A High-Yielding Dividend Stock I'd Buy If I Had Spare Cash Today

Description

Chasing only high dividend yields is not a strategy I would recommend to my readers.

Yields often follow a dividend cut and a massive plunge in the share prices. If you haven't done your homework before making an investment and just got lured by a high dividend yield, chances are you could lose a big portion of your investment.

However, this is not necessarily not the case in all situations. Here is a safe high-yielding stock that I think presents a good entry point if you have some spare cash to invest.

Inter Pipeline Ltd.

Inter Pipeline Ltd. (TSX:IPL) is a Calgary-based energy infrastructure company operating four business segments in Western Canada and Europe. Its pipeline systems span over 7,800 kilometers in length and transport approximately 1.4 million barrels per day.

In Europe, IPL operates 16 strategically located petroleum and petrochemical storage terminals, which have a combined storage capacity of approximately 27 million barrels. Its NGL business is one of the largest in Canada, processing an average of 2.8 bcf/d in 2017 with the capacity to produce over 240,000 b/d of NGL.

IPL also has a great growth plan. During the recent oil slump when asset prices declined, IPL strengthened its position in the industry, acquiring Williams Canada for $1.35 billion. It also plans to build a $3.5-billion petrochemical project in an industrial area north of Edmonton.

The complex will convert propane into polypropylene, a plastic used in the manufacturing of products such as automobile parts, containers, and Canadian bank notes. For this project, IPL will receive up to $200 million in royalty credits from the Province of Alberta in Canada.

These growth initiatives have poised the company to produce steady cash flows for its investors in the years to come.

Despite these positive catalysts, investors are not willing to bet on IPL's future. Its share price has shed 14% this year, adding to 21% losses during the past 12 months. Amid this pullback, the stock now yields 7.24%, backed by a solid history of rewarding its investors. In November, the company hiked its payout by 3.7% to $1.68 per share annually, marking its 15 consecutive dividend increase.

IPL's high dividend yield is keeping some risk-averse investors on the sidelines, as they don't believe that the company's annual 113% payout ratio is not sustainable and that a dividend cut is imminent.

But I don't think these dividend payments are under threat. The company is increasing its cash flows, which has started to normalize the payouts. In the fourth quarter, IPL's payout ratio was 59%, which is quite healthy.

The bottom line

IPL's stock is currently trading at 14.37 times of its forward EPS, thereby suggesting that IPL stock is undervalued when you compare the ratio with its five-year average multiple of 23.2. Trading at $22.27 at the time of writing, IPL stock is trading close to the 52-week low of $21.62, offering a good entry for long-term investors.

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