1 Strong Reason to Buy Enbridge (TSX:ENB) and Pembina Pipeline (TSX:PPL)

Description

As coronavirus infections continue to flare up, the demand for oil remains highly uncertain and continues to weigh on the stock prices of energy companies. Even energy infrastructure companies that operate the low-risk and diversified business and have contractual arrangements witnessed their stock prices going down.

However, the decline in stocks has driven the yields of these pipeline companies higher, making them an exciting investment for income-seeking investors. For instance, the decline in the mainline liquid volumes has dragged the shares of **Enbridge** (TSX:ENB)(NYSE:ENB) and **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) down. With the pullback, both these companies are now offering yields close to 8%.

Investors should note that both these companies have a low-risk business and diverse assets that safeguard the payouts and help enhance shareholders' returns through consistent dividend hikes and payments.

Pembina Pipeline

With over 33% decline in its stock, Pembina Pipeline now offers a forward dividend yield of 7.9%, which is safe. The company's base business remains strong and resilient, thanks to the long-term fee-based contracts that include take-or-pay agreements or cost-of-service arrangements that reduce volume and price risk.

Meanwhile, Pembina Pipeline has ample liquidity with a strong balance sheet that is likely to help the company in navigating the current crisis and meet its obligations. The company has significantly grown its fee-based contribution to the adjusted EBITDA, which is encouraging. As for 2020, Pembina expects fee-based contribution to be 90-95% of its adjusted EBITDA. Its target payout is sustainable, thanks to the strong fee-based cash flows.

Investors should note that Pembina Pipeline's dividend payments are covered through fee-based cash flows that are not dependent on businesses having direct commodity exposure. Through its strategic acquisitions and re-investments, Pembina Pipeline has transformed into a highly contracted business that generates resilient fee-based cash flows that are more than enough to cover its dividends.

Pembina Pipeline's dividends have increased at an annual rate of 6.5% over the last five years, while it paid nearly $4.5 billion in dividends. Pembina said it would not announce any more dividend hikes in 2020. However, its resilient fee-based cash flows indicate that is payouts are very safe.

Enbridge

Just like Pembina Pipeline, Enbridge is famous for returning a hefty amount of cash to its shareholders in the form of dividends. Enbridge's dividend has uninterruptedly increased at a compound annual growth rate of 11% over the last 25 years. The infrastructure company has been paying dividends since 1953 (the year it became a public company), which is commendable.

In 2019, Enbridge paid dividends worth $6 billion, which reflected a year-over-year increase of about 28%.

While lower mainline system's throughput amid uncertainty over demand continues to pose challenges for Enbridge, its diversified revenue streams, long-term contractual arrangements, and cost-cutting measures support and drive its adjusted EBITDA and distributable cash flows.

Enbridge currently offers a dividend yield of 7.9%, which is safe. Sustained momentum in its other businesses and strong operating cash flows are likely to support its payouts in the coming quarters.

Bottom line

As uncertain demand for energy remains a drag, the diversified and highly contracted nature of their businesses ensures that the payouts of both Enbridge and Pembina Pipeline are safe. The high yields of both these companies is likely to boost investors' returns over the long run. Alongside, the year-to-date decline in their stocks presents a good entry point for investors seeking value.

CATEGORY

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2. Dividend Stocks
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