This Dividend Payer Is a Bargain on This Dip

Description

Keyera (TSX:KEY) stock fell as much as 12% on Wednesday after reporting its third-quarter results. Investors should note that Keyera has been a consistent dividend payer, which has increased or maintained its dividend per share every year since 2004.

Furthermore, Keyera just increased its monthly dividend per share by 7.1% starting in September. With an attractive yield of close to 6%, it's certainly worthwhile to explore whether the stock is a bargain.

Q3 results and what caused the drop in the stock

Here are some key metrics compared to the same period in 2017:

	Q3 2017	Q3 2018	Change
Net earnings	$38.46 million	$34.68 million	-9.8%
Cash flow from operating activities	$80.70 million	$69.38 million	-16.3%
Distributable cash flow per share	$0.57	$0.61	7%
Adjusted EBITDA	$138.18 million	$159.82 million	15.7%

The reason for the poor net earnings was largely because Keyera booked impairment losses of $63 million. The impairment charge was used to reduce the carrying values of the Minnehik Buck Lake and Zeta Creek gas plants, as there was low producer activity in the areas surrounding the facilities.

Likely, the low activity had to do with low gas prices. This suggests that supply exceeds demand. When demand exceeds supply, gas prices will improve and the producers will increase their production again. (Keyera has controlling interests of 79.8% in the Minnehik Buck Lake plant and 60% in the Zeta Creek plant.)

Keyera's nine-month results suggest a healthy business

Looking at Keyera's results over the first nine months of the year shows a more normalized picture of the business.

Here are some key metrics compared to the same period in 2017:

	Q1-Q3 2017	Q1-Q3 2018	Change
Net earnings	$201.9 million	$229.2 million	13.5%
Cash flow from operating activities	$301.1 million	$358.7 million	19.1%
Distributable cash flow per share	$1.8	$2.12	17.8%
Adjusted EBITDA	$419.6 million	$559.1 million	33.2%

Oil pipes in an oil field

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Dividend safety

Keyera has increased its dividend per share every year since 2004 except in 2010 when it froze its dividend, which indicates good management. The energy infrastructure company has a three- and five-year dividend-growth rate of 9.4% and 9.9%, respectively. And it increased its monthly dividend per share by 7.1% in September.

Keyera's payout ratio was 72% in Q3 and 61% over the first nine months of the year, which was an improvement from 69% from the first nine months of 2017. So, Keyera's yield of about 5.7% as of writing should be sustainable.

Investor takeaway

The analyst consensus from **Thomson Reuters** has a 12-month target of $43.40 per share on Keyera, which represents +37% near-term upside potential. Throwing in the 5.7% yield, we're looking at compelling estimated near-term returns of 43%.

Keyera is a great play on improving gas prices, though, notably, it has other types of assets, such as pipelines. It's a bargain on this dip and offers nice monthly income and a growing dividend while you wait for its stock price to appreciate.

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Date
2025/08/23
Date Created
2018/11/09
Author
kayng