Inter Pipeline Ltd.: An Energy Dividend You Can Actually Count On

Description

Last year was a tough year for investors who were invested in the energy sector for dividends.

It seemed like every oil producer cut their payouts, especially the ones that paid especially generous yields. And since most of these companies are now in survival mode, investors shouldn't count on those dividends coming back anytime soon–even if oil recovers. Cash flow will go towards paying back debt before it gets shipped out to shareholders. It's a natural reaction.

This puts dividend investors in a tough spot. On the one hand, these folks want to get paid. But on the other hand, they don't want to miss out on a potential rally in some of the beleaguered names. Dividends are all fine and good, but capital gains can really lift a portfolio.

Perhaps investors should consider a compromise of sorts. Canada's largest pipeline operators offer great yields which are supported by earnings. They're also down considerably from highs set when oil was at much higher levels back in 2014. This means the pipelines could see some nice upside potential when crude does recover.

Here's why **Inter Pipeline Ltd.** (TSX:IPL) is a great choice for income investors looking for secure energy dividends.

Great assets

Unlike its competitors, Inter Pipeline has most of its assets in Alberta. This not only makes it easier when it comes to getting new projects approved–since there's only one government to deal with instead of several–but it also bodes well for the future. Inter Pipeline is big in the oil sands, an area that's going to be important part of oil production for decades to come.

The company just finished a couple of big expansion projects in the region, increasing the total capacity for both its Cold Lake and Polaris pipelines. In total, its three oil sands pipelines have potential to haul more than 2.3 million barrels of oil per day more than they transport now. Essentially, these pipelines are running at 50% capacity.

Good balance sheet

Ever since **Kinder Morgan** announced the company was cutting its dividend–for a number of reasons–pipeline investors have been paying closer attention to the amount of debt on the balance sheet.

Investors don’t have to worry about Inter Pipeline’s balance sheet. Net debt is hovering around 50% of the company’s total capitalization, well under the 65% debt-to-assets ratio that breaches debt covenants. The company maintains an investment grade rating on its debt, and since its big expansion projects are behind it, investors don’t have to worry about it taking on large amounts of new debt.

Additionally, the company expects a payout ratio of about 70% of funds from operations in 2016. That gives the company approximately $250 million in excess cash flow it can put towards expansion projects.

Dividend growth

Inter Pipeline doesn’t just offer investors a great current yield. It has history of growing its dividend as well.

Back in 2006, the company paid a dividend of $0.80 per share annually. The forecasted payout for 2016 is expected to be nearly double what it was a decade ago, coming in at $1.56 per share. That’s growth of just under 7% per year for the last decade.

That’s great growth for a company that pays a 5.9% dividend currently. And remember, the company’s payout ratio is far under 100%, meaning it should have enough cash flow to fund the dividend and its capital program without going further into debt.

It’s tough to find energy stocks in 2016 that not only pay attractive dividends, but that also have the cash flow to easily cover the payout. Inter Pipeline checks all those boxes, making the company a good choice for both retirees and dividend-growth investors.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/09/11
Date Created
2016/04/26
Author
nelsonpsmith