3 Oil Stocks With Mind-Blowing Dividend Yields

Description

Few sectors have higher dividend yields than energy. Even with all the capital gains they've been delivering this year, oil stocks still have high yields, as oil companies raise their payouts. After its first quarter earnings release, **Cenovus Energy** hiked its dividend by 200%, thanks to the stellar growth and profitability it experienced in the quarter.

Integrated energy companies (companies that extract, refine, transport and sell oil) have hiked their dividends a lot this year. If the price of oil rises more, they may hike further. However, it's not integrated oil companies that have the highest yields – that distinction goes to midstream oil companies. Midstream oil companies are companies that transport oil in exchange for fees, many of them also function as natural gas utilities. These companies often pay high percentages of their earnings out as dividends, resulting in very high yields. Here are three such stocks that have mouth-watering yields at today's prices.

Enbridge

Enbridge Inc (TSX:ENB)(NYSE:ENB) is a Canadian pipeline and natural gas utility with a 6.16% yield. The energy transporter and distributor has a massive pipeline network that transports oil all over North America. It supplies natural gas to 75% of Ontario residents.

Enbridge's business has experienced satisfactory growth over the last five years. In that period, it has grown its earnings by 20% and revenue by 5% on average each year. This is pretty decent growth, well ahead of the rate of inflation. However, Enbridge's stock price has not moved much, even with all of this growth happening. As a result, its yield has risen quite high.

Is the dividend sustainable? According to many financial data sources online, ENB's payout ratio (dividends divided by earnings) is over 100%. That's not sustainable. However, Enbridge calculates its own payout ratio based on "distributable cash flow (DCF)," the amount of cash the company is free to do what it pleases with. By that metric, the payout ratio is only 70%, which is somewhat high but not unsustainable.

Kinder Morgan

Kinder Morgan (NYSE:KMI) is a U.S. pipeline company that is similar to Enbridge in many ways. Its 6.01% yield is very close to Enbridge's, as is its payout ratio.

Kinder Morgan has been something of a turnaround story over the last two years. In 2020, the oil and natural gas pipeline operator earned a mere $0.05 per share, as the pandemic took a bite out of its business. Management spent the next two years working on cost savings (for example, paying off $3.5 billion worth of debt), which empowered it to deliver positive growth in 2022's oil bull market.

In its most recent quarter, KMI turned earnings losses into $1 billion in operating income and $653 million in net income, on $5.2 billion in revenue, up 64% from the year-ago period. The company has $1.1 billion in distributable cash flow ("DCF"), or $0.52 in DCF per share – an increase of 16% over Q1 2022.

Pretty solid results. The growth was very strong, and the stock has a mere 50% DCF payout ratio. Kinder Morgan is paying out much less of its cash flows as dividends compared to Enbridge, so it may be a decent buy.

Pembina Pipeline

Pembina Pipeline Corp (TSX:PPL)(NYSE:PBA) is a Canadian pipeline company whose dividend yields 5.3%. Not as high as that of Enbridge's or Kinder Morgan's, but it has other characteristics that make it a desirable oil play. First, it's growing fast, having increased its revenue by 63% in the most recent quarter. Second, it's very profitable, with a 15% profit margin (net income divided by revenue). Third, it's a much smaller company than ENB or KMI, which gives it more room to grow in a best case scenario. Overall, PPL is an interesting stock worth taking a look at.

Investors could reasonably expect dividend growth in line with DCF per share growth in 2022. Enbridge has maintained its 2022 guidance of DCF per share of $5.20 to $5.50, an increase of more than 8% over 2021. Kinder Morgan expects at least 9% DCF per share growth in 2022. Pembina's dividend payout ratio is high at 97% but the company expects cash flow to exceed dividend and capital investment requirements. If commodity prices remain strong, these energy companies will likely continue to deploy excess capital on opportunistic share buybacks and return even more value to shareholders.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:KMI (Kinder Morgan Inc.)
3. NYSE:PBA (Pembina Pipeline Corporation)
4. TSX:ENB (Enbridge Inc.)
5. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred
6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. andrewbutton
2. cleona

Category

1. Energy Stocks
2. Investing

Date
2025/06/28
Date Created
2022/09/21
Author
andrewbutton