

A Rebounding Canadian Dividend Stock With Big Upside Potential

Description

Contrarian investors are always searching for beaten-up stocks that could be on the cusp of a huge recovery.

Let's take a look at **Inter Pipeline Ltd.** (TSX:IPL) to see if it might be at the beginning of an extended rally.

New rally

IPL is up 14% over the past month amid a broad-based rotation of funds back into the beleaguered energy sector.

The company is not an oil producer, but it owns conventional and oil sands pipelines in addition to its natural gas liquids (NGL) extraction assets, and a liquids storage business in Europe.

As a result, investors tend to sell IPL when oil is down and buy the stock when oil prices recover.

WTI oil has moved back above US\$50 per barrel, and pundits are starting to think the rally might have legs.

Why?

OPEC and a handful of other countries are trying to remove 1.8 million barrels per day out global supplies.

In addition, Iraq's Kurdish people recently declared independence, and reports of Iraqi troops moving into the oil-rich Kurdish region of the country are stoking fears that fighting could hit production at Kirkuk, the main city in the area and the location of Iraq's oldest oil field.

Up to 600,000 barrels per day are exported out of the Kurdish region, according to a recent *Bloomberg* report. Iraq is OPEC's second-largest producer.

Oil bears are starting to soften their tone, and some analysts are calling for the price to surge as high as US\$80 per barrel over the next couple of years.

Growth outlook

IPL took advantage of the oil rout to add new assets at attractive prices, including the \$1.35 billion acquisition of two NGL extraction facilities and related infrastructure. The deal was done at a significant discount to the cost of building the facilities, so the assets could deliver impressive returns as the market recovers.

The company also has about \$3 billion in capital projects under consideration. If those developments

get the green light, investors could see revenue and cash flow get an additional boost in the next three years.

Attractive dividend

IPL pays its dividend monthly and has raised the distribution in each of the past three years. The current payout of \$0.135 per share provides an annualized yield of 6.2%. At Q2 cash flow levels, the payout ratio is low enough that the distribution should be safe.

Upside potential

The stock has enjoyed a nice pop off the 2017 low and is currently trading at close to \$26 per share. The recent gains are impressive, but IPL is still down more than 10% this year and well off the \$38 mark the share price topped in 2014.

If you are looking for a contrarian energy sector pick with a fat yield, IPL deserves to be on your watch list. An extended rally in the oil market should drive the stock higher.

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