



Why Canada's Pipelines May Be the Best Investment in the Entire Oil Patch!

Description

As oil continues to hold around the US\$70 mark, Canadian investors need to strongly consider which name in this sector should be added to their portfolios, as the profits brought on by the black gold will be very generous over the long term. In the past, there were large excess profits, as the price of oil increased over a relatively short period of time, which made many projects (that were previously not economical) profitable to undertake.

As numerous projects came online and began selling their production, the supply/demand forces started to shift, which, almost three years ago, sank the price of oil. Given that it has taken this long for oil to make its way out of the basement, investors now need to consider where the industry is headed (and how to capitalize on it), as the return to a more normalized price will be extremely good for Canada.

As interest rates continue to increase, there will be a net difference between companies undertaking a new capital project (that needs to be financed) versus restarting a project that was previously put on hold. Essentially, the cost of capital will be a key difference to the outcome.

With many projects in various phases of development in the province of Alberta, the lowest-risk approach to benefiting from higher oil prices will be in the pipelines that move the oil that is going to be produced.

The first name to consider is none other than **Inter Pipeline Ltd.** (TSX:IPL). At a current price of \$24.50 per share, Inter Pipeline offers investors a dividend yield of almost 7% in addition to share ownership in a very [unique asset](#).

As a reminder, the trade wars that are currently underway are not only between President Trump and the world, but also between Alberta and British Columbia; the issue of a pipeline between Alberta and the oil tankers in the port (on the other side of British Columbia) has yet to be resolved.

In spite of a lot of resistance, the end result is expected favourable (with a major push coming from Prime Minister Trudeau), as the sale of oil could either be a cloud hanging over the economy or the rainbow that leads us to gold. The tax revenues that the government will take in from these corporate

profits are simply too important to ignore.

The second name to consider is **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)). In spite of only offering a dividend yield of 5%, Pembina has [performed very well](#) in the past year. As the share price has increased, the yield has decreased in tandem.

What makes this name so attractive, however, is the difficulty of any company to replicate the assets amid higher interest rates. Just as the cost of capital is so important when undertaking oil projects, the reality is that building a pipeline is no different — maybe even more challenging; it is getting more and more difficult as the cost of borrowing increases, thereby making the existing assets more valuable!

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