



One Simple Reason to Load Up on Inter Pipeline Ltd.

Description

As we all know, the energy sector is incredibly important to Canada's overall economy, and doubly so for Alberta.

If you go through the latest job reports for the entire nation, an interesting trend emerges. Approximately 80-90% of all new jobs created in the country are created in Alberta. Not only is the energy sector still booming, but those dollars are strengthening the overall economy. Many of those new jobs created are in hotels, restaurants, and other service sectors, mostly because of energy money.

Without Alberta's energy, the country wouldn't be as prosperous as it is now. This much is certain.

Much of the growth in energy production is coming from the oil sands. Companies such as **Suncor Energy Inc.** ([TSX: SU](#))([NYSE: SU](#)), **Cenovus Energy Inc.** ([TSX: CVE](#))([NYSE: CVE](#)), and **Imperial Oil Limited** ([TSX: IMO](#)) are all either planning or are constructing huge new expansions in the area, enough to at least double production by 2022.

There's just one problem. How is it all going to get transported?

There's already a shortage of pipelines in the area. As much as the rail companies want to tout the crude-by-rail business, the fact is that transporting crude via rail is arguably more expensive and dangerous than using pipelines. Trains can be delayed by weather or have other operational issues an oil producer just can't control. Energy companies are using rail transport because they have to, not because they want to.

Which is why there's a terrific opportunity for **Inter Pipeline Ltd** ([TSX: IPL](#)) to become the undisputed leader in pipelines for the oil sands.

Inter Pipeline has quite a few advantages over its competitors. First of all, the company largely operates in Alberta, an environment much more friendly to the energy sector than neighboring provinces, like British Columbia. It has a much easier time getting projects approved than larger competitors that are forced to cross provincial lines.

The company is already a huge player in the region. A cool 40% of all oil sands production (currently around 2 million barrels per day) sloshes through the company's pipes, and it also has enough storage capacity for 4.8 million barrels. That's a huge amount of energy to transport, but the company has bigger plans.

From the third quarter in 2014 to the first quarter of 2017, the company has more than \$3 billion worth of pipeline upgrades that are scheduled to open, which should add \$400 million to EBITDA. That works out to approximately \$1.25 per share in extra operating income.

The two biggest projects, the Polaris Pipeline upgrade and Cold Lake Pipeline upgrade, are going to add to earnings soon. The Polaris Pipeline upgrade opened in the middle of July, while the Cold Lake project is slated to become operational in early-2015. Both these projects should add a combined \$1.00 per share in operating income just in 2015 alone.

Shares currently pay out a 10.75 cent monthly dividend, good for a 3.7% yield. Dividend growth has been solid as well, rising from 91 cents per share in 2010 to \$1.16 in 2013. As these two large expansion projects come online, it certainly seems plausible that the company will share some of that increased income with investors.

I owned some shares in the company from 2008 to 2012, easily more than doubling my initial investment once dividends were factored in. I liked the company's Alberta-centric operations, its generous dividend, and the fact it was a more stable way to play the oil sands. Inter Pipeline still possesses many of those same traits, and I sold far too early. There's still plenty of expansion opportunities for it available. Investors would be smart to at least look at the company during any periods of market weakness.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. TSX:CVE (Cenovus Energy Inc.)
4. TSX:IMO (Imperial Oil Limited)
5. TSX:SU (Suncor Energy Inc.)

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