



Why Inter Pipeline Ltd. Is Down Over 2%

Description

Inter Pipeline Ltd. (TSX:IPL), one of the largest owners and operators of energy infrastructure assets in western Canada and Europe, released its second-quarter earnings results after the market closed on Thursday, and its stock has responded by falling over 2% in early trading. The stock now sits more than 22% below its 52-week high of \$30.07 reached back in January, so let's take a closer look at the results and the fundamentals of its stock to determine if we should consider initiating positions today.

Breaking down Inter Pipeline's Q2 performance

Here's a breakdown of 10 of the most notable statistics from Inter Pipeline's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	Q2 2017	Q2 2016	Change
Revenue	\$516.0 million	\$413.0 million	24.9%
Funds from operations (FFO)	\$207.0 million	\$196.7 million	5.2%
FFO per share	\$0.56	\$0.58	(3.4%)
Adjusted EBITDA	\$244.8 million	\$242.2 million	1.1%
Cash provided by operating activities	\$232.2 million	\$213.0 million	9%
Net earnings	\$102.3 million	\$122.9 million	(16.8%)
Net earnings per share (EPS)	\$0.27	\$0.34	(20.6%)
Average pipeline throughput volumes (barrels per day)	1,326,600	1,213,900	9.3%
Average natural gas liquids processing (barrels per day)	96,100	94,100	2.1%

Bulk liquid storage capacity utilization	98%	97%	100 basis points
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Should you buy Inter Pipeline today?

It was a decent quarter overall for Inter Pipeline, but the results came in mixed compared with the consensus estimates of analysts polled by **Thomson Reuters**, which called for EPS of \$0.34 on revenue of \$487.55 million, so I think this is the primary reason the stock is down over 2%. However, it's important to note that the company performed very well in the first half of 2017, with its revenue up 32% to \$1.09 billion, its adjusted EBITDA up 13.5% to \$534.4 million, its FFO up 18.6% to \$453.9 million, and its net income up 6.5% to \$242.3 million.

With all of this being said, I think Inter Pipeline represents a very attractive long-term investment opportunity today for two primary reasons.

First, it's extremely undervalued. Inter Pipeline's stock now trades at just 15.9 times fiscal 2017's estimated EPS of \$1.47 and only 15.1 times fiscal 2018's estimated EPS of \$1.54, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 23.4. These multiples are also inexpensive given its estimated 5.1% long-term earnings-growth rate.

Second, it has a fantastic dividend. Inter Pipeline pays a monthly dividend of \$0.135 per share, equal to \$1.62 per share annually, which gives its stock a yield of about 6.95% at the time of the writing. The company has also raised its annual dividend payment for eight consecutive years, and its 3.8% hike in November 2016 has it on track for 2017 to mark the ninth consecutive year with an increase, making it an income, high-yield, and dividend-growth play.

With all of the information provided above in mind, I think all Foolish investors should strongly consider using the post-earnings weakness in Inter Pipeline to begin scaling in to long-term positions.

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