Income Investors: Should You Buy This Canadian Dividend Stock for the 7% Yield?

Description

Retirees and other income investors are constantly searching for high-yield dividend stocks with sustainable distributions.

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

Earnings

IPL generated record financial results in 2017, with net income rising on a year-over-year basis by 10% to $527 million.

Strong performances came from three of the company's four business units.

The oil sands transportation operations generated a 5% increase in funds from operations, supported by an 8% increase in total volumes on the system.

The conventional oil pipelines segment produced an 8% increase in funds from operations compared to 2016, as the company benefited from growing production by customers in the Viking light oil play in Saskatchewan.

IPL's natural gas liquids (NGL) processing business saw funds from operations rise 89%, driven by contributions from the assets acquired from The Williams Companies for $1.35 billion in September 2016.

The European bulk liquid storage operation experienced a drop in funds from operations from $120 million in 2016 to $97.6 million last year, primarily due to reduced activity and lower utilization levels in the second half of 2017. The annual average utilization rate was 96%, compared to 98% in 2016.

Overall, IPL had a solid 2017, and the good news should continue.

Growth

IPL recently announced plans to go ahead with its $3.5 billion Heartland Petrochemical Complex. The facility should be completed by the end of 2021, and management is targeting annual long-term EBITDA of $450-500 million from the site.

This should increase cash flow and provide support for additional dividend increases.

Balance sheet

IPL continues to maintain a strong balance sheet. The company finished 2017 with about $1 billion available on its $1.5 billion revolving credit facility and saw its net-debt-to-total-capitalization ratio fall to 53.5% from 57.2% the previous year.

Dividends

IPL raised its monthly payout last fall from $0.135 to $0.14 per share. This was the company’s 15th consecutive annual dividend increase.

The 2017 payout ratio was 62%, so the distribution should be safe, even as the company embarks on a large capital project.

At the time of writing, the stock provides a yield of 7.2%.

Should you buy?

IPL is down amid the broader sell-off in the energy infrastructure segment due to fears that higher interest rates will boost borrowing costs and put a dent in cash flow available for distributions. That’s a valid point to consider, but the pullback looks a bit overdone.

IPL’s existing dividend looks safe, and once the Heartland Complex goes into service, investors should see cash flow improve enough to support additional increases to the distribution.

If you are searching for an above-average yield with decent growth prospects, IPL looks attractive today.

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aswalker