Value Investors: 2 Pipeline Stocks That Are Worth the Risk

Description

I have been adding to my pipeline positions recently. Stocks like **Keyera** (TSX:KEY) and **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) have been at the top of my buy list. As I try to make sense of the messed-up global economy, these stocks keep coming up as interesting prospects to add to my dividend portfolio. They are not terribly expensive at this level, have great dividends, and have the opportunity for excellent capital gains if the global economy turns around.

Priced to buy

Even though these pipelines have increased significantly from their lows in recent weeks, they are still quite inexpensive at this point. Earnings will fall, certainly, but if you use trailing earnings as a benchmark, the stock is trading at 12 times earnings. Keyera is also inexpensive at 10 times trailing earnings.

On a price-to-book basis, both stocks are reasonable as well. Pembina presently trades at 1.26 times and Keyera at 1.43 times book value. This level is the cheapest these stocks have traded at for years.

The dividends are fantastic

Both of these companies have great yields at this level. While you wait for the stocks to turn around, you receive a dividend yield of 8% from Pembina and 9.5% from Keyera. These stocks have been dividend growers for years as well. Pembina increased its dividend by a penny in December, and Keyera increased its monthly payout by 7% last fall.

I personally believe that the yields on both of these stocks will be fairly safe, in spite of the global turmoil facing the global oil industry. That being said, I have had my faith shattered somewhat by **Inter Pipeline's** recent dividend cut.

The difference is, though, that Inter Pipeline was at more risk of a cut even before the oil collapse than was the case with Pembina and Keyera. Of these two stocks, Pembina's balance sheet seems better suited to the economic fallout. The risk of a cut still exists, though.

Capital gains

Even though the situation seems very dire at the moment, it is quite possible that there will be a huge run-up in the share prices of these dividend payers in the future. The stocks are still trading well below their highs at the moment, leaving the possibility open for a huge price correction to the upside.

One major catalyst that could impact the stocks positively is the very low interest rates. Getting a better-than-8% yield from an infrastructure company that has the possibility of capital gains seems much more attractive than sitting with your cash in GICs paying far less than 2%. If the oil sector stabilizes, the stock rising stock price will likely bring in more investors searching for yield.

The bottom line

I would not recommend these stocks for retirees seeking income at the moment given the high level of uncertainty facing the global economy. But I would suggest that investors looking for capital gains and reasonably safe yield will likely do well taking a chance on the beaten-up pipelines.

Stocks don't usually get cheap when everything is rosy. They are cheap when the outlook is uncertain and risks are very real. There is a risk of both a dividend cut and further capital losses with both of these names. I simply believe the risk is worth the reward at this point.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

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Author
krisknutson