Inter Pipeline Ltd. (TSX:IPL) Yields 7%: Should You Buy the Stock Today?

Description

Inter Pipeline (TSX:IPL) dropped more than 4% after reporting Q2 2018 earnings.

Let's take a look at the current situation to see if this is the right time to put IPL in your portfolio.

Operations

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

IPL significantly increased its NGL extraction capabilities in 2016, when it purchased two facilities and related infrastructure from **Williams Companies Inc.** for $1.35 billion. IPL acquired the assets at a significant discount to the cost of building the facilities and the connecting 420 kilometre pipeline. The NGL Processing business posted record Q2 results, generating funds from operations of $101.3 million. Strong frac-spread pricing is driving better numbers in the operations. As market conditions improve, IPL should see solid results continue.

The Oil Sands Pipeline business had a steady Q2 with funds from operations of $150 million, effectively the same as Q2 last year. Average throughput increased by 60,200 barrels per day (bbls/d) to 1,181,300 bbls/d.

The Conventional Oil Pipeline segment saw funds from operations drop by $4.5 million to $48.2 million compared to Q2 2017. Volumes on the company's three pipeline systems averaged 196,400 bbls/d, compared to 205,500 in the same period last year. The dip was primarily due to maintenance work at a third-party refinery.

The European Bulk Liquids Storage group had a rough quarter compared to the same period in 2017. Funds from operations came in at $17.4 million compared to $25.3 million last year. The drop is due to shifting commodity prices, which had an impact on storage demand. Utilization rates were 84% for the quarter compared to 98% last year.

Growth

IPL is making good progress on its $3.5 billion Heartland Petrochemical Complex. The facility will produce polypropylene and is scheduled for completion in 2021. Once the plant goes into service, IPL expects to see a $450-500 million boost in average annual EBITDA.

IPL also recently announced plans to spend $82 million on an expansion of the Stettler Crude Oil Terminal to support rising light oil production in the East Duvernay play. Full operations for the two storage tanks are expected in 2020, with the site providing $20 million in incremental EBITDA.

Dividends

IPL pays a monthly dividend of $0.14 per share for an annualized yield of 7%. The Q2 payout ratio was 62%, so the distribution should be safe.

Should you buy?

At the time of writing, the stock is down more than $1 per share to $24.10. The weak numbers out of Europe might be causing some concern, but the reaction appears to be overdone. Overall, the business is doing well and the growth program bodes well for cash flow improvements in the coming years.

If you have some cash on the sidelines and are looking for an income pick with some decent upside potential, I think IPL looks attractive today.

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