



Income Investors: Get Safe Yields of Up to +7%

Description

The best GIC rate available today is 3%, which is unattractive unless you want your money back within a year. If you're investing for, say, five years or longer, you'll get much better yields from dividend stocks and likely price appreciation in the process, although you'll also be taking on volatility risk.

Pembina Pipeline

Pembina Pipeline ([TSX:PPL](#))([NYSE:PBA](#)) was founded in 1954. So, it has been serving the energy industry in North America for about 65 years.

Over the years, it has accumulated a diverse and integrated portfolio of assets, including pipelines that transport various hydrocarbon liquids and natural gas products produced primarily in western Canada, gas-gathering and processing facilities, and an oil and natural gas liquids infrastructure and logistics business.



The company has been focused on its EBITDA, a cash flow proxy, generation. Specifically, its adjusted EBITDA has increased by about 20% per year since 2015, thanks to the successful acquisition of Veresen, projects going into service, and organic growth. About 86% of its EBITDA is contracted, which ensures the relative stability of its cash flow generation.

Pembina has improved its payout ratio over the years, such that it offers a safe yield of 4.9% at about \$49 per share as of writing. Its payout ratio is estimated to be about 57% this year.

[Pembina stock](#) offers a good balance of yield and growth. It has \$5.5 billion of commercially-secured projects and more than \$14 billion of other potential projects down the road.

Inter Pipeline

Inter Pipeline (TSX:IPL) was founded in 1997. It has increased its scale over time and now transports about 1.4 million barrels of hydrocarbon products across its pipeline system that spans more than 7,800 kilometres.

About 70% of the company's EBITDA is contracted, including cost-of-service and fee-based contracts. Therefore, its cash flow generation is largely stable.

Its payout ratio is estimated to be about 60%. At about \$22.40 per share as of writing, [Inter Pipeline stock](#) offers a safe yield of 7.7%. IPL stock has increased its dividend for 10 consecutive years with a five-year dividend growth rate of 7.4%.

Currently, it has several active projects. However, the focus is on the \$3.5 billion multi-year investment in the Heartland petrochemical facility, which is expected to come online in late 2021.

Almost 95% of its active investment capital is tied in this single project. It won't start generating any cash flow for Inter Pipeline until two years later. That's why IPL's near-term dividend growth has been lower than historical levels. For example, its last dividend hike in November 2018 was only 1.8%.

Foolish takeaway

Over the next two years, investors are more likely to get a better balance of income and growth from Pembina stock than Inter Pipeline, but the latter offers a greater yield.

Which energy infrastructure stock you choose to invest in depends on your income needs and comfort level in each stock.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

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