



Why Inter Pipeline Ltd. Stock Fell 7% Last Week

Description

Inter Pipeline Ltd. (TSX:IPL) stock experienced a meaningful dip of +6% last week. Its stock price now sits below the midpoint of its 52-week low and 52-week high.

Is this an opportunity to buy the high-yield stock? First, let's take a look at why it may have dipped.

The trigger of the dip

On December 18, [Inter Pipeline](#) announced that it will be investing \$3.5 billion to build “a world-class integrated propane dehydrogenation and polypropylene plant” in Alberta, as stated in the press release.

In 2018, the company plans to invest about \$600 million in the plant, which will be two-thirds of the company's capital spending for the year. And the plant is expected to compete by late 2021.

In the meantime, the company (and its shareholders) won't get any benefits from the money spent. After all, the plant cannot start generating cash flow until it's done.



Since a lot of money will be spent in the next few years, it will probably mean less money for dividend payouts. Now, I'm not saying that the company will cut its dividend; I'm implying that shareholders should not expect any big dividend hikes in the near future.

Additionally, there are probably risks that aren't obvious and which may or may not play out because big projects are more complex and can come with greater risks of something going wrong.

With all that's said, Inter Pipeline offers immediate benefits to shareholders by paying a monthly dividend.

Inter Pipeline offers a growing dividend

In the first three quarters of 2017, Inter Pipeline's funds-from-operations payout ratio was under 63%, which was an improvement compared to the same period in the previous year when the payout ratio was under 70%.

Moreover, [Inter Pipeline](#) has a track record of growing its dividend. The company just increased its dividend by 3.7% in November. This year is the midstream company's ninth consecutive year of dividend growth.

The company's dividend-growth streak would have been longer if it hadn't frozen its dividend in the recession in 2007 and 2008. (Don't get me wrong, though; I think it's no small feat to maintain one's dividend throughout the recession.)

Is Inter Pipeline priced at a value?

The Street consensus from **Thomson Reuters** has a 12-month price target of \$30.30 per share on the stock, which represents nearly 19% upside potential from the recent quotation of ~\$25.50 per share. Moreover, the stock offers a compelling yield of ~6.6%, which is hard to beat.

Investor takeaway

Both income and total-return investors might find Inter Pipeline to be a decent investment today. The stock offers an attractive ~6.6% yield and almost 19% upside potential in the next 12 months. In addition, the company will likely start benefiting from its big investments a few years down the road.

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