



Investors Have the Opportunity to Buy the Dip in Inter Pipeline Ltd.!

Description

Over the past week, shares of **Inter Pipeline Ltd.** (TSX:IPL) have declined by close to 7.5%, as the company announced that it was committing close to \$3.5 billion to a new project, which will (for the first time in Canada) convert propane to plastics on a major scale. Although not all investors took this as positive news, the bottom line is that there will be a lot more good news than bad to come from this expansion.

In an effort to consider both sides of the situation, we'll begin with the bad news: the company will be taking \$3.5 billion out of the coffers to undertake the new project. Without the expansion, the money could otherwise have been used for a share buyback or dividend increase and made investors very happy in the [short and medium term](#).

The second headwind to investors is that the new project is not a proven business operation, which leads to a greater amount of uncertainty for investors who have invested in a low-risk company. With a current beta of 0.36, the only condition for revenue to continue flowing in is that oil must continue to be produced in the province of [Alberta](#). In the oil industry, Inter Pipeline is considered one of the lowest-risk dividend plays available.

Moving on to the positives ... the dividend is at the top of the list. Given the current share price of \$25.50, the yield is slightly more than 6.5% and accounts for no more than 31% of cash flow from operations (CFO), which translates to the high probability of being sustainable for income investors who have come to depend on the cash provided by this investment.

The dividend, which has traditionally been generous, accounted for 58% of CFO for fiscal 2016 and 53% in 2015. Given the long-term nature of a pipeline, the dividend payout can be calculated by using the CFO metric rather than net income in spite of healthy bottom-line profits for this name. In spite of low oil prices, the company still reported net profit of \$385 million throughout the first three quarters of 2017.

For investors seeking something that is primed for a major breakout, the answer may just be found in shares of Inter Pipeline. As Alberta has seen its fair share of project delays and cancellations over the

past three years, the announcement of this major undertaking may just be signaling the revitalization of major investment into the province once again. In the hope that once the snowball starts rolling down the hill, gaining speed and getting bigger along the way, investors currently have the chance to partake in the ride by seriously considering this investment as a core holding in their portfolios.

The upside is that the uncharted territory will be equivalent to the discovery of a new continent: meaning it will be very profitable for shareholders. Should things not work out, then the 6.5% yield will just have to suffice.

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Date

2025/07/08

Date Created

2017/12/24

Author

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