

Contrarian Investors: Should Inter Pipeline Ltd. Be in Your Portfolio?

Description

Contrarian investors are constantly searching for [unloved stocks](#) that could be on the cusp of a significant rebound.

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

Growth

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

The company made it through the downturn in good shape and management took advantage of the tough times to add strategic assets at attractive prices. The largest deal was a \$1.35 billion acquisition of two NGL extraction sites from **The Williams Companies, Inc.** The purchase was done at a large discount to the cost of building the facilities, so IPL could see strong returns on the investment as the market continues its recovery.

In fact, the assets are already providing a nice boost to the NGL Processing business, which saw Q1 2018 funds from operations increase by 20% on a year-over-year basis.

Organic growth is also part of the mix, and management has decided to go ahead with its \$3.5 billion Heartland Petrochemical Complex. The site should be complete by the end of 2021, and IPL expects the facility to contribute \$450-500 million in long-term average annual EBITDA.

Risks

The stock is down amid the broader pullback in the energy infrastructure sector due to fears around rising interest rates.

Higher rates can lure investors away from dividend stocks to fixed-income alternatives. Rising rates also boost borrowing costs and can reduce cash flow available for distributions.

Opportunity

The interest rate situation is a valid point to consider when evaluating IPL, but the sell-off in the stock might be overdone.

Why?

The company reported record Q1 net income of \$143 million, supported by record total pipeline throughput and improved margins in the NGL Processing business. With West Texas Intermediate (WTI) oil now back above US\$70 per barrel and Western Canadian Select at its highest price since late

2014, Canadian oil production should increase, which bodes well for IPL's pipeline businesses going forward.

Dividends

IPL raised its dividend last fall and the Q1 payout ratio came in at just 63%, so the distribution should be safe. Once the Heartland Complex is complete, investors could see additional dividend growth.

Even if the payout remains the same, investors who buy the stock today can pick up a [yield](#) of 6.9%.

The bottom line

The energy sector is in recovery mode, which should be positive for IPL. The company's existing assets are performing well and once the Heartland project is complete, investors could see a nice boost to the dividend. At \$24, the stock looks cheap, and you're paid handsomely to wait for market sentiment to change.

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