



Is it Time to Sell This Dividend Stock?

Description

I've been going through a bit of a debate in my mind in recent weeks. Last fall, I was pounding the table to buy dividend stocks hand over fist. Utilities, telecoms, and banks were all falling with many of the companies yielding 5-7% at the time. High-quality names were selling at greatly reduced prices, making the decision to enter a position quite easy.

Fast forward to today, and suddenly I'm sitting on some pretty decent capital gains from these stocks. Many of these stocks have gone up double-digit percentage points. One of the stocks I've been looking at selling is **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)). This stock has risen around 12% since I stopped buying it, leaving me to decide whether I should lock in the capital gain or hold it for the long term.

A solid performer

I tend to like pipeline companies since they operate with steady, locked-in transportation contracts. Their revenues are locked in for long periods of time, so they can plan for fixed costs more easily than other companies may be able to do. As a result, their debt-repayment schedules and dividend payments tend to be more secure over time.

They also operate with high barriers to entry. As we have recently seen, it can be difficult to approve, let alone build, new pipelines. Therefore, anyone looking to get into the business has to deal with a large amount of political and capital costs. Pembina's pipelines stretch throughout Western Canada and into the United States, providing [oil and gas transportation](#) options to producers. IT provides hydrocarbon storage services that complement its pipeline business, and the storage business is difficult to replicate due to the complex safety measures employed.

Full-year cash flow from operating activities increased by 49% over 2017. Full-year revenues increased by 36% The results are decent, so why not continue to hold the stock?

As an income stock, Pembina has been a good long-term holding. After all, the company has continued to pay, and raise its dividend for years. At the moment, its yield sits at 4.6%, below the 5% I usually like to see, but still a decent yield. The company has a history of [raising its dividend](#) by about 5% — a trend which will hopefully continue in the future.

Should I hold or sell?

Before the sharp run-up in Canadian stocks, I was planning on holding this company for a long time. Unfortunately, the quick capital gains, along with some other issues, have made me consider the possibility that it might be better to sell the stock than keep it.

One reason has to do with the long-term potential decline in the demand for oil as an energy source. With countries pushing renewables, it may be the case that sometime in the future oil will not be in demand. If that happens, oil pipelines may see their usefulness decline. Unlike larger pipelines, like **Enbridge**, which has numerous businesses, such as renewable projects and regulated utilities, Pembina is pretty much focused on the oil industry and may be impacted if oil demand declines.

The dividend is also a bit of an issue for me. Yes, it is growing steadily and is still healthy at 4.6%, but I like to have yields of 5% in my portfolio. I like to look at the yield on the current price, rather than the yield on my cost to judge my dividends. Even though I have a yield of about 5.2% on my cost, the stock is now worth much more. Therefore, I need to decide whether it is more beneficial to lock in the double-digit capital gain or hold the stock for the dividend risk capital loss.

In the end...

I will probably continue to hold for the time being. It does not make up an overly large portion of my portfolio, so the growing yield continues to be worth the risk. The monthly dividends are nice, and I have long since learned that it frequently is better to hold stocks than sell, as long as the fundamentals remain in place as they currently do for Pembina.

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1. Dividend Stocks
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