



This High-Quality Stock Yielding 6% Is at the Top of My Buy List

Description

Midstream energy companies are a great way to gain exposure to the industry without taking on as much risk as buying a producer. It's also a great industry if you are looking for long-term growth, as the Western Canadian energy industry continues to be constrained by capacity issues.

On top of being a lower-risk way of gaining energy exposure in an industry that has a tonne of growth opportunities, it's also a great industry for [passive-income](#) seekers, as many of the contracts in the industry are long term and provide solid cash flow stability.

Since the industry has so much potential, there are a number of quality companies to consider, but the absolute best of the bunch has to be **Keyera** ([TSX:KEY](#)).

Keyera is a high-quality midstream energy company that has natural gas gathering and processing operations in addition to its liquids infrastructure that runs from Fort McMurray to Edmonton.

The stock is a Dividend Aristocrat that pays a high-quality and sustainable dividend with an attractive yield. The dividend's yield is roughly 6% and was increased by roughly 7% just recently in August of this year.

The growth in the dividend has a long history and will continue to be a main driver in the growth of shareholder's wealth over the years. From 2003 to 2019, the dividend has increased at a compounded annual growth rate (CAGR) of 8%, which is extremely impressive.

Its high-paced growth hasn't affected its stability though, as its current payout ratio stands at just 61%.

As you can tell by the payout ratio, Keyera grows it as much as it can while remaining committed to keeping it sustainable.

Keyera's distributable income has grown at a CAGR of 11% since 2003, which is actually 3% better annually than the dividend.

To get an idea of just how stable it's been, in the last 10 years, the highest its payout ratio has gotten

has been 80%, so it's clear Keyera keeps it very manageable.

For shareholders who have held the entire time and reinvested dividends, they would have seen an average annual return of roughly 19% since then.

Today, its stock is trading at what looks to be an undervalued level, as its price-to-earnings ratio is currently less than 12 times. It's especially cheap given the success it's had of late and the strong positioning the company has in Western Canada.

In the most recent quarter ended September 30, 2019, 29% of its realized margin came from gathering and processing, 38% came from its liquids infrastructure business, and 33% came from marketing.

Its diversified operations help it to mitigate its exposure to commodity prices. Looking at its plant throughput it's clear that the price of both oil and natural gas has little to no impact on its operations.

Going forward, its balance sheet looks to be in good shape as well, with net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) of roughly 2.1 times, based on its EBITDA from the last 12 months, which has been roughly \$931 million.

Net debt to EBITDA of just 2.1 times is extremely strong, especially considering its peers have an average net debt to EBITDA of closer to 4.7 times.

So far this year, it's on track to do \$800-\$900 million in capital spending and will follow it up with a slight decrease to roughly \$700-\$800 million of capital spending in 2020.

It has a number of growth projects in development, and as of September 30, had roughly \$1.5 billion of capital invested in these growth opportunities.

The growth projects are exciting given Keyera's strong track record of execution and its estimates that the growth projects will bring roughly 10-15% return on capital.

It's a strong stock that is well managed and has a competitive advantage operating in an industry with high barriers to entry.

It should continue to see growth going forward, so look for it to rebound to its 52-week high and possibly break through those levels, as investors continue to look for higher-quality income stocks.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. TSX:KEY (Keyera Corp.)

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