Income Investors: 2 Attractive Dividend Stocks Yielding 6.5%

Description

The search for yield has many investors turning to niche players in the midstream segment of the Canadian energy market.

Let's take a look at **Inter Pipeline Ltd.** (TSX:IPL) and **Gibson Energy Inc.** (TSX:GEI) to see why they might be interesting picks.

IPL

Inter Pipeline owns natural gas liquids (NGL) processing facilities, conventional oil pipelines, and oil sands pipelines in Canada. In addition, the company operates bulk liquids storage businesses in Europe.

During the oil rout IPL acquired two NGL extraction sites and the accompanying infrastructure from **The Williams Companies** for $1.35 billion. IPL paid much less than the cost of building the facilities, so the deal has the potential to deliver solid long-term returns. In fact, the NGL processing business is already benefitting from higher margins. The division saw funds from operations jump to $101.3 million in Q2 2018, representing a $72.9 million gain compared to the same period last year.

The acquisition also came with plans for a major development, and IPL is moving ahead with the project. The $3.5 billion Heartland Petrochemical Complex will produce polypropylene, which is used as a base input for the production of a variety of plastic products. IPL anticipates completion by the end of 2021. Once the site hits full production, IPL should see additional EBITDA of $450-500 million per year.

The oil sands and conventional oil segments delivered steady results for Q2, while the European business had a rough quarter, as storage demand has dropped off in 2018 due to unfavourable market prices. Average storage utilization in the group fell to 84% in Q2 compared to 98% in Q2 2017.

Ongoing developments should support revenue and cash flow growth in the coming years. The Q2 payout ratio was 62%, so the dividend should be safe. At the time of writing, the monthly distribution of $0.14 per share provides a yield of 6.8%.

Gibson Energy

Gibson Energy started out as an oil marketing business in the 1950s. Over the years the company expanded into storage, trucking, pipelines, NGL processing, retail and wholesale propane, and environmental services.

The oil downturn forced Gibson to revisit the strategy and in 2017, management launched a restructuring plan that will refocus the business on midstream infrastructure. As a result, non-core assets are being sold and investment will concentrate on the storage and pipeline gathering operations.

Gibson Energy reported solid Q2 results. Adjusted EBITDA from continuing operations increased 71%, compared to the same period last year. Distributable cash flow increased 80% and the trailing 12-month payout ratio came in at 79%.

Gibson Energy pays a quarterly distribution of $0.33 per share. That's good for a yield of 6.7%.

The bottom line

IPL and Gibson Energy pay attractive distributions that should be safe. Both companies are investing in new developments to support revenue and cash flow growth in the coming years.

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