



After its Record Q4 Performance, Is Inter Pipeline Ltd. a Strong Buy?

Description

Inter Pipeline Ltd. (TSX:IPL), one of the leading providers of petroleum transportation, bulk liquid storage, and natural gas liquids extraction services in Canada and Europe, announced record fourth-quarter earnings results after the market closed on February 18.

However, its stock has responded to the news by remaining relatively flat, so let's take a closer look at the results and its fundamentals to determine if we should consider using this lack of movement as a long-term buying opportunity.

A very strong fourth-quarter performance

Here's a summary of Inter Pipeline's fourth-quarter earnings results compared with what analysts had projected and its results in the same period a year ago.

Metric	Q4 2015 Actual	Q4 2014 Expected	Q4 2014 Actual
Diluted Earnings Per Share	\$0.39	\$0.36	\$0.23
Total Revenue	\$455.7 million	\$476.7 million	\$390.1 million

Source: *Financial Times*

Inter Pipeline's earnings per share increased 69.6% and its revenue increased 16.8% compared with the fourth quarter of fiscal 2014.

Its immense earnings-per-share growth can be attributed to its net income increasing 73.4% to a record \$138 million, primarily due to higher funds from operations, which it noted were driven by expanded transportation services, its acquisition of Inter Terminals Sweden in June 2015, higher throughput volumes, and lower deferred income tax.

Its very strong revenue growth can be attributed to two primary factors.

First, its revenues increased 51.9% to \$213.4 million in its Oil Sands Transportation segment, driven by

the expansion of its Cold Lake pipeline system and its average pipeline throughput volume increasing 8.6% to 1.11 million barrels per day.

Second, its revenues increased 64.1% to \$64.8 million in its Bulk Liquid Storage segment, driven by its acquisition of Inter Terminals Sweden and its storage utilization rate improving to 97% compared to 84% in the year-ago period.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Average pipeline throughput volumes increased 7.2% to 1.33 million barrels per day
2. Average throughput volume increased 0.8% to 214,800 barrels per day in its Conventional Oil Pipelines segment
3. Revenues increased 2.2% to \$89 million in its Conventional Oil Pipelines segment
4. Average natural gas liquids extraction volume decreased 2.9% to 100,400 barrels per day
5. Revenues decreased 28% to \$88.5 million in its NGL Extraction segment
6. Adjusted earnings before interest, taxes, depreciation, and amortization increased 49.3% to \$273.2 million
7. Cash provided by operating activities increased 40.6% to \$233.9 million
8. Funds from operations increased 32.4% to a record \$211.4 million
9. Funds from operations attributable to shareholders increased 29.8% to a record \$201.6 million
10. Dividends paid to shareholders totaled \$128.7 million, or \$0.3825 per share, resulting in a payout ratio of 63.8% compared with dividends totaling \$114.9 million, or \$0.3525 per share, and a payout ratio of 74% in the year-ago period

What should you do with Inter Pipeline's stock today?

It was a phenomenal quarter overall for Inter Pipeline, so I think the market should have reacted by sending its shares significantly higher. With this being said, I think the lack of movement represents a great long-term buying opportunity for two reasons in particular.

First, it's a great value play. Inter Pipeline's stock trades at just 17.8 times fiscal 2015's earnings per share of \$1.28, only 15.6 times fiscal 2016's estimated earnings per share of \$1.46, and a mere 15.1 times fiscal 2017's estimated earnings per share of \$1.51, all of which are very inexpensive compared with its five-year average price-to-earnings multiple of 28.

Second, it is a high dividend and dividend-growth play. Inter Pipeline pays a monthly dividend of \$0.13 per share, or \$1.56 per share annually, which gives its stock a high and very safe 6.8% yield. Investors must also note that the company has raised its annual dividend payment for seven consecutive years, and its 6.1% hike in November 2015 has it on pace for 2016 to mark the eighth consecutive year with an increase.

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. All Foolish investors should strongly consider making it a core holding.

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Date

2025/09/29

Date Created

2016/02/19

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