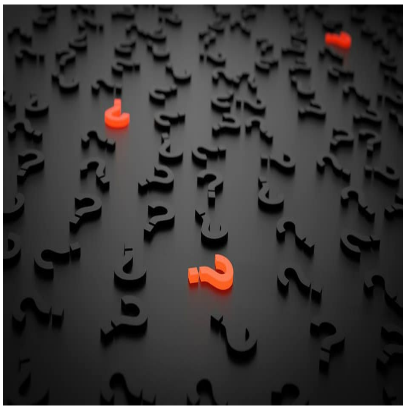

Inter Pipeline Ltd. vs. AltaGas Ltd.: Which High Dividend Yield Is Safe?

Description

While buying any dividend-paying stock, the main threat every investor faces is an unexpected cut in payouts. You don't want to invest in companies that lure you with generous yields only to slash them down the road.

Inter Pipeline Ltd. (TSX:IPL) and **AltaGas Ltd.** (TSX:ALA) are two high-yielding stocks from Canada's energy space with different risk-reward prepositions. Let's try to understand which of these two dividend stocks is relatively safe.

Inter Pipeline

If you're aiming to generate a regular stream of income from your investments, the company's history of dividend payments does matter. This tells you a lot about the company's cash flow potential and its management's dedication to reward the shareholders.

Though the past doesn't guarantee that you're totally out of danger, a growing dividend provides some support for a company's share price and a hedge against inflation.

IPL is one such stock that has a credible dividend payment history. With a yield of 6.9% and annualized five-year dividend growth of 9%, this stock is a good bet for long-term income investors who are looking to invest in high-yielding stocks.

This Calgary-based energy infrastructure company has strategically located pipelines, petroleum, and petrochemical storage terminals. 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 amid rising interest rates and some uncertainty in energy markets.

AltaGas

AltaGas is a Calgary-based power and gas utility and is another high-yielding Canadian energy stock. With an 8.7% annual dividend yield, AltaGas pays a $0.1825-a-share monthly distribution, which comes to $2.19 a share yearly.

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

But that distribution has not been enough for investors to get excited about this utility, which is struggling to get out of a slow-growth patch by expanding in the U.S. The company is in the middle of seeking regulatory approvals for its $8.4 billion merger deal with U.S.-based **WGL Holdings, Inc**.

But investors remain skeptical on this deal because it will increase the AltaGas debt and dilute the existing shareholders.

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.

Which stock is safe?

I find IPL to be a stable energy infrastructure provider that can be a solid long-term investment. The company is going ahead with a $3.5-billion petrochemical project in an industrial area north of Edmonton. The project will convert propane into polypropylene, a plastic used in the manufacturing of products such as automobile parts, containers, and Canadian bank notes. The project will unlock and a huge growth potential for future investors who can handle a bumpy ride right now.

AltaGas, on the other hand, faces a lot of uncertainty regarding the closure of its WGL deal and how it will reduce its leverage after this massive undertaking.

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