This 8.8% Dividend Stock Can Grow During a Recession

Description

A recession is coming. That's what a growing number of economists, fund managers, and retail investors believe. With markets entering correction territory, a true bear market may be right around the corner.

Dividend stocks are a great place to ride out the storm. These businesses generate a consistent stream of income that you can use to meet emergency expenses or invest in the market at bargain valuations.

Just be careful: not all dividend stocks are created equal.

Many companies pay a dividend, even though their finances will be impacted during a downturn. Other companies pay a high-yield dividend, which doesn't have much room for error. What good is a stream of cash if it ceases to exist in a few quarters? Worse yet, when these payouts are cut, the stock prices often plummet, creating a double-whammy of pain.

Which dividend stocks can remain stable during a bear market and provide a rock-solid payout? Look no further than **Inter Pipeline** (TSX:IPL).

Discover what's special

As its name suggests, Inter Pipeline is in the pipeline business. If you're looking for reliability, this is a great business to be in.

Pipeline infrastructure in Canada is limited. They cost billions to build and take years to construct, so capacity usually lags demand. In 2018, Canadian crude prices fell below US$20 per barrel, because there wasn't enough capacity to ship surging fossil fuel production. Canadian energy producers were heavily impacted, even though pricing in the U.S. remained relatively flat.

Here's the lesson: energy producers need pipelines to survive. This imbalance gives the handful of pipeline operators extreme pricing power. Instead of tying prices to commodities, most pipelines charge by volume. Therefore, no matter where oil and gas prices head, pipeline profitability remains steady.

Here's a perfect example of that stability in action. In 2012, oil prices surged above US$120 per barrel. Inter Pipeline stock was trading at $20 per share. By 2016, oil prices had plunged to US$50 per barrel — a 60% decline. What was the price of Inter Pipeline stock that year? It was around $20 per share.

Gobble up these dividends

As mentioned, pipelines can cost billions to build, but once they're up and running, maintenance costs are relatively minimal. Because these projects have strong pricing power, pipelines generate gobs of free cash flow. Most operators opt to pay most of this out in dividends. With an 8.8% dividend yield, Inter Pipeline is no different.

Inter Pipeline has paid a large and rising dividend since 2003. It's never cut the payout. While the 8.8% yield seems high, investors that understand the power of pipelines shouldn't be surprised.

Most importantly, you can rely on this dividend even if a bear market hits. As mentioned, pipelines charge on volumes, not commodity pricing. Canadian energy production is expected to rise for another decade. Oil prices will rise and fall, but Inter Pipeline will continue to take its cut.

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