Bet on Canada This Year With These 3 Pipeline Stocks

### Description

Betting on Canada can still be a lucrative endeavor. In fact, Canadian pipelines have proven to be some of the top-performing stocks over the last several decades, proving their ability to turn a profit throughout a variety of economic conditions.

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As one of the world's largest energy producers, Canada has several reputable pipeline stocks that are worth your consideration. Each of the following stocks has an irreplaceable asset base and impressive free cash flow generation, which help support dividend yields up to 7.7%.

## Why pipelines are lucrative

Before we move onto your best bets for 2020, it's important to understand what makes pipelines so special. We can demonstrate this specialness with a single example from history.

In 2013, oil prices were above US$100 per barrel. By 2016, they were below US$40 per barrel. That's a decline of more than 60%. As you can imagine, the **iShares S&P TSX Capped Energy Index ETF** was crushed. In 2013, the ETF peaked at $16. By the start of 2016, it approached $9.

Not every energy stock was hit. In fact, the average pipeline stock *increased* in value. How was this possible?

Pipeline stocks don't play by the normal rules of energy, where revenues are directly tied to commodity pricing. Instead, pipelines charge based on volumes. As long as oil and natural gas continue to flow, they profit the same, no matter where energy pricing goes. The oil rout of 2014 and the subsequent resiliency of pipeline stocks were a direct testament to this pricing power.

Why don't pipelines charge based on commodity pricing? Because they don't have to. Pipelines can cost *billions* to build, meaning there aren't many options for potential customers. If there's a pipeline in the area, energy producers almost always use it, no matter the cost.

# Stocks to bet on

Each of the following Canadian pipeline stocks exited the 2014 energy bear market relatively unscathed. Over the decades, they've consistently produced double-digit returns for investors throughout a wide variety of economic environments. If you want to profit from pipeline stocks, start here.

**Enbridge Inc.** (TSX:ENB)(NYSE:ENB) is the largest pipeline owner and operator in North America. It's network stretches from rural British Columbia to the coast of Texas. This gives customers unparalleled access to the world's markets. Wherever end-user pricing is highest, Enbridge can get your output there. These advantages allow Enbridge to pay a 6.2% dividend that's fully funded by internal cash flows.

Roughly half the size of Enbridge, **TC Energy Corp.** (TSX:TRP)(NYSE:TRP) is still a behemoth in the industry. Its 4.3% dividend may not be as impressive, but it's the growth story that excites investors. Just 40% of capital is allocated to dividends, with the remainder targeting new projects that support long-term free cash flow growth. Last year, diluted EPS grew by 15.9%. In 2020, EPS is expected to rise by more than 8%. This is a great pick for investors willing to cede some income for capital gains.

Valued at just $9 billion, **Inter Pipeline Ltd.** (TSX:IPL) is a niche player in the industry. Around 80% of its earnings come from sources not tied to commodity pricing. The rest has more volatility, but that's because the company makes $170 million per year from natural gas processing, a key value-add for its customer base.

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The company's small size and niche focus has created a structural discount for shares. Despite $3.7 billion in new growth projects, the stock still delivers a 7.7% dividend. If you want the best of both worlds and are willing to buy smaller operators, Inter Pipeline is for you.

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1. Dividend Stocks
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3. TSX:ENB (Enbridge Inc.)
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