3 Pipeline Stocks for Dividend Growth Investors

Description

Pipeline stocks are the best of both worlds. Many pay dividends of 6% or more, and nearly all have experienced impressive cash flow growth for more than a decade. If you want to secure a passive income stream but don't want to give up on long-term growth, then pipeline stocks are for you.

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The most important thing to remember is that owning a pipeline is akin to owning a monopoly. In many cases, possibly even most, these pipelines are the only game in town. If oil and gas producers want to get their product to market, they often *need* pipeline capacity.

Otherwise, their revenues would screech to a halt. While alternatives like crude-by-rail have grown more popular, nothing can ever replace the speed, throughput, price, and reliability of good old-fashioned pipelines.

Want to get in on the action? The following stocks are my top picks in this incredibly lucrative industry.

Leading the pack

Enbridge Inc (TSX:ENB)(NYSE:ENB) is the clear leader when it comes to the pipeline industry. With a $94 billion market cap and a 6.4% dividend, it's often the first choice for new investors entering the space.

The company has a sterling reputation that's well deserved. It transports a whopping 25% of North America crude oil as well as 20% of the continent's natural gas. Enbridge remains one of the world's largest pipeline companies, and over the next decade, its market power should continue to strengthen.

As with any pipeline business, Enbridge's key advantage is its stability because 98% of its business is insulated from swings in commodity prices.

In 2014, for example, crude prices tumbled by nearly half, yet Enbridge's cash flow for the year actually *grew*. Management has already identified more than $5 billion in annual growth opportunities, so the 6.4% dividend should continue to grow through 2030 and beyond.

Go smaller

With a $10 billion market cap, **Inter Pipeline Ltd.** (TSX:IPL) is dwarfed by competitors like Enbridge. Still, being smaller actually comes with some advantages. According to management, Inter Pipeline has "significant growth potential" given the $3.7 billion in announced capital opportunities.

Due to its small size, it should be much easier for Inter Pipeline to double in size than Enbridge.

Higher growth opportunity doesn't mean giving up income potential. Inter Pipeline's 7.4% dividend is actually *higher* than Enbridge. According to the company, the dividend is "underpinned by cost-of-service and fee-based cash flow."

Looking at the business, it's hard to disagree. Roughly 80% of cash flow comes from fixed-price services that aren't tied to commodity prices. Inter Pipeline has posted a 10 years of consecutive dividend increases, and I expect that streak to continue in 2020.

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Diversify your bets

With a $64 billion valuation and 4.3% dividend, **TC Pipelines LP** (TSX:TRP)(NYSE:TRP) is a bit of an oddball. It's a behemoth in the space yet pays an industry-low dividend. That's because the company is plowing *billions* into growth opportunities that could transform the company over the next several years.

Today, management is pursuing a sizeable $32 billion capital expansion program. The company placed projects worth nearly $6 billion into service during the first half of 2019, and an additional $7 billion will be completed by end of year.

The results are already rolling in. Over the last year, EPS has grown by 15% while cash flow has increased by 16%. Rising profits have helped fuel faster dividend growth.

From 2000 through 2015, annual dividend growth averaged roughly 7%. From 2016 through today, however, dividend growth has averaged nearly 10%.

In total, shareholders have earned 14% annual returns since 2000. Given the ample growth opportunities being placed into service this year, expect the company's winning streak to continue.

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2. NYSE:TRP (Tc Energy)
3. TSX:ENB (Enbridge Inc.)
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