3 Reasons Why Inter Pipeline Ltd. Is a Steal at $26 Per Share

Description

Inter Pipeline Ltd. (TSX:IPL), one of the leading transportation and service providers to the oil and natural gas industries in Canada and Europe, has watched its stock roar higher in 2016, rallying more than 16%. I think this is only the beginning of a sustained rally higher for three reasons. Let's take a closer look at these reasons to see if you agree, so you can determine if you should be a long-term buyer of the stock today.

1. Its record earnings results could support a continued rally

On February 18, Inter Pipeline released record earnings results for its fiscal year ended on December 31, 2015, and its stock has responded by rising over 12% in the weeks since. Here's a quick breakdown of 10 of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Net income increased 32.5% to a record $463 million
2. Earnings per diluted share increased 25.5% to a record $1.28
3. Revenue increased 7.7% to $1.68 billion
4. Total pipeline throughput volumes increased 12.5% to a record 1,257,800 barrels per day
5. Total natural gas liquids extraction volumes increased 4.2% to 101,700 barrels per day
6. Bulk liquid storage capacity utilization improved to 94% from 79%
7. Adjusted earnings before interest, taxes, depreciation, and amortization attributable to shareholders increased 38.1% to $938.7 million
8. Funds from operations attributable to shareholders increased 34% to a record $733.1 million
9. Dividends paid increased 17.5% to a record $497.1 million, or $1.485 per share
10. Total capital expenditures decreased 71.2% to $355.9 million

2. It's a value play

At today's levels, Inter Pipeline's stock trades at just 17.7 times fiscal 2016's estimated earnings per share of $1.46 and only 17.2 times fiscal 2017's estimated earnings per share of $1.50, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 27.4 and the industry average multiple of 18.8.

With the multiples above, its estimated 9.9% long-term earnings growth rate, and rebounding oil prices in mind, I think its stock could consistently trade at a fair multiple of about 22, which would place its shares around $33 by the conclusion of fiscal 2017, representing upside of more than 27% from today's levels.

3. It has a high and safe dividend with room for growth

Inter Pipeline pays a monthly dividend of $0.13 per share, or $1.56 per share annually, which gives its stock a high and safe yield of about 6%.

Investors must also make two notes.

First, Inter Pipeline 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.

Second, I think its increased amount of funds from operations attributable to shareholders, including the aforementioned 34% year-over-year growth to $733.1 million in fiscal 2015, and its reduced payout ratio, including 67.8% in fiscal 2015 compared with 77.3% in fiscal 2014, could allow it to announce a significant dividend hike within the next few months.

Is there a place for Inter Pipeline in your portfolio?

Inter Pipeline is an absolute steal at just $26 per share, so all Foolish investors should strongly consider making it a core holding.

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Date
2025/07/08
Date Created
2016/03/17
Author
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