



The Best High-Yield Energy Stock to Buy Before the Market Comes to Its Senses

Description

Are there any energy investors out there looking to add [high-quality energy stocks at bargain prices](#)?

As we know, Canadian energy investors have had a really rough time lately. In fact, almost everyone involved in the energy industry has felt the pain. While the situation has been dire, there have been certain energy stocks that have been star performers.

Stocks like **TC Energy Inc.**, which has risen 30% over the last year, provided investors with a very healthy dividend yield.

If you missed that one, however, don't despair. I'm now on the hunt for the next TC Energy Ltd. It's an energy stock that will provide me with defensive and stable long-term growth and income, albeit one that has been hit because the market is not realizing its value.

Inter Pipeline Ltd. (TSX:IPL) is such a stock. It's the best high-yield energy stock to buy today before the market comes to its senses. The stock is down almost 30% in the last five years as debt levels rose to concerning levels and the risk profile consequently rose to levels beyond what investors were comfortable with.

After rising 9.3% in August, Inter Pipeline stock has taken a breather so far in September. Looking forward, there are numerous catalysts that can be expected to send the stock higher again. There's also a very generous 7.23% dividend yield to provide investors with solid income each year.

Strong history of value creation

Despite the noise and the dismal stock price performance, Inter Pipeline stock represents the best high-yield energy stock today. In the past 10 years, Inter Pipeline generated funds from operations that have increased every year, providing steady and reliable growth.

In fact, the growth was not only steady, but also quite strong, with a 10-year compound annual growth rate (CAGR) in funds from operations of 8.3%.

Inter Pipeline also has a history of [dividend growth and stability](#), with 14 years of dividend increases, a 10-year CAGR of 7.2% and a five-year CAGR in dividends of 9%. These dividend payments are comfortably made and comfortably covered, and with a payout ratio of a very healthy 60%, investors can feel secure.

Stability in the energy sector

The malaise in the Canadian energy sector is ongoing, and continues to hit oil and gas producers and energy services firms. Oil and gas producers have been hit by rock bottom natural gas prices, volatile and mostly low crude oil prices, while the lack of infrastructure that has brought the whole sector to its knees.

Amid this chaos, the demand for energy remains strong. Oil demand is forecast to continue to grow for many years to come. In fact, many estimates are calling for increases in demand until at least 2040.

Although the reality is very difficult to forecast, we can at least say that the transformation to cleaner energy is a process that takes time.

In the meantime, there continue to be many improvements in the environmental impacts of oil and gas production, and the uses of these energy sources are plentiful.

The best energy stocks to buy today

In the energy sector, we have the pipeline and infrastructure companies that are benefiting from this whole dynamic. While investors are staying away from oil and gas producers and services stocks due to the many challenges that exist today in the Canadian energy space, pipeline companies such as Inter Pipeline have the luxury of being in regulated businesses that continue to see strong demand for their essential services that power our lives.

In fact, 70% of Inter Pipeline's EBITDA is composed of cost-of-service and fee-based contracts, which means that cash flows are fairly predictable and reliable, lowering the risk.

As well, management pays its dividends using this steady and predictable cash flows, and uses the commodity-based cash flows to fund growth, thus adding another layer of security and confidence in its dividend payments.

Foolish bottom line

Inter Pipeline stock is a great buy today for its very generous dividend yield. The addition of the new Heartland Petrochemical project as well as expansion projects will boost EBITDA significantly in the next few years.

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