Retirees: Give Yourself a Raise With Inter Pipeline Ltd.

Description

It's hard to retire in 2016.

Getting generous yields used to be as easy as calling up your local banker and plunking money into a GIC. These days, even though competition is trying hard to entice GIC dollars away from traditional banks, yields are anemic. It's hard to get much more than 2%.

Investors have responded by searching for yield in the stock market. This has pushed up the valuations of many of Canada's top blue-chip stocks to the point where many are calling it a bubble.

This leaves retirees in a tricky spot. They need yield today, yet they still need to protect their capital. Nobody wants to move into a 100% stock portfolio right when the market is peaking, only to see it crash during the next downturn.

Stocks like **Inter Pipeline Ltd.** (TSX:IPL) offer a nice compromise, giving investors great yields as well as a share price that stays pretty steady.

Here's the case for retirees buying this great dividend payer.

Solid growth

Inter Pipeline has been spending billions on an ambitious growth plan to significantly increase its oil sands capacity. This involved big additions to its three main pipeline projects: Polaris, Cold Lake, and Corridor. Today, these three pipelines move approximately 2.2 million barrels of oil per day to refineries.

As a result of the expansion, these three pipelines now have the potential to carry 4.6 million barrels per day. This leaves the company with 2.4 million barrels per day of unused capacity for when production picks up again. This will be a nice jolt to earnings at some point in the future.

The company has also identified approximately $1 billion in what it calls "bolt-on" projects. These are highly profitable with an average projected cost of just three times EBITDA.

And finally, Inter Pipeline also intends to grow its bulk liquid storage business, a division that accounts for approximately 12% of earnings. This will likely be done via acquisition.

Dividend security

Inter Pipeline has been a dividend-growth stud over the years, increasing the annual payout each year since 2009. From 2011 to 2016 it has hiked the payout an average of 10% annually.

In the first quarter of 2016 the company generated $186 million in funds from operations, a key metric of the profitability of pipelines. Assuming the company can maintain that kind of profitability going forward, it'll generate approximately $750 million in funds from operations for 2016.

Meanwhile, the company is on pace to deliver approximately $500 million in dividends to shareholders, a number that doesn't include a dividend increase, which is likely to happen at some point in the second half of the year. Let's assume that raise is 10%, which would be a projected payout of $550 million.

That gives the company a payout ratio of 73.3%, which is pretty solid. That's not bad for a company that currently pays 5.8%, much higher than is available in the fixed-income market.

Valuation

Even from a valuation perspective, Inter Pipeline looks like a good choice.

Shares trade hands at just a little over 12 times funds from operations, which is a reasonable number in today's market. And remember, Inter has solid growth potential. It might take a few years for that growth to materialize, but it should eventually happen.

Low beta

For an energy stock, Inter Pipeline is surprisingly boring. That's bad news for traders but good news for retirees.

According to Google Finance, the company has a beta of 0.39, meaning it is 61% less volatile than the underlying market. That's a good thing for retirees not looking to take on huge amounts of risk.

Inter Pipeline gives investors a nice yield, solid dividend growth, and it offers a decent valuation with a low beta. It would make a good addition to any retiree's portfolio.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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