Pipeline Stocks for Reliable Dividend Income

Description

Toll roads are proverbially the best businesses to own. You essentially have a monopoly on the transportation of goods and people, a service that many businesses and individuals will pay plenty for.

Pipelines are the toll roads for energy companies. Without them, producers would have limited options for shipping their product.

While new avenues like crude-by-rail have entered the market in recent years, shipping by pipeline is still the fastest and most cost-efficient way of transporting energy commodities.

Because they often run the only business in town, pipeline companies are able to secure long-term contracts with favorable pricing terms. These advantages allow pipeline stocks to pay dividends of 6% or more.

If you're looking to capitalize on the benefits of pipelines, here are your top options.

Enbridge Inc (TSX:ENB)(NYSE:ENB)

While many Canadian oil producers are struggling to survive, Enbridge has an opportunity to save the entire industry.

Several regions in Canada, particularly Alberta, are struggling with oversupply issues. With limited capacity for transporting production, local operators have bid aggressively to secure their positions.

At one point, local oil prices fell by more than 50% while global prices remained flat.

Enbridge can soak up a significant amount of the excess supply with its Line 3 replacement, expected to come online this year. Within a couple years, it also aims to put the XL Keystone pipeline into full service.

Reports have surfaced recently that Enbridge wants customers to sign eight-year contracts to secure this new capacity. This power is what makes Enbridge's 6% a reliable bet.

Pembina Pipeline Corp (TSX:PPL)(NYSE:PBA)

Pembina's 5% dividend isn't as attractive as Enbridge's, but over the long term, it's proven to be a winner. Since 2010, Pembina stock is up 130%, versus an 80% rise for Enbridge stock.

Since 1997, the year the company began paying dividends, Pembina has paid out more than $7 billion to shareholders. With a strong balance sheet, encouraging demand prospects, and an investment grade rating, it's likely that investors can continue to depend on this income stream.

Similar to Enbridge, Pembina has assets located in strategically valuable areas like Saskatchewan, Alberta, and British Columbia. As long as volumes continue to increase—which is largely expected to be the case—Pembina should find ways to benefit.

Inter Pipeline Ltd (TSX:IPL)

Inter Pipeline's 8% dividend may raise some eyebrows, but the underlying fundamentals look strong. Last month, the dividend increased to $1.71 per share, marking the tenth year in a row that the dividend was increased.

According to management, the dividend is "underpinned by cost-of-service and fee-based cash flow." Around 70% of EBITDA is derived from contracts of this nature.

In a nutshell, it means that Inter Pipeline is largely insulated from swings in commodity prices, although it does maintain some exposure.

Over the past five years straight, fund flows handily outpaced the cost of the dividend. There are some concerns about how much sustaining capital is required to keep the business running over the long-term, but that risk is reflected in the outsized dividend payment.

Inter Pipeline looks like a great way to boost your average yield in a diversified portfolio.

CATEGORY

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TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:ENB (Enbridge Inc.)
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