Dividend Investors: Should You Buy Inter Pipeline Ltd. (TSX:IPL) or Fortis Inc. (TSX:FTS) Stock Today?

Description

Dividend stocks are back in favour after a rough ride in 2018, and investors are wondering which names might be attractive for their portfolios today.

Let's take a look at **Inter Pipeline** (TSX:IPL) and **Fortis** (TSX:FTS)(NYSE:FTS) to see if one deserves to be on your buy list right now.

IPL

IPL's 7.7% yield is high, and that might frighten some investors who worry the return is simply not sustainable. It's true that the market often signals expectations for a payout cut when a stock drops to the point where the dividend yield breaches the 7% threshold.

A quick look at IPL's 2018 financials, however, suggests the distribution should be safe.

The company generated record net income of $593 million last year, representing a 12% increase over 2017. Funds from operations increased 10% to $1.1 billion and the payout ratio came in at 60%.

The board raised the dividend in November, so the management team must be comfortable with the revenue and cash flow outlook for 2019, and beyond. IPL has increased the dividend for 10 straight years.

IPL is driving growth through acquisitions and organic developments. The company spent US$270 million last year to buy additional bulk liquids storage assets in Europe. At home, the company is investing $82 million to expand the Central Alberta pipeline system crude terminal and is on track with its $3.5 billion Heartland Petrochemical Complex. The facility is expected to go into service in late 2021 and will generate average annual EBITDA of at least $450 million.

The stock has bounced off the 2018 low near $19 per share to the current price of $22. That's still well short of the five-year high above $38, so there is some attractive upside potential on a continued recovery in the energy sector.

Fortis

Fortis went on a buying binge in recent years, spending nearly US$16 billion on two major acquisitions in the United States. The integration of both Arizona-based UNS Energy and Michigan-based ITC Holdings went well and the assets are performing as expected.

Fortis is currently working through a five-year capital program that will see the company spend more than $17 billion on organic projects. The result should be a substantial increase in the rate base and that is expected to boost cash flow enough to support annual dividend increases of about 6% through 2023.

Fortis has increased the dividend every year for more than four decades, so investors should be comfortable with the guidance. The current payout provides a yield of 3.7%.

The stock is up about 20% since October and now trades near its all-time high.

Is one a better bet?

Investors who can handle a bit of volatility might want to make IPL the first choice today. The generous dividend should be safe and the stock appears oversold at the current level, given the steady financial performance and the portfolio of growth initiatives.

Otherwise, I would probably split a new investment between the two stocks. This would provide an average yield of 5.7%.

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aswalker