Buy This +8% Dividend-Paying Pipeline or 1 Growing Competitor?

Description

Oil-weighted stocks have taken something of a battering of late after per-barrel prices took that sharp, but perhaps predictable, nosedive. While this has opened some clear value opportunities in Canadian energy stocks – along with some interesting contrarian positions – investors may potentially be overlooking infrastructure-related stocks such as the popular pipeline tickers.

Below you will find two front running oil pipeline stocks that could fit nicely into an energy portfolio while offering some diversification in that space.

Inter Pipeline (TSX:IPL)

With a steady smattering of inside buying over the past 12 months, Inter Pipeline is a good choice if insider confidence is your thing. However, while a one-year past earnings growth of 15.6% exactly matches the industry average for the same period, it trails its own 28.2% five-year average past earnings growth, while a high debt level of 145.4% of net worth is something risk-shy investors should be aware of.

Value indicators are a bit mixed for this stock: a negative PEG and a P/B ratio that's twice the book value muddy an otherwise normal valuation indicated by a P/E of 12.7 times earnings. However, decent value should be assumed, while a dividend yield of 8.9% definitely puts this oil-weighted stock on the passive income investment radar.

Quality and momentum indicators are a bit mixed: a ROE of 16% is acceptable, as is a most-recent quarter EPS of $1.54. An expected contraction in earnings by 2.3% over the next one to three years doesn't look too rosy, however, and overshadows the 2.14% gain made in the last five days.

If investors can look past a negative earnings outlook, a beta of 1.08 indicates fairly low volatility for an oil-related stock, and as such offers pretty good insulation against the vagaries of the energy sector, while still offering handsome returns on your investment in that space.

Still think oil stocks are going down the tubes?

Consider, if you will, **Pembina Pipeline** (TSX:PPL)(NYSE;PBA), a more-or-less direct competitor in the TSX index in the oil and gas infrastructure space. While Pembina Pipeline has a slightly higher P/E ratio, the rest of its market fundamentals are a little better, and it's discounted against future cash flow by 17%. Meanwhile, a 7.4% growth spurt is on the cards, with a dividend yield of 5.65% that can be locked in at the current share price.

Is the latter stock a better buy? It's had a great 12 months with a 153.7% growth in earnings that smashed Inter Pipeline's industry-level earnings, as well as its own 26.4% five-year average. A quick overview shows a slightly overheated PEG of 2.3 times growth, so-so debt level of 53.7% of net worth, and a decent and steady amount of 12-month inside buying: overall, a sturdy ticker.

All told, Pembina Pipeline is a good example of what the TSX index does best: decent valuation (see a P/E of 16.7 times earnings, P/B of 1.8 times book, and dividend yield of 5.51%) mixed with good quality (a positive ROE of 10%, last quarter EPS of $2.47, and a 7.4% expected annual rise in earnings).

The bottom line

If you're looking to make money with oil stocks, but are either over-invested in oil-weighted utilities, or simply want a bit of diversification in the energy section of your portfolio, both pipeline stocks listed above are moderate to strong buys. For their overall mix of value, quality, and momentum, these are two of the best dividend payers on the TSX index, with Inter Pipeline having the edge in terms of dividends, and Pembina Pipeline having the healthier balance sheet and better outlook.

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