Pump Some Cash Into Your Portfolio With These 2 Pipeline Companies

Description

If you're looking for excellent dividend-paying companies to add to your portfolio, you don't have to look any further than the Canadian pipelines. Many of the companies in this sector are paying growing dividends in excess of 5%. And while several of these companies have recovered from recent lows, the stock prices are often still well off their highs.

Even though the companies are subjected to similar oil price-related pressures that the producers face, pipelines have a couple of qualities that make them much more stable than pure producers. One of the most important aspects of these companies is the fact that pipelines have steadier revenues than producers. The pipeline capacity is often rented as long-term contracts that provide stable cash flows. Pipeline companies also often offer services, such as storage and refining, to producers.

Pembina Pipeline Corp. (TSX:PPL)(NYSE:PBA)

Pembina has three operating segments: Pipelines, Facilities, and Marketing & New Ventures. The three segments, instituted on January 1, 2018, were created to both structure the company more efficiently and better facilitate the integration of new assets attained in the Veresen acquisition.

The company primarily transports oil, condensate, and natural gas liquids (NGL) through its pipelines. Pembina's pipelines run throughout North America but are mostly concentrated in Western Canada and the United States. It operates almost 7,000 km of transmission pipelines through these regions.

Through its Marketing & New Ventures segment, Pembina is able to capitalize on opportunities, such as buying and selling commodities as well as contracting out facilities and transportation systems to maximize productivity. The Facilities segment is focused on gas and NGL services at its various extraction facilities and midstream assets.

Pembina's cash flows are quite predictable, given the fee-for-service nature of its contracts. Most of the contracts are long term in nature, providing excellent revenue visibility. The company also has a degree of diversification by region, with pipelines operating throughout Canada and the United States and by operating segment.

This income stability provides Pembina with the ability to determine its ability to pay and raise its dividend over time. With a monthly dividend of approximately 5% and growing, Pembina offers excellent payouts for the dividend-focused investor. The dividend is fully supported at the present time by funds from operations (FFO).

Inter Pipeline Ltd. (TSX:IPL)

The company owns and operates energy infrastructure assets in Western Canada and Europe. IPLhas both pipeline assets and processing plants. IPL's largest business is its Western Canadian oilsands transportation network, although the company also owns a number of NGL plants.

While the company is primarily focused in Western Canada, it is trying to build operations in Europe. Most notable is the liquid storage business which it operates, providing a degree of geographic and operational diversity for the company. IPL continues to develop its businesses through a long-term capital project such as the Heartland Petrochemical Complex in Alberta, which is set to begin operations in 2021.

IPL had a decent financial year, with net income hitting a new record at $143 million. FFO increased 3% year over year. The company pays a monthly dividend of $0.14 a share, which equates to a yield of almost 7% at the current share price. The dividend-payout ratio for the most recent quarter was 63% of FFO, which included a 7.1% increase in the monthly dividend.

Conclusion

Both of these companies pay excellent dividends that appear to be fully covered at present. With Pembina and IPL's dividends at a healthy 5.1% and 6.8%, respectively, being paid to you on a monthly basis, you should make out quite well over time.

The major caveat to owning these companies is the massive amount of debt infrastructure utilities such as Pembina and IPL carry. They are extremely capital-intensive businesses, but their relatively stable FFO tend to balance out the risk of higher leverage. In any case, you must be comfortable with high debt loads to make an investment in these dividend-paying machines.

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