AltaGas Ltd. vs. Inter Pipeline Ltd.: Which High-Yielding Dividend Stock Is Safe?

Description

Investing in high-yielding dividend stocks is a risky bet. When stocks offer yields that are much higher than the market average, it's usually a sign of danger.

If your investing objective is to preserve cash with a reasonable return, then you should stay away from stocks that offer extraordinary yields. After this note of caution, however, you shouldn't paint all high-yielding dividend stocks with the same brush.

Sometimes investors avoid a company due to a setback that is short term in nature. Smart investors can take advantage of this situation by locking in juicy yields. Here are two Canadian energy infrastructure stocks that you could consider in this category. Let's find out which one is safer than the other.

AltaGas Ltd.

AltaGas Ltd. (TSX:ALA), a Calgary-based power and gas utility, has been a target of short sellers for more than a year now. Some investors feel AltaGas has become a risky stock since it announced its intention to acquire U.S.-based **WGL Holdings, Inc.** for $8.4 billion.

This is a massive undertaking for a company whose market capitalization is only over $4 billion, and the total asset base is around $10 billion. The deal, which is going through some regulatory approvals in the U.S., is scheduled to be completed this summer.

To counter this criticism, AltaGas has announced a funding plan, which includes proceeds from its $2.6 billion subscription receipts, US$3 billion available under a fully committed bridge facility, and the rest from the sale of some of its assets.

If you're a risk taker and you believe this transaction will add value to AltaGas's business, then this is a good time to take advantage of this massive 8% annual dividend yield. AltaGas pays a $0.1825-a-share monthly distribution, which comes to $2.19 a share yearly.

Inter Pipeline Ltd.

Inter Pipeline Ltd. (TSX:IPL) is another Calgary-based energy infrastructure play which offers an attractive dividend yield. Some investors believe that the company's annual 113% payout ratio is not sustainable and that a dividend cut is imminent, especially as the company is going through a massive expansion, which requires a lot of capital allocation.

IPL is building a $3.5 billion petrochemical project in an industrial area north of Edmonton. The complex will convert propane into polypropylene, a plastic used in the manufacturing of products such as automobile parts, containers, and Canadian bank notes.

Amid these concerns and a general weak sentiment for utility stocks, IPL's share price has been very volatile in the past 12 months. It stock currently yields 6.8%, backed by a solid history of rewarding its investors. In November 2017, the company hiked its payout by 3.7% to $1.68 per share annually, marking its 15th consecutive dividend increase.

Which stock is better?

Despite AltaGas's very attractive dividend yield, I find IPL a more reliable and stronger name for investors seeking regular income. Its expansion plan and diversified assets in North America and Europe make it more attractive. AltaGas might be able to successfully complete its WGL deal, but this transaction will dilute existing shareholders and add more debt to its balance sheet. For these reasons, I like IPL's high yield better than AltaGas's.

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