TSX BUY ALERT: 1 Absolute Bargain Stock Yielding Over 8%

Description

The TSX market crash has created opportunities to buy bargain stocks with higher-than-average yields. The coronavirus crisis has led many dividend stocks to be priced for dividend reduction or cessation, whether it is fair or not. Particularly risky high-dividend yielders include companies exposed to oil and gas, travel/leisure, and discretionary retail.

The best companies in the worst sectors

In this time, entire sectors have been thrown in the trash without regard for individual companies. Sector discrimination can create bargains for shrewd investors who aren't afraid of a little bit of risk.

If you are willing to do your research and go through the garbage, there are some high-quality, high-yielding stocks at a bargain prices. This exercise is not for the faint of heart. It is risky and volatile to buy into depressed sectors, yet, from time to time, you can find a solid gem that is a real steal.

This 8.8% yield is a steal

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is one of those gems. It is an absolute bargain stock trading with a yield of 8.8% today! This stock is heavily exposed to the oil and gas sector in Canada. Over the years, Canada's oil sector been absolutely slaughtered due to weak government management, lack of pipeline capacity, and a glut of oil supply. Yet, Pembina is a pipeline and midstream infrastructure company. In a normal investment environment, Pembina has been considered a very safe, stable investment.

Yet, when oil collapsed in March, Pembina stock crashed 70% alongside the Canadian oil producers. The stock is up about 40% since then, but it is still only half the value it was trading in February. Pembina is not an oil producer, so is the recent punishment justified? I would say yes and no, but mostly no.

Contracted, safe cash flow

85% of Pembina's adjusted EBITDA is derived from long-term, fee-based contracts. 62% of these contracts have zero volume or pricing risk. Storage and pipeline capacity across Canada is limited and in great demand, so its customers need Pembina's infrastructure to get their oil to market.

The market has priced significant producer default risk into Pembina stock. Certainly, many of its customers, even those considered oil and gas majors, are facing financial stress at today's oil prices. Yet, 80% of Pembina's counter-parties have investment grade credit backing their contractual obligations.

There is, of course, the risk that smaller counter-parties could default on contracts. Yet, with most of Pembina's contracts set as take-or-pay or fee-for-service contracts, 2020 revenue and cash flow should remain relatively intact overall.

Shored-up balance sheet

Pembina was quick to respond to the COVID-19 crisis. It quickly shored up its balance sheet and reduced its 2020 capital-expenditure program by over 40% to $1.2 billion. It has a BBB credit rating by Standard & Poor's (which it expects to maintain), $2.3 billion of cash and debt facilities, and an additional $3.3 billion revolving credit capacity. Its weighted average life of debt is 12.7 years and debt maturities are limited over the next two years.

The maintenance of its dividend is a key priority for the company. The dividend has almost no commodity price risk, since it is fully covered by its contracted fee-based cash flows. Pembina's all-in payout ratio is 54%, which is very modest. During this period, you shouldn't expect any dividend growth, but the dividend right here is well covered for 2020.

This stock is an absolute bargain

Pembina is a really, really good company that's unfortunately in a really terrible sector. Its management is disciplined and conservative and ensured its balance sheet is in strong shape and its dividend is sufficiently funded for a long time. It appears OPEC+ has come to some sort of supply curtailment agreement over the Easter weekend, so that will bring some positive news for the Canadian oil sector.

This will also be positive for Pembina, as investor sentiment in the sector may begin to slowly return. If you believe there is hope for Canada's oil and gas sector, then I suggest your best bet is with Pembina Pipeline. It selling with a juicy 8.8% yield, and that makes this stock a real bargain today.

CATEGORY

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3. Investing

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2. TSX:PPL (Pembina Pipeline Corporation)

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