This Top Dividend Stock Has a Yield of Over 5%

Description

As an income investor, the best combination is one that offers an attractive yield and consistent dividend growth. For this reason, I prefer to start with the Canadian Dividend Aristocrat list. Aristocrats are those who have raised dividends for five or more consecutive years.

Investors are usually cautioned when investing in high yielders. At times, they can be signs of company distress. Not so for **Pembina Pipeline** (TSX:PPL)(NYSE:PBA).

Performance

Pembina is one of Canada's largest pipeline companies with net capacity of 3.0 million barrels per day. (MMboe/d). Impressively, the company has a long and consistent history of delivery projects on time and on budget.

All 13 of Pembina's major recent projects have been delivered either on or under budget, and only two were delayed by no more than a quarter. This type of execution is best-in class!

Given Canada's well documented pipeline glut issues, the sector has struggled. Year to date, Pembina's share price is flat, down 0.96%. Over the past year however, its share price is actually in positive territory gaining approximately 5% — the only one in the sector to have posted positive one-year gains.

So why the outperformance? It's simple: Pembina has delivered consistent growth despite the challenging operating environment.

Earnings before interest taxes, depreciation and amortization (EBITDA) per share have been on a steady uptrend. At its annual meeting in September, the company even raised guidance for the year.

EBIDTA per share is now expected to growth by approximately 35% at the mid-range of guidance.

This explosive growth is thanks in large part to an increase in long-term contracted services. The fee-based segment now represents approximately 85% of revenues.

Dividend safety

One of the biggest worries with a high yield is the safety of the dividend. Pembina's dividend is 100% underpinned by the aforementioned fee-based segment. Even better, the company's dividend accounts for only 85% of distributable free cash flow (DFCF).

As per the company, its organic growth is fully funded and DFCF will enable future dividend growth, debt repayment and share repurchases.

Dividend Growth

Not only is Pembina's dividend safe, its growing. The company has raised dividends for six consecutive years by an average of approximately 5%. Another positive sign is that the company's dividend growth rate has been trending upwards.

Valuation

Thanks to its poor performance year to date, the company is now cheap. It is trading at only 18 times forward earnings and its P/E to growth (PEG) ratio is 0.95. This signifies that its share price is not keeping up with expected growth rates.

Analysts agree that the company is undervalued as 13 of the analysts covering the company rate it a "buy." The average one-year price target is $52.64, which is 16% upside from today's price.

Pembina's history of execution, recent performance and rising dividend makes it a pillar of one's retirement portfolio.

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