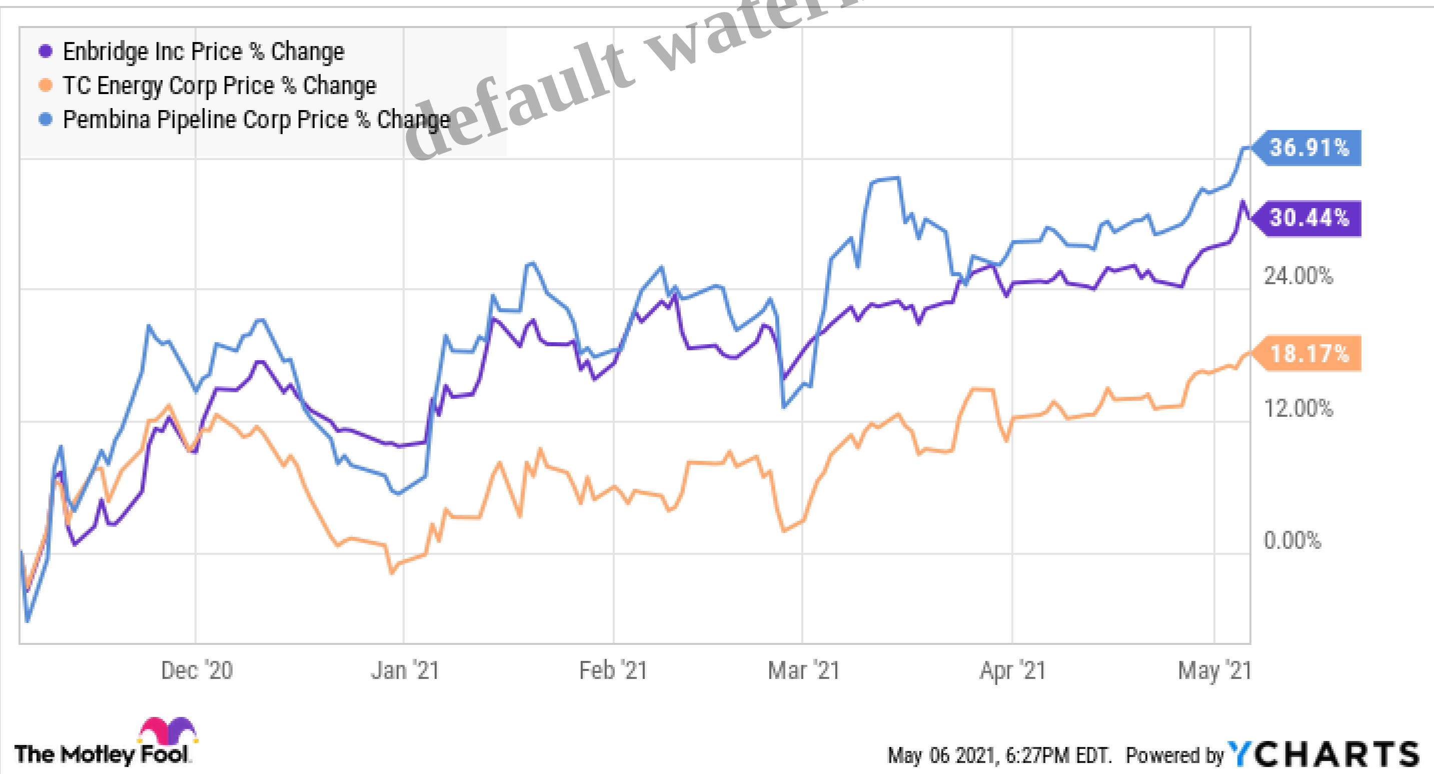
Income Investors: Get a Safe 6.4% Yield From This Dividend Stock

Description

In the last six months, **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) has experienced a stronger recovery than its larger peers. However, the large-cap dividend stock remains relatively depressed when you look at its long-term price chart.



Data by YCharts. Pembina Pipeline stock's six-month price action compared to its larger peers.

Data by YCharts. PPL stock's 10-year price chart.

Let's take a closer look at Pembina Pipeline as a possible investment for income or total returns.

A dividend yield of 6.4%

Pembina has maintained a strong dividend throughout the pandemic. In fact, the company is a Canadian Dividend Aristocrat with nine consecutive years of dividend increases. Its five-year dividend growth rate is 7%.

Its last dividend hike, calculated by its trailing 12-month (TTM) dividend versus its previous TTM dividend, was 3.3%. The recent dividend growth is low because the dividend stock has maintained the same monthly dividend of $0.21 per share since January 2020. It's no small feat to maintain one's dividend through the pandemic that impacted many companies!

Pembina stock yields about 6.4%, which is supported by a payout ratio of about 75% of its fee-based distributable cash flow. Management seems pretty confident in the safety of its dividend.

A resilient business

Pembina has been around for more than 65 years. Over the years, it has built a well-diversified business. It provides highly integrated transportation and midstream services to the energy market in North America. It operates in three segments: pipelines (about 65% of adjusted EBITDA), facilities (about 29%), and marketing and new ventures.

The company's balance sheet is robust. It is awarded an investment-grade S&P credit rating of BBB.

The dividend stock's underlying business demonstrated resilience last year during the pandemic. Its 2020 revenue declined by 14% to $6.2 billion versus 2019. However, it managed to *increase* its adjusted EBITDA, a cash flow proxy, by 7% to almost $3.3 billion. Additionally, it also invested about $1 billion into the business. This was about half of the investments originally planned by management as a response to prudently improving liquidity during the pandemic by deferring some expansion projects.

Interestingly, the company is planning to further reduce its capital investments to about $785 million this year. On the positive side, these investments are fully funded by Pembina's cash flows after paying for dividends, as Pembina estimates its adjusted EBITDA will be roughly flat in 2021 versus 2020.

The capital program signifies the re-activation of two growth projects: the Phase VII Peace Pipeline expansion and the Empress co-generation facility.

The Foolish takeaway

Here's what investors can expect from Pembina in 2021. It appears that even if Pembina were to generate excess cash, management is more inclined to reduce debt or buy back shares should they be trading at good valuations.

So, to put it clearly, it's unlikely that investors will experience a dividend increase in 2021. Nonetheless, Pembina provides a competitive yield of 6.4% for attractive passive income that low interest rates can't beat.

It wouldn't be the first time that Pembina froze the dividend. It froze dividends in 2010 and 2011 as it was coming out of the great recession of the global financial crisis.

In any case, the dividend freeze should not be seen as something negative. Instead, investors should see it as an act of cautious management to maintain a strong balance sheet.

Down the road, when growth resumes, perhaps, by 2023, you can count on Pembina restarting dividend increases.

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Date
2025/08/27
Date Created
2021/05/07
Author
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