



3 Reasons Why Inter Pipeline Ltd. Could Outperform the Market

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 a very disappointing performance in 2015. It has fallen more than 35%, but 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 reasons why I think this will happen and why you should be a long-term buyer of the stock today.

1. Its record earnings results could support a near-term rally

After the market closed on November 5, Inter Pipeline released record earnings results for its three- and nine-month periods ending on September 30, 2015, but its stock has responded by falling over 6% in the weeks since. Here's a summary of eight of the most notable statistics from the first nine months of fiscal 2015 compared with the first nine months of fiscal 2014:

1. Net income increased 20.4% to \$325 million
2. Earnings per diluted share increased 11.3% to \$0.89
3. Revenue increased 4.7% to \$1.22 billion
4. Total pipeline throughput volumes increased 14.5% to 1.23 million barrels per day
5. Total extraction production increased 6.6% to 102,000 barrels per day
6. Adjusted earnings before interest, taxes, depreciation, and amortization attributable to shareholders increased 34.8% to \$675.4 million
7. Funds from operations increased 39.2% to \$562.7 million
8. Cash provided by operating activities increased 29.9% to \$526.6 million

2. Its stock trades at inexpensive forward valuations

At today's levels, Inter Pipeline's stock trades at just 18.2 times fiscal 2015's estimated earnings per share of \$1.28 and only 16.3 times fiscal 2016's estimated earnings per share of \$1.43, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 21 and its five-year average multiple of 29.4.

I think Inter Pipeline's stock could consistently command a fair multiple of at least 20, which would

place its shares upwards of \$28 by the conclusion of fiscal 2016, representing upside of more than 20% from current levels.

3. It has a high dividend and is a dividend-growth play

Inter Pipeline pays a monthly dividend of \$0.13 per share, or \$1.56 per share annually, giving its stock a 6.7% yield. It is also very important to note that it has raised its dividend for seven consecutive years, and its increased amount of funds from operations, including the aforementioned 39.2% year-over-year growth to \$562.7 million in the first nine months of fiscal 2015, could allow this streak to continue in 2016.

Should you buy shares of Inter Pipeline today?

Inter Pipeline represents one of the best long-term investment opportunities in the market today, so all Foolish investors should strongly consider beginning to scale in to positions.

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