



Retirees: Is Inter Pipeline Ltd. a Top Income Pick for Your TFSA?

Description

Canadian pensioners are searching for reliable dividend stocks to add to their [TFSA](#) income portfolios.

The strategy makes sense, as any distributions paid inside the TFSA are not subject to tax. In the event you sell a stock to rebalance the portfolio, the capital gains are also tax-free.

Let's take a look at **Inter Pipeline Ltd.** (TSX:IPL) to see if it might be an interesting choice right now.

Asset growth

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

The company survived the oil rout in pretty good shape, and management even took advantage of the downturn to add strategic assets at attractive prices, including the \$1.35 billion purchase of two NGL extraction facilities and related infrastructure from **The Williams Companies**.

The deal was completed at a significant discount to the cost of building the assets, so IPL could see strong returns on the investment in the coming years.

The purchase also came with plans for a new plant, and IPL recently gave the \$3.5 billion Heartland Petrochemical Complex the green light. In the Q4 2017 earnings report, IPL said the project should be completed by the end of 2021.

Once the complex is in operation, IPL expects to earn \$450-500 million in annual EBITDA from the development.

Record results

The existing assets are performing well and IPL just reported record results.

The oil sands pipeline business delivered full-year funds from operations of \$612.4 million in 2017, up about 5% year-over-year.

NGL Processing activities continued to see a recovery from the tough environment in recent years. The division generated annual funds from operation of \$279.6 million, representing a gain of 89% over the previous year. The contribution from the assets acquired in September 2016 combined with higher frac-spread pricing to deliver the strong results.

Conventional oil pipelines saw funds from operations jump 8% compared to 2016, supported by higher throughput volumes and better performance from the midstream marketing activities.

In Europe, bulk liquids storage funds from operations slipped from \$120 million in 2016 to \$97.6 million last year due to reduced activity and utilization levels in the second half of 2017.

Overall utilization was 96% during the year, compared to 98% in 2016.

Dividends

IPL increased its dividend in November. The current monthly payout of \$0.14 per share provides an annualized yield of 7.4%. The 2017 payout ratio was 61.6%, so there is indeed room for additional increases, even if cash flow remains the same.

Should you buy?

Oil sands [production](#) continues to rise and conventional oil producers are slowly increasing their capital programs, which should bode well for throughput on IPL's pipelines.

In addition, The Heartland complex should provide a nice cash flow boost in the coming years.

The existing dividend looks safe, and additional increases could be on the way. At this point, the stock might be a bit oversold, giving income investors a chance to pick up an attractive yield.

If you have some cash on the sidelines, it might be worthwhile to take a small position in IPL today.

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aswalker

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