Income Investors: Should You Buy Inter Pipeline Ltd. to Pocket the 7% Yield?

Description

Income investors are searching for dividend stocks with above-average yields.

Let's take a look at **Inter Pipeline Ltd.** (TSX:IPL) to see if it is an attractive pick right now.

Big price moves

Inter Pipeline is down more than 20% in 2017 amid a broad-based sell-off in the energy sector.

This isn't the first time investors have watched the share price go on a rough ride. The same thing happened through the back half of 2014 and all through 2015, as oil fell from US$100 per barrel to below US$30 before staging its 2016 recovery.

In that pullback, Inter Pipeline fell from $38 per share to $20. It then rebounded to $30 at the end of last year.

At the time of writing, WTI oil is about US$47.50 per barrel, and Inter Pipeline is back below $23 per share.

Dividend resilience

Inter Pipeline owns natural gas liquids (NGL) extraction assets, conventional oil pipelines, oil sands pipelines, and a liquids storage business in Europe. The diversified asset base is a big reason the company has made it through the oil rout in decent shape.

In fact, management has raised the dividend right through the downturn, which shows the quality of the assets and the company's ability to generate solid cash flow in difficult times.

The payout ratio for Q2 2017 was 72.9%, so there should be ample room to maintain the current distribution.

Growth

Inter Pipeline has taken advantage of the tough times to make strategic acquisitions. The largest deal was last year's $1.35 billion purchase of two NGL extraction facilities and related infrastructure from The Williams Companies.

The deal was done at a significant discount to the cost of building the assets, so Inter Pipeline stands to see a solid return on its investment when the market improves.

In addition, Inter Pipeline has about $3 billion in new capital projects under consideration. If the developments get the green light, investors should see cash flow grow in the next few years to support additional dividend hikes.

Should you buy?

The stock can be volatile, so you have to be able to ride out the ups and downs of the broader energy market. If you can't handle the roller coaster, it might be best to seek out another opportunity.

However, if you don't mind the swings and have a bit of a contrarian investing style, it might be worthwhile to add a bit of Inter Pipeline to the income portfolio while the stock is out of favour.

At this point, the monthly distribution provides a 7% annualized yield, which is pretty attractive, as long as you think the payout is sustainable.

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