3 Pipeline Stocks to Buy If You Love Dividends

Description

Are you a dividend lover? For years, oil and gas pipeline stocks have been the eye candy of dividend lovers. The ever-growing demand for oil put the economics in their favour. They earn cash by charging toll money for transmitting oil and natural gas through pipelines. Every new pipeline creates more revenue sources, and they pass on this cash in the form of dividend growth.

The future of pipeline companies

But it is becoming increasingly difficult to build new pipelines. This could slow pipeline operators' dividend growth rate in the coming years but make existing pipeline infrastructure more valuable. The industry could see consolidation in the coming years. The cost synergies that come with these acquisitions could drive dividend growth. Hence, I remain bullish on pipeline stocks. Here are my three stock picks for all dividend lovers.

TC Energy

TC Energy (TSX:TRP)(NYSE:TRP) faced its biggest blow in June when it cancelled its Keystone XL pipeline project. It gave up on the project after U.S. President Joe Biden denied permission for the pipeline. Environmental issues are common for oil pipeline companies, but cancelling projects shows that building a pipeline will only get tough.

Many investors see the loss of Keystone XL as a negative. But if you look at the broader picture, the project had already gone way over budget and was blocking resources that could be used elsewhere. TC Energy can now focus on other pipeline and storage projects.

After rallying 28% between November 2020 and June 2021, the stock corrected 7% because of the above project cancellation. It is a good opportunity to lock in a 5.73% dividend yield while the share is still cheap. As new projects come online, TC Energy stock could return to growth.

Enbridge stock

Enbridge (TSX:ENB)(NYSE:ENB) is a stock you should have in your portfolio as it holds the potential to be the pipeline acquirer. It has the largest pipeline infrastructure that gives it an advantage. The company is also accelerating its efforts on renewable energy projects. The stock offers a 6.76% dividend yield and has proved its resilience to crises by increasing dividends for the last 26 years. During this time, it faced the 2007 financial crisis, the 2014 oil crisis, and the 2020 pandemic crisis.

Enbridge is up for the new challenge of the energy industry's switch to greener energy sources. If any of its projects face a similar fate as the Keystone XL, it might consider converting its pipelines to transmit green energy. I expect its average dividend growth rate to slow to mid-single-digits in the coming years from 10% in the last 26 years. But the 6.76% dividend yield makes up for the slow growth.

If Enbridge moves along the acquisition path, the stock might also give capital appreciation. But that is just a scenario, I presume. It may or may not happen.

Keyera stock

Speaking of large pipeline companies, **Keyera** (TSX:KEY) is my third pick. Its pipeline and storage infrastructure is spread throughout Western Canada. Unlike TC Energy and Enbridge, Keyera pays monthly dividends and has a dividend yield of 6.14%. It does not grow its dividend per share every year but pays them regularly. The company is ramping up its KAPS project and expects to bring it online in early 2023. The new project could probably bring some dividend growth in the future.

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Date
2025/08/21
Date Created
2021/08/13
Author
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