



Inter Pipeline Ltd. Reports Record Q1 Results: Should You Buy Now?

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 record first-quarter earnings after the market closed on May 11, and its stock has responded by making a slight move to the downside. Let's take a closer look at the quarterly results to determine if this weakness represents a long-term buying opportunity, or a warning sign.

Breaking down the record-setting performance

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

Metric	Q1 2015	Q1 2014
Diluted Earnings Per Share	\$0.34	\$0.27
Total Revenue	\$405.79 million	\$410.74 million

Source: Inter Pipeline Ltd.

Inter Pipeline's earnings per share increased 25.9% and its revenue decreased 1.2% compared with the first quarter of fiscal 2014. The company's strong earnings-per-share growth can be attributed to its net income increasing 32.1% to \$113.73 million, which was helped by its total operating expenses decreasing 14.5% to \$248.66 million.

Its slight decline in revenue can be attributed to frac-spread pricing decreasing 60.6% year over year, which led to revenues falling 39.1% to \$102.54 million in its NGL Extractions segment.

Here's a quick breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Total pipeline throughput volumes increased 27.5% to a record 1,311,900 barrels per day
2. Total extraction production increased 3.5% to 113,000 barrels per day

3. Revenue increased 68.8% to \$177.37 million in its Oil Sands Transportation segment
4. Revenue decreased 14.7% to \$77.81 million in its Conventional Oil Pipelines segment
5. Revenue increased 4.6% to \$48.07 million in its Bulk Liquid Storage segment
6. Funds from operations increased 34% to a record \$176.5 million
7. Funds from operations increased 23.3% to a record \$0.53 per share
8. Declared record cash dividends of \$121.8 million, or \$0.3675 per share, compared with dividends totaling \$99.6 million, or \$0.3225 per share, in the year-ago period
9. Cash provided by operating activities increased 18.2% to \$158.58 million
10. Total capital expenditures decreased 74.2% to \$142 million
11. Ended the quarter with \$62.95 million in cash and cash equivalents, an increase of 3% from the beginning of the quarter
12. Weighted average number of shares outstanding increased 7.3% to 331.5 million

Does Inter Pipeline belong in your portfolio?

Inter Pipeline posted a very strong first quarter performance, so I think the slight drop in its stock is simply a result of overall weakness in the market. I also think the weakness represents nothing more than a long-term buying opportunity.

First, Inter Pipeline's stock now trades at just 23.3 times fiscal 2015's estimated earnings per share of \$1.31 and only 21.9 times fiscal 2016's estimated earnings per share of \$1.39, both of which are inexpensive compared with the industry average price-to-earnings multiple of 40.4. I think the company's stock could consistently command a fair multiple of at least 28, which would place its shares upwards of \$36.50 by the conclusion of fiscal 2015 and upwards of \$38.75 by the conclusion of fiscal 2016, representing upside of more than 19% and 27%, respectively, from current levels.

Second, Inter Pipeline pays a monthly dividend of \$0.1225 per share, or \$1.47 per share annually, giving its stock a 4.8% yield at today's levels. The company has also increased its dividend seven times in the last six years, making it one of the top dividend-growth plays in the industry 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 making it a core holding.

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