1 Top Dividend Play Yielding 7% From the Energy Patch

Description

Oil continues to dominate headlines, as it whipsaws wildly on a mix of good and bad news. In recent days, the North American benchmark West Texas Intermediate (WTI), which broke through the psychologically important US$75-a-barrel mark, has retreated once again.

Fears of a trade war between the U.S. and China have put a damper on financial markets and the global economic outlook. There are also emerging concerns that U.S. shale oil will recommence growing at a rapid clip once infrastructure bottlenecks in the Permian Basin are overcome. While these factors will cause oil to keep gyrating, it shouldn't prevent investors from boosting their exposure to energy stocks. One of the most attractive, especially for income hungry investors, is **Inter Pipeline Ltd.** (TSX:IPL).

Now what?

Inter Pipeline owns and operates a portfolio of energy processing, storage, and transportation assets in Canada. Its 3,900 km pipeline network forms an integral link between the energy patch and key markets, transporting 2.3 million barrels of crude daily. Then there is Inter Pipeline's natural gas liquids processing plant, which has over 240,000 barrels daily of production capacity, and its 27-million-barrel bulk liquid storage facilities in Europe.

For the first quarter 2018, Inter Pipeline reported some solid results with funds flow from operations rising by 3% year over year to $254 million. The company reported record quarterly net income of $143 million, which was a 2% increase compared to a year earlier.

Higher crude means that demand for the utilization of Inter Pipeline's energy infrastructure — notably, its pipeline network — will continue to grow.

You see, with WTI trading at over US$70 a barrel, there is a considerable incentive for upstream oil producers to boost production as quickly as possible, and this has seen many expand spending on drilling. That will cause the volumes of crude transported to increase, giving Inter Pipeline's earnings a lift while magnifying existing transportation bottlenecks created by a lack of pipeline capacity. This will make it relatively easy for Inter Pipeline to raise prices as well as obtain secured funding for projects to expand its pipeline network.

Inter Pipeline is in the midst of constructing the Heartland Petrochemical Complex, which is expected to commence operations in 2021. The facility, which will diversify earnings and take advantage of plentiful as well as cheap Canadian natural gas supplies as feedstock, will produce polypropylene — a high value plastic. On commencing commercial production, that asset is expected to add $450-500 million to Inter Pipeline's EBITDA annually.

What makes Inter Pipeline even more attractive is that its earnings are relatively stable, because the majority is sourced from contracted sources with investment-grade entities.

It is the dependability of its earnings which has allowed Inter Pipeline to regularly hike its dividend every year since 2008, giving it a 7.4% compound annual growth rate and a stunning 7% yield. There is every likelihood that as earnings grow because of higher utilization of its pipeline, processing, and storage infrastructure that Inter Pipeline will increase the dividend yet again.

So what?

Inter Pipeline is an attractive play on higher crude, which — because of the certainty of its earnings and wide economic moat — offers investors a lower-risk means of gaining exposure to oil. The juicy dividend yield and regular annual dividend increases mean that it will reward patient investors as they wait for Inter Pipeline's stock to appreciate.

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