3 Reasons Why Investors Should Load up on Inter Pipeline Ltd. Shares

Description

Although the pipelines are far more secure than the price of crude, a simple axiom exists when it comes to investing in the sector.

As goes crude, so will go pipelines. The pain will just be a little less.

Investors in **Inter Pipeline Ltd.** (TSX:IPL) have certainly been feeling the pain, as shares of the Alberta-based pipeline are down nearly 30% over the last year, since investors are punishing anything that's associated with crude. While that sure beats an investment in almost every oil producer, it still isn't a nice feeling to see 29% of your capital evaporate over the course of a year.

But that was then, and this is now. For investors who are just looking at the stock right now, today looks to be a pretty attractive entry point. Here are three reasons why.

A great dividend

It isn't very often Inter Pipeline yields more than 5%.

The last time it happened was in 2012, when the entire energy market was hurting. Since then, the company has raised the dividend four times, to the current level of $0.1225 per share on a monthly basis. That's a current dividend yield of 5.6%. And since the dip, shares have returned nearly 50%.

Dividend growth has been rock solid over the long term, too. Since 2005, back when the company was an income trust, it has raised dividends by 6.9% annually, even though it faced higher taxation when it converted back to a corporation. Since 2010, when that conversion happened, dividend growth has been even more impressive, increasing 10.2% annually.

Of course, dividends mean nothing without a sustainable payout ratio. The company has done a nice job maintaining dividends at less than 80% of funds from operations, with the current payout ratio sitting at closer to 70%. It sure looks to me like Inter Pipeline's dividend is sustainable.

Great growth

Inter Pipeline has had a number of projects come online in 2015, which have nicely boosted profitability.

In 2014 the company reported total earnings before interest, taxes, amortization, and depreciation (EBITDA) of approximately $700 million. In 2015 the forecast is to generate some $950 million in EBITDA. That's an increase of more than 35%.

The growth looks slated to continue. Inter Pipeline's management has identified several opportunities to build additional pipelines in the oil sands, which is where the bulk of the company's earnings come from. There's also potential to extend current pipelines into areas like the Duvernay and the Motney fields, both of which offer attractive returns for producers, even if oil doesn't return to $100 per barrel.

In total, management has identified $4 billion in medium-term project potential. Over the long term, potential looks even greater as oil sands production is expected to double between now and 2030.

An attractive moat

The big issue affecting some of Inter Pipeline's bigger competitors is having to deal with multiple governments when getting big new projects approved. Anyone who has been following the Keystone XL situation can attest to how long it has taken, and we still haven't seen any firm resolution.

Inter Pipeline doesn't have many problems like that, since the vast majority of its assets are located in Alberta. It only has one government to deal with, and it's a government that's likely to be pretty friendly to pipeline operators. After all, Alberta's economy is dependent on getting crude to refiners.

Plus, it has the operational expertise and the experience to continue to be one of the largest operators in the oil sands. It's nearly impossible for a competitor to start up and put competing pipelines in place. It takes billions in capital and expertise only a few people have. Those are the kinds of assets investors should want to own.

At just over $26 per share, it's easy to make the argument that Inter Pipeline is a great company trading at a bargain price. It has successfully moved away from much exposure to the price of crude, and investors get a generous dividend while shares recover. Foolish investors should be checking out this company.

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1. Dividend Stocks
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