High-Yield Investors: Should You Buy Inter Pipeline (TSX:IPL) or Vermilion Energy (TSX:VET) Stock Today?

Description

Buying stocks with dividend yields that top 8% often comes with risks, but the rewards can be significant when the stock rebounds and the dividend continues to grow.

Let's take a look at **Inter Pipeline** (TSX:IPL) and **Vermilion Energy** (TSX:VET)(NYSE:VET) to see if one deserves to be in your dividend portfolio today.

Inter Pipeline

IPL traded as high as $39 per share in September 2014. That was right when oil prices fell off a cliff. IPL, along with much of the Canadian energy sector, still hasn't recovered. Today, the stock trades for just under $21 per share and offers a dividend yield of 8.25%.

IPL isn't an oil producer. It simply moves the oil along its oil sands or conventional oil pipelines. In Canada, the company also has a natural gas liquids (NGL) extraction division. Overseas, IPL owns a bulk liquids storage company that has 23 terminals located in several countries, including the U.K., Denmark, Germany, Ireland, Sweden, and the Netherlands.

Management continues to seek out opportunities for growth. IPL acquired NGL processing facilities at a big discount to their construction cost a few years ago. Last year, the company bought additional storage facilities in Europe, and IPL is on track with the construction of its $3.5 billion Heartland Petrochemical Complex.

The 2018 payout ratio was 60%, and although that jumped to 82% in Q1 2019, the dividend is still easily covered and should be safe.

Vermilion Energy

Vermilion has oil and gas production facilities in Europe, Australia, Canada, and the United States. The oil and gas produced in Europe and Australia is sold at international rates, which are normally higher than what producers get for North American production, so cash flow can get a nice boost when market prices are rising.

Canada represented 59% of Q1 2019 production, followed by France with 11%. The Netherlands and Ireland both contributed 8% and Australia added 6%. Germany and the United States each generated 4% of production.

Funds flow from operations jumped 58% in the quarter compared to Q1 2018 and net income rose from $24.7 million, or $0.20 per share, to $39.5 million, or $0.26 per share, so things are moving in the right direction.

The company spent $90.8 million to buy assets in Saskatchewan and Manitoba in early 2018 and then announced a $1.4 billion deal in April 2018 to buy Spartan Energy, which also operates in Saskatchewan.

Vermilion then raised its monthly dividend from $0.215 per share to $0.23. That's where the distribution currently stands, and investors who buy the stock today can pick up a yield of 9.2%.

The Q1 2019 payout ratio was 120%, so investors will want to keep an eye on the cash flow through the rest of the year to see if Vermilion can get that below 100%.

The stock trades at $30 per share compared to $77 in June 2014.

Is one a better buy?

Vermilion offers a better yield and potentially more upside torque on higher commodity prices, but it likely also carries more risk. IPL is a midstream player and has growth projects underway that should boost cash flow in the next couple of years. Given the small yield differential, I would probably make IPL the first choice today.

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