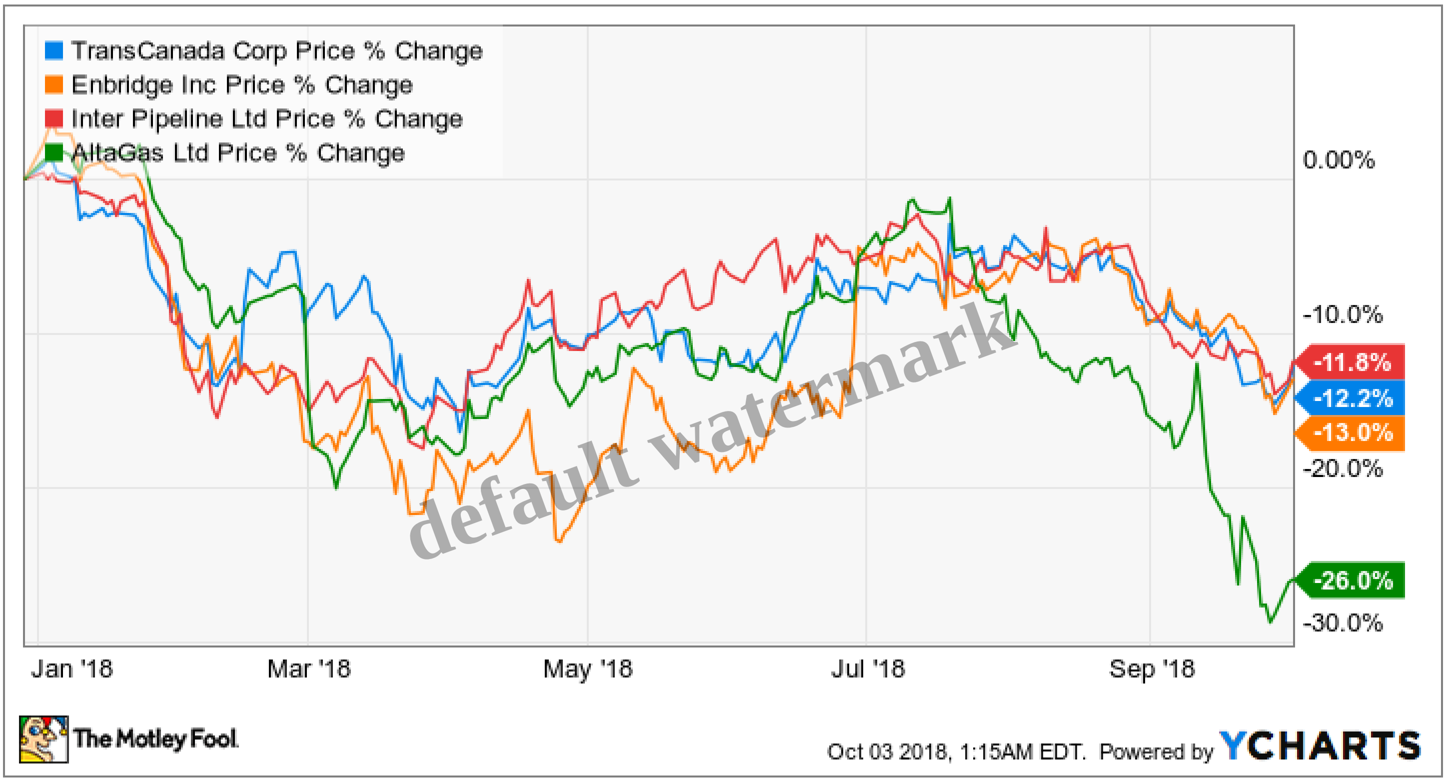
Get Enormous Income From This Depressed Industry Now

Description

Energy infrastructure stocks, including **Enbridge** (TSX:ENB)(NYSE:ENB), **TransCanada** (TSX:TRP)(NYSE:TRP), **Inter Pipeline** (TSX:IPL), and **AltaGas** (TSX:ALA), have been in a downward trend with AltaGas being the worst performer.



TRP data by YCharts. Year-to-date price actions of the aforementioned energy infrastructure stocks

One reason for the depression of the industry is increasing interest rates, which increase the cost of operation for the debt-heavy companies.

Here are some of their recent debt and leverage ratios. At the end of Q2, Enbridge had a debt ratio (defined by total debt divided by total assets) of about 0.56, TransCanada's was 0.68, Inter Pipeline's was 0.66, and AltaGas's was 0.49.

At the end of Q2, Enbridge had a leverage ratio (defined by total debt divided by total equity) of 1.7, TransCanada's was 2.7, Inter Pipeline's was 1.9, and AltaGas's was 1.42.

Big dividend income

Historically, energy infrastructure stocks offered big dividend yields. Since the stocks have declined recently, their yields have become even larger. In fact, their yields are near or at their five-year highs.

TRP Dividend Yield (TTM) data by YCharts. Low share prices imply high dividend yields as long as the dividends are sustainable. So, investors should check for dividend safety.

Typically, the market can sense when something is wrong. Currently, the market prices AltaGas with a sky-high dividend yield of 10.3%. This means it’s the riskiest investment of the four. However, my hope is that AltaGas won’t cut its dividend, the market is pricing the stock as if the stock will cut its dividend.

For large dividend income that’s safer, go with the bigger names of Enbridge or TransCanada. At $42.78 and $53.72 per share, respectively, as of writing, they offer 2.2 times and 1.8 times the yield of 2.8% of the Canadian market represented by TSX:XIU.

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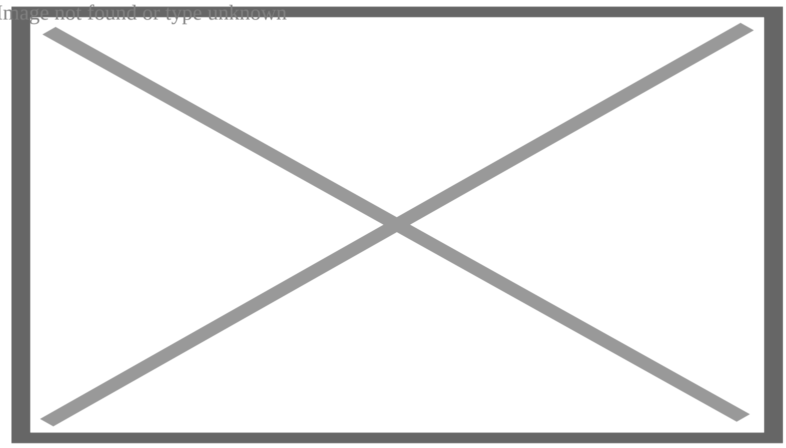

Pressure on TransCanada stock?

Notably, TransCanada stock may be weighed down in the near term. On Tuesday, the company announced that it will begin constructing the roughly $6.2 billion Coastal GasLink pipeline project in early 2019.

The majority of the spend on construction will occur in 2020 and 2021, but Coastal GasLink won't be in service or generating cash flow until 2023. This project is on top of the nearly $28 billion near-term capital program that was already in place. This means that TransCanada will need to look for ways to fund the project. It's considering finding joint venture partners as an option.

I expect TransCanada's +5% yield to be safe, as the company has a payout ratio of about 60% based on its free cash flow generation and it's the only one of the four companies to have its dividend covered by its earnings.

Investor takeaway

Investors should consider buying one, at most two, companies from the energy infrastructure industry for big dividend income. Then, look elsewhere to build a more diversified and safe dividend income stream. Of the four companies, Enbridge and TransCanada are safer options that offer yields of about 5-6%.

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