



## Earn a 4.3% Yield From the Best Energy Stock You've Never Heard Of

### Description

This company is one of the market's best kept secrets.

The stock's shares trade hands only about 400,000 times per day. In contrast, the average daily volume for **ExxonMobil** is about 25 times that amount. Yet despite the fact that this company may not be a household name, it could become a favourite addition to your income portfolio.

That's because this firm owns pipelines and energy terminals across Canada and Europe. Thanks in part to the monopoly status it holds on these assets, the company has reported record profits year after year. That's great news for investors, because this management team is committed to returning as much of that cash to shareholders as possible.

### The best dividend stock you've never heard of

Pipeline companies have a reputation of being stodgy investment. They can be counted on to generate reliable dividends, but nothing much in the way of excitement.

**Inter Pipeline** (TSX: IPL) shareholders would beg to differ. Over the past five years that stock has delivered a downright sexy 495% total return for investors, handily beating the **S&P/TSX Composite Index** by over 400% during that same time period.

This company is a prime example of a 'triple threat' play — a safe distribution, high yield, and potential for capital gains.

What makes Inter Pipeline attractive to risk-averse investors is that the company is largely protected from volatile energy prices. About 70% of the firm's business is fee-based. Inter Pipeline charges a toll for every barrel of oil and gas that flows through its network.

And the company returns much of that cash back to investors in the form of rising dividends. This year the firm is on track to distribute \$400 million to investors. That's an enormous amount of money, which shows just how dedicated management is to lining shareholders' pockets. And over the past decade, Inter Pipeline has almost doubled the size of its dividend and today the stock yields 4.3%.

But this company might just be getting started. Thanks to the energy boom we're seeing in Western Canada, the number of barrels of oil and gas being pulled out of the ground today is only a tiny fraction of what we're likely to see a few years from now.

According to estimates from the Canadian Association of Petroleum Producers, oil sands output is projected to grow threefold to 5.3 million barrels per day by 2030 — not to mention the phenomenal potential of emerging shale plays like the Montney and the Duvernay. Companies like Inter Pipeline that store and ship all of these hydrocarbons are poised to make a fortune.

Today, the company has a staggering \$3.2 billion in commercially secured expansion projects — about a third of its market capitalization — on the books. And while rival proposals like **TransCanada's** Keystone XL and **Enbridge's** Northern Gateway pipelines remained tangled in regulatory bottlenecks, Inter Pipeline is expanding smoothly because it operates primarily in the industry-friendly province of Alberta.

Of course, the Inter Pipeline thesis isn't bulletproof. Like any dividend company, higher interest rates would take the wind out of the stock's sails. Some investors are also worried about the sustainability of the dividend given the company's high payout. However, Inter Pipeline is currently paying out less than 70% of non-GAAP earnings, giving it plenty of cushion if industry conditions take a turn for the worse.

The bottom line is Inter Pipeline is stuck right in the middle of one of the biggest growth trends in the world. Investors could be rewarded handsomely for years to come given the company's steady cash flow, increasing distributions, and a backlog of growth projects.

## CATEGORY

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