

Does Inter Pipeline Ltd. Belong in Your Portfolio?

Description

Inter Pipeline Ltd. (TSX:IPL), one of largest providers of petroleum transportation, bulk liquid storage, and natural gas liquids extraction services in western Canada and northern Europe, announced fourth-quarter earnings after the market closed on February 19, and its stock responded by making a slight move to the downside in the trading session that followed. Let's take a closer look at the results to determine if we should consider using this weakness as an opportunity to initiate long-term positions, or if we should wait for an even better entry point in the days ahead.

Breaking down the fourth-quarter results

Here's a summary of Inter Pipeline's fourth-quarter earnings results compared to its results in the same period a year ago.

Metric	Q4 2014	Q4 2013
Earnings Per Share	\$0.23	\$0.26
Revenue	\$390.1 million	\$374.2 million

Source: Inter Pipeline Ltd.

Inter Pipeline's earnings per share decreased 11.5% and its revenue increased 4.2% compared to the fourth quarter of fiscal 2013, as its net income decreased 5.9% to \$79.6 million. These solid results can be attributed to the company's total pipeline throughput volume averaging a record 1,237,100 barrels per day in the fourth quarter, an increase of 21.7% year-over-year, and this growth was led by throughput volume increasing 24.5% to 1,023,900 barrels per day in its Oil Sands segment.

Here's a quick breakdown of six other notable statistics and updates from the report compared to the year-ago period:

1. Total throughput volume averaged 213,200 barrels per day in its Conventional Oil Pipelines segment, an increase of 9.8%
2. Natural gas liquids extraction volume averaged 103,400 barrels per day, a decrease of 10.6%
3. Bulk liquid storage capacity remained unchanged at 84%
4. Funds from operations increased 18.7% to \$159.7 million, a quarterly record
5. Total capital expenditures decreased 70.9% to \$163 million
6. Paid out dividends totaling \$0.3525 per share during the quarter for a total cost of approximately \$114.9 million

Is Inter Pipeline a strong buy today?

Inter Pipeline is one of the leading providers of petroleum transportation and related services in western Canada and northern Europe, and increased demand for its services led it to a very strong fourth-quarter performance, but its stock responded by making a very slight move to the downside.

I think the post-earnings weakness in Inter Pipeline's stock represents a great long-term buying opportunity, because it trades at favorable forward valuations and because it pays a high dividend.

First, Inter Pipeline's stock trades about 32.3 times fiscal 2014's earnings per share of \$1.05, which seems fair, but it trades at just 23.9 times fiscal 2015's estimated earnings per share of \$1.42. I think the company's stock could consistently command a multiple of around 28, which would place shares upwards of \$39 by the conclusion of fiscal 2015, representing upside of more than 15% from today's levels.

Second, Inter Pipeline pays a monthly dividend of \$0.1225 per share, or \$1.47 per share annually, which gives its stock a bountiful 4.3% yield and makes it qualify as both a value and dividend play today.

With all of the information provided above in mind, I think Inter Pipeline represents one of the best long-term investment opportunities in the market today. Foolish investors should take a closer look and strongly consider establishing long-term positions.

CATEGORY

1. Energy Stocks
2. Investing

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Author

jsolitro

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