



RRSP Investors: This Dividend Stock's 7% Yield Is Looking Very Attractive Right Now

Description

Right now is the time to consider making contributions to Registered Retirement Savings Plans (RRSPs). Canadians have until March 1st of this year to make contributions for the 2020 tax year. However, planning ahead and building out one's portfolio now is always a good idea. Picking great stocks that have near-term upside as well ought to be considered right away.

In this context, I think RRSP investors ought to consider **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)) as an RRSP addition right now. Here's why.

We could see an oil bull market in the making

Pembina's stock is still down around 35% from its pre-pandemic levels. This is indicative of pessimism among many investors with respect to the energy sector broadly. On the contrary, I think things could be shaping up for a bull market in commodities in general. Given how badly beaten up energy stocks have been, such a scenario would be welcome news to Canadian investors.

Given the amount of stimulus that has been released of late, the U.S. dollar could be under pressure for some time. Accordingly, commodities such as oil that are priced in U.S. dollars could appreciate in value. Given the defensiveness commodities provide, this sector could become hot as investors look for ways to increase risk-adjusted returns.

Pembina's stock price is correlated to commodity prices, whether investors like it or not. Higher oil prices ensure the stability of Pembina's counterparties. Higher levels of counter-party risk is one of the key factors behind the stock price decline of all energy transportation companies. Pembina does have relatively low correlation to oil prices in its core business. However, counterparty risk is a significant factor investors need to take into account.

If the price of oil continues to climb, the entire energy sector could grab a bid. Accordingly, 2021 could be shaping up to be the start of a run in commodities the likes of which we haven't seen in a long time.

Dividend yield a great reason to own this stock

From a dividend perspective, Pembina's yield is high at around 7.4% at the time of writing. This is a yield which may seem unreasonably high at first glance. However, when one considers the stability of Pembina's core business model and the potential for a bull run in commodities, this dividend looks very attractive. The company's yield is well covered, and has [grown substantially](#) over time.

In fact, Pembina has raised its dividend this past quarter, reversing a defensive dividend cut in the fourth quarter of last year. Pembina has been a pretty consistent dividend grower in recent years, focusing on small incremental increases over time intended to benefit long-term income-oriented investors.

I expect Pembina to get back on track with respect to raising its dividend over time. This should bode well for its stock price which remains depressed. Pembina is a unique value option every RRSP investor ought to consider right now. In my opinion, this is a stock that investors should act now on. There's no telling how quickly oil could rebound, and I think this rebound might be in the early innings.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:PBA (Pembina Pipeline Corporation)
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