



Two Beaten-Up Dividend Giants That Could Double in 2020

Description

I've been a long-term holder of Canadian Pipeline stocks. Over the years, their combination of dividend payment, dividend growth, and capital gains has been an excellent source of income and portfolio growth. With the double impact of the coronavirus and the OPEC+ inspired oil price crash, these stocks have collapsed in value, with their dividends ballooning.

Two pipeline stocks I've owned for a number of years are **Keyera Corp.** ([TSX:KEY](#)) and **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)). Like so many others, I've been hit hard by the drop in their share prices and the resulting inflation of the dividend yield. It's certainly prompted me to wonder whether I should be buying shares at these lower prices — or cash in the chips I have left.

The good news

On a positive note, the reason these stocks are cheap — in part due to a general market pullback. All stocks, even the very best, were hammered in this market shock. This means that at least a percentage of the drop is in no way the result of the companies themselves. If the general market recovers, so, too, should the share prices of these two stocks.

The positive aspects of these two companies still hold true. They are still companies with long-term contracts that should provide steady income over time. This income should help power their dividends. These dividends are still rich, with Keyera paying a 12% yield and Pembina paying one of 9% on a monthly basis.

The bad news

There is a very real possibility that their dividends could be negatively affected. Another company, **Inter Pipeline Corp.** ([TSX:IPL](#)) has already cut its dividend after years of dividend growth.

Even though IPL's dividend was less secure going into the downturn than the Keyera and Pembina's were. All the same, the fact that a similar company cut its dividend is unsettling.

There is also uncertainty regarding the future of oil prices. OPEC does not seem to be making definite progress in terms of production cuts, which could continue to push down commodity prices. Also, demand is depressed due to mass lockdowns with an unknown end date. Until these issues are resolved, oil prices will likely remain low.

The oil industry also faces the possibility of green energy disruption. As renewable energy technology improves and adoption increases, less oil will be demanded. This last point may still be years away, as the world still runs largely on fossil fuels, but it is still a concern.

If you decide to buy, which stock is best?

The answer to this question depends on your risk tolerance. Of the two companies, I definitely consider Pembina to be the [lower-risk option](#). Keyera offers a [larger current yield](#) with a potentially greater upside if you use historical prices as a benchmark.

The risk is reflected in their valuations, with Keyera trading at seven times trailing earnings and Pembina at 10 times trailing earnings. They both trade at approximately the same price-to-book value, with Keyera sitting at about 1.12 times book and Pembina at 1.14.

You will have to take their current valuations with a grain of salt, though, as earnings will likely be hammered in the coming months.

The bottom line

These stocks are not at all as safe as they previously appeared. They are opportunities, though, for investors who want to take a chance on these names. The stocks are cheap, beaten-up and out of favour.

They have huge yields that may stay intact if all goes well. While they're risky, they could be great buys if you can stomach the stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:KEY (Keyera Corp.)
3. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider

2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

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Date

2025/08/31

Date Created

2020/04/13

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