



Inter Pipeline Ltd.: Should You Buy the Pullback?

Description

Inter Pipeline Ltd. (TSX:IPL) fell more than 3% after releasing its Q3 2017 earnings report.

Let's take a look at the current situation to see if the dip is an opportunity to buy the stock.

Financials

IPL reported record funds from operations (FFO) of \$269 million for Q3 2017, or \$0.72 per share, representing a 27% increase over the same period last year. Net income also hit a record, coming in at \$143 million, or 17% higher than Q3 2016.

IPL operates oil sands pipelines, conventional oil pipelines, natural gas liquids (NGL) extraction assets, and a liquids storage business in Europe.

The oil sands transportation business saw FFO jump 13% year over year, hitting \$160.6 million as average throughput rose 5% to 1.15 million barrels per day (b/d) due to increased volumes from all of the company's contracted shippers.

Conventional oil throughput increased 10% to 212,000 b/d, resulting in record FFO of \$54.5 million. Stronger drilling activity and increased light oil production in the Viking formation contributed to the gains.

The bulk liquids storage operations in Europe had a weaker year-over-year quarter. Utilization rates slipped from 98% in Q3 2016 to 95%, and FFO came in at \$25.2 million compared to \$30.2 million last year.

NGL processing generated FFO of \$78.1 million in the quarter, up substantially from \$28.7 million in the same period in 2016. The off-gas processing business purchased last year from **The Williams Companies** contributed \$41.7 million in FFO for the quarter. The new assets only had eight days of contribution in Q3 2016.

Overall, IPL had a solid quarter.

Why did the stock fall?

On the surface, the numbers looked pretty good, but investors dumped the stock after the Q3 report came out.

What's the scoop?

IPL didn't announce a dividend increase, despite the Q3 payout ratio coming in at 56.6%. The company has raised the distribution in each of the past three years, so investors might be disappointed IPL didn't announce a plan to hand over more cash.

In addition, IPL is evaluating \$3.1 billion in new capital projects. The company is still in negotiations with potential counterparties for long-term contracts on the new NGL facilities that would include propane dehydrogenation and polypropylene plants.

The market might have expected a positive announcement on the project in the Q3 report. IPL plans to make a decision by the end of 2017, and operations are expected to begin in the second half of 2021 if the development gets the green light.

Should you buy?

Rising oil prices bode well for throughput on IPL's pipeline assets, as producers ramp up drilling activity to take advantage of the higher margins.

In addition, a positive decision on the NGL capital program would likely provide a nice boost to cash flow in the medium term.

The existing [monthly dividend](#) provides an annualized yield of 6.2%, so investors are already getting a decent yield. If you have some cash sitting on the sidelines, it might be worthwhile to add a bit of IPL to your [income portfolio](#).

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