3 Pipeline Stock Picks for July

Description

Owning a pipeline is an incredible opportunity. It’s not often that you get the chance to buy into a monopoly.

Pipelines are lucrative for several reasons. They represent critical infrastructure that’s difficult or impossible to replace. They also have impressive pricing power, allowing the owners to receive annual dividends of 6% or more.

If you’re looking for a long-term investment that can deliver serious returns, there are few better options than pipeline stocks. The following picks are your best options today.

Best in class

With a $100 billion market cap, **Enbridge** (TSX:ENB)(NYSE:ENB) is in a class of its own.

While it may not grow as quickly as its smaller competitors, it has a fortress-like business model that should thrive no matter what energy prices do. Here’s an example.

In 2014, oil prices fell by more than 50%. Even as prices recovered, pressures re-emerged as large swaths of Canada struggled with transportation bottlenecks.

By 2018, several reputable energy firms had gone bankrupt, with many others reeling after their stock prices declined by 70% or more.

How did Enbridge fare during this industry-wide collapse? Shareholders actually *profited*.

Since mid-2014, shares are roughly flat. However, when including the dividend, investors made annual returns of around 6%. Single-digit returns don’t seem spectacular, but when your entire industry is in flames, it’s a remarkable performance.

Take a risk

If you want more upside fast, **Inter Pipeline** (TSX:IPL) is the way to go.

Currently, shares trade at a slight discount to the market, at 17.4 times forward earnings. Profits are expected to continue rising, meaning shares trade at just 15.8 times 2020 earnings.

In return for growing profits, investors receive an 8.4% annual dividend. That's not a bad deal.

While the dividend may look high, it should be sustainable. The current payout ratio is just 60%, although that doesn't take into account sustaining capital expenditures. Still, it does appear as if current cash flows more than cover the payment.

What's most exciting is the opportunity for growth. Management has already announced $3.7 billion in growth projects. A single project, the Heartland Complex, should contribute $450-500 million in EBITDA once online.

Due to its exposure to higher-cost areas, Inter Pipeline does have a bit more volatility than the other companies on this list, but with an $8.4 billion market cap and plenty of growth opportunities, Inter Pipeline has the greatest theoretical upside. Even if that upside doesn't occur, an 8.4% dividend should keep investors happy.

Trust is earned

Pembina Pipeline (TSX:PPL)(NYSE:PBA) always seems to be in the right place at the right time.

Last year, revenues grew by 30% despite several issues plaguing its customers. Over the last decade, annual sales growth has averaged an impressive 29%. Net income and tangible book value have grown at similar rates.

This impressive track record has earned the company a respectable premium. Shares trade at 21 times forward earnings with a dividend of just 4.9%. Those figures seem less attractive versus the other stocks on this list, but Pembina has rightfully earned the market's trust.

In 2019, the company could generate EBITDA of $6 per share, nearly triple the annualized cost of the dividend. Management expects the payout ratio to fall to just 76%.

Around 86% of cash flows come from investment-grade companies, giving Pembina one of the strongest customer bases in the industry.

Enbridge and Inter Pipeline currently look more attractive from a valuation standpoint, but long-term investors can likely afford the small premium to tap into this first-class management team.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

3. Investing

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1. Editor's Choice

TICKERS GLOBAL

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

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