



Buy Inter Pipeline Ltd. (TSX:IPL) Today and Lock In a 7% Yield

Description

While oil has [rallied strongly](#) since the start of 2018 to see the North American benchmark West Texas Intermediate (WTI) up by almost 12% since the start of 2018, many energy stocks have failed to keep pace. This includes pipeline and infrastructure provider **Inter Pipeline Ltd.** (TSX:IPL), which has lost 5% over the same period, creating an opportunity for income-hungry investors attracted to its juicy dividend yield of almost 7%.

Now what?

Inter Pipeline reported some strong second-quarter 2018 results, including a notable 26% increase in fund flow from operations, which was driven primarily by a record performance from its natural gas liquids (NGL) processing business. The company's NGL operations reported record quarterly funds flow from operations of \$101 million, which was 3.5 times greater than a year earlier and can be attributed to higher processing volumes as well as improved frac spreads. Oil sands transportation volumes during the quarter also expanded by a healthy clip to be 5% greater year over year.

This growth more than made up for a decline in utilization rates for Inter Pipeline's conventional oil transportation and bulk liquid storage operations. The end result was that Inter Pipeline reported a very respectable 33% year-over-year increase in net income to \$136 million. These solid results leave Inter Pipeline on track to achieve its 2018 guidance.

The company is constructing the Heartland Petrochemical Complex in Alberta, which will be Canada's first integrated propane dehydrogenation and polypropylene complex. For 2018, Inter Pipeline will invest \$700 million in constructing the complex, which is forecast to cost \$3.5 billion and will enter service in late 2021. The company has forecast that on completion it will add up to \$500 million annually in EBITDA, giving the company's bottom line a solid boost while further diversifying its income.

Growing oil sands, conventional oil and natural gas production in Canada combined with existing [pipeline constraints](#) will support greater ongoing demand for the utilization of Inter Pipeline's infrastructure. This will bolster earnings, support the sustainability of Inter Pipeline's dividend, and increase the likelihood of further dividend hikes.

In fact, the company has increased its monthly dividend for the last 10 years straight to give it a very juicy yield just short of 7%. Inter Pipeline's dividend has an impressive compound annual growth rate of 7.4%, with a payout ratio of 63% for the first half of 2018, the dividend and its attractive yield is sustainable.

So what?

Growing oil production and the ensuing expansion of demand for pipeline transportation coupled with existing constraints bodes well for Inter Pipeline's earnings growth. That — along with the diversified nature of Inter Pipeline's earnings coupled with a large proportion of its revenue being contractually locked in — not only supports the sustainability of its dividend, but leaves it well positioned to reward investors with further dividend hikes.

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