energy infrastructure sector is providing dividend investors with an opportunity to pick up some high-quality stocks at reasonable prices.

Let's take a look at **Inter Pipeline Ltd.** (TSX:IPL) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) to see if one is an interesting pick today.

IPL

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

The company made it through the oil rout in good shape, and management even took advantage of the downturn to add strategic assets at attractive prices. The largest deal was the $1.35 billion purchase of two NGL extraction facilities from the Williams Companies.

Those assets are performing well amid a recovery in the sector, helping drive year-over-year Q1 funds from operations (FFO) in the segment up 20%.

Across the board, Q1 funds from operations increased 3% compared to Q1 2017. The oil sands and conventional oil pipeline businesses generated similar FFO compared to last year, while the bulk liquid storage business saw FFO slip from $26.2 million to $18.7 million.

The company is moving ahead with its $3.5 billion Heartland Petrochemical Complex, which should be in operation by the end of 2021. IPL expects to see long-term average annual EBITDA of $450-500 million from the facility.

IPL raised its dividend last year, and investors should feel comfortable with the sustainability of the distribution. The payout ratio was 63%.

The stock is starting to recover after a steep pullback, but it still looks attractive. At the time of writing, investors can buy IPL for $24 per share and pick up a 7% yield.

TransCanada

TransCanada reported solid Q1 earnings of $734 million compared to net income of $643 million in the same period last year.

The company is working through $21 billion in near-term projects, of which $11 billion should be complete by the end of 2018. As the new assets go into service, TransCanada expects revenue and cash flow to increase enough to support annual dividend hikes of at least 8% through 2021.

Beyond that time frame, TransCanada is evaluating roughly $20 billion in additional developments, including Keystone XL, the Bruce Power life extension, and Coastal GasLink.

A go-ahead for any of these projects could result in an upward revision of the dividend-growth guidance.

TransCanada pays a quarterly dividend of $0.69 per share for a yield of 5%.

Is one more attractive?

Both stocks have solid growth portfolios and should benefit as the broader energy sector recovers.

If you have a contrarian investing style, IPL might be the way to go today. The company is smaller and carries more risk, but it likely offers better upside torque as funds flow back into the sector.

Otherwise, TransCanada is interesting today at a 5% yield, and it offers great dividend-growth prospects over the medium term.

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