



## 3 Reasons Why Inter Pipeline Ltd.'s Stock Could Rise Over 25%

### Description

**Inter Pipeline Ltd.** (TSX:IPL), one of the largest providers of petroleum transportation and bulk liquid storage in western Canada and northern Europe, has posted one of the most disappointing performances in 2015, falling more than 20% as the TSX Composite Index has returned close to 1%. However, I think its stock has bottomed and could be one of the market's top performers from this point forward. Let's take a look at three of the primary factors that could send its shares higher and why you should be a long-term buyer today.

#### 1. Record first-quarter earnings to support a near-term rally

Inter Pipeline released record first-quarter earnings results after the market closed on May 11, but its stock has responded by falling over 6.5% in the weeks since. Here's a summary of eight of the most notable statistics from the report compared with the year-ago period:

1. Net income increased 32.1% to a record \$113.73 million
2. Earnings per share increased 25.9% to \$0.34
3. Revenue decreased 1.2% to \$405.79 million
4. Total pipeline throughput volumes increased 27.5% to a record 1,311,900 barrels per day
5. Total extraction production increased 3.5% to 113,000 barrels per day
6. Funds from operations increased 34% to a record \$176.5 million
7. 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
8. Cash provided by operating activities increased 18.2% to \$158.58 million

#### 2. The stock trades at very attractive valuations

At today's levels Inter Pipeline's stock trades at just 21.4 times fiscal 2015's estimated earnings per share of \$1.34 and only 19.9 times fiscal 2016's estimated earnings per share of \$1.44, both of which are very inexpensive compared with the industry average price-to-earnings multiple of 40.4.

I think Inter Pipeline's stock could consistently trade at a fair multiple of at least 28, which would place its shares upwards of \$37 by the conclusion of fiscal 2015 and upwards of \$40 by the conclusion of

fiscal 2016, representing upside of more than 29% and 39%, respectively, from current levels.

### 3. A 5.1% dividend yield

Inter Pipeline pays a monthly dividend of \$0.1225 per share, or \$1.47 per share annually, giving its stock a 5.1% yield at current levels. The company has also increased its dividend seven times in the last six years, making it one of the most sought-after dividend-growth plays in the energy sector, and its increased amount of funds from operations could allow for another increase in the second half of this year.

### Is there a place for Inter Pipeline in your portfolio?

I think Inter Pipeline's stock could outperform the overall market going forward because it has the support of record first-quarter earnings results, because its stock trades at inexpensive forward valuations, and because it has a 5.1% dividend yield with an extensive track record of increasing its payout. All Foolish investors should strongly consider beginning to scale in to positions today.

### CATEGORY

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