Is it Time to Buy Inter Pipeline Ltd. for its High Yield?

Description

The pullback of **Inter Pipeline Ltd.** (TSX:IPL) shares has been quite unbelievable. The stock has declined +21% year to date.

Currently, the stock offers a yield of nearly 7%, which is attractive. Investors may think that its high dividend yield should give some share price support. I think eventually it will.

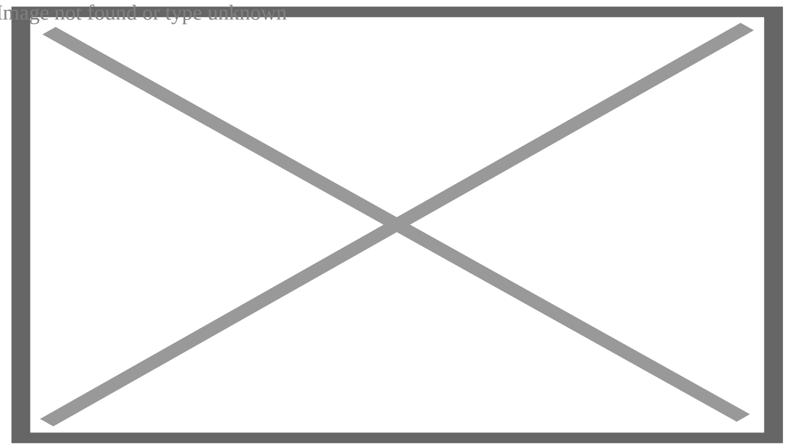
For example, in late 2015/early 2016, the shares traded at under $20 per share for a high yield of 7.5-8% before shares headed steadily north again. With the weakness in the shares lately, we may just see that ~8% yield again.

If you believe in Inter Pipeline's long-term business, though, there's no reason to doubt that it may be a good time to buy some shares.

What does Inter Pipeline do?

Inter Pipeline has a diversified set of energy infrastructure assets for transporting oil sands and other oil products, natural gas liquids processing, and storing bulk liquids.

It transports ~2.3 million barrels per day of oil sands (~54% of the first half of the year's earnings before interest, taxes, depreciation and amortization [EBITDA]), produces ~240,000 barrels per day of natural gas liquids (~19%), and has the capacity to store 27 million barrels of natural gas.



Inter Pipeline offers a stable, growing dividend

In the first half of the year, only 18% of Inter Pipeline’s EBITDA was commodity based, while 82% was either under cost-of-service or fee-based contracts. So, its cash flows are largely stable and predictable.

The company has increased its dividend for eight consecutive years, and its three- and five-year dividend-growth rates were ~10%, which are impressive. That said, its monthly dividend is only ~3.8% higher than it was a year ago.

Notably, Inter Pipeline’s payout ratio in the second quarter was ~73% of funds from operations, while the annualized payout ratio should be lower (because of scheduled maintenance outages). Its sustainable payout ratio should allow the company to at least maintain its dividend.

Second-quarter results

Inter Pipeline’s natural gas liquids business were negatively impacted by two scheduled full-plant maintenance outages in the second quarter. They were outages of 29 days and 20 days, respectively, at two separate plants.

In the quarter, the company also put into service 175,000 barrels of new chemical storage capacity in the United Kingdom, which complements its existing bulk liquids storage capacity in Europe.

Investor takeaway

Inter Pipeline continues to build a high-quality asset base that generates stable and predictable cash flow, which should allow the company to maintain a safe dividend. Currently, it offers a compelling ~7% yield thanks to the share price pullback.

If the stock experiences any further dips, especially when it yields ~8%, income investors should seriously consider buying some shares.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

3. Investing

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/09/06
Date Created
2017/08/16
Author
kayng