

3 Reasons I Like Inter Pipeline Ltd.'s (TSX:IPL) 7.5% Yield

Description

I just did a quick screen of TSX stocks yielding more than 7%.

Of the 35 companies meeting this criterion, nine have a market cap of more than \$1 billion. With a market cap of \$8.8 billion, Calgary-based energy infrastructure company **Inter Pipeline** (TSX:IPL) is the largest of the group.

While it doesn't have the highest yield of the nine businesses paying over 7% — that distinction goes to **AltaGas** at 13.6% — it is one of the safest stocks you can own to generate above-average income.

Any time I recommend such a high-yielding stock, I like to provide readers with ample evidence as to why I'm not leading them down the garden path. In the case of Inter Pipeline, I've got three reasons to like both its stock and its dividend yield.

European expansion

On October 30, Inter Pipeline announced that it was paying \$354 million to acquire NuStar Europe, the European storage business of **NuStar Energy LP**, one of America's largest energy infrastructure companies.

NuStar energy decided early in 2018 to undertake a transformational plan to reduce the master limited partnership's debt while focusing it on its core assets in North America.

NuStar Energy CEO Brad Barron called the assets "high quality." He would not have sold them if the company wasn't looking to deleverage its business.

NuStar's loss is Inter Pipeline's gain.

"Inter Terminals currently has 16 terminals throughout Europe, including six in the United Kingdom, and we are pleased that our European employees will now have the opportunity to be a part of a strong company with operations that are more operationally and geographically synergistic with their core business," Barron said of the sale. "This should create more growth opportunities for the operations."

Although the European storage market's been experiencing severe challenges in recent years, NuStar's European business should provide Inter Pipeline with at least \$40 million in annual EBITDA. It's paying just less than nine times EBITDA.

Inter Pipeline sold \$200 million in equity November 7 at \$20.80 to help pay for the deal. It will also use some of its \$1.5 billion credit facility.

With this acquisition, Inter Pipeline will increase EBITDA at its existing storage business in the UK by 52% and increases its European storage capacity by 33%.

Stable cash flow is always a good thing when you're paying a 7.5% yield.

Reasonably strong earnings

In the third quarter ended September 30, Inter Pipeline grew its revenue by 25% to \$685 million, from \$548 million a year earlier due to a record performance from its natural gas liquids (NGL) processing business.

Regarding funds from operations (FFO), Inter Pipeline grew them by 11% year over year to \$300 million, \$135 million of it from its natural gas liquids (NGL) processing business.

"Inter Pipeline's record results this quarter is proof of the company's resilience despite the volatility in Western Canada's commodity prices," commented Christian Bayle, Inter Pipeline's President and Chief Executive Officer. "Our oil sands and conventional pipeline assets provide stability in challenging times, while our NGL processing franchise positions us for significant cash flow growth from elevated North American gas liquids pricing."

With the acquisition of NuStar Europe, Inter Pipeline now has four operating segments generating significant funds from operations. These record results, combined with strong debt reduction, put Inter Pipeline on solid footing headed into 2019.

Good dividend history

Inter Pipeline's increased its annual dividend for 15 consecutive years, making it a Canadian Dividend Aristocrat. Over the past 10 years, it's grown the dividend 7% compounded annually.

It can do this because it generates 70% of its EBITDA from cost-of-service and fee-based contracts guaranteeing it gets paid and at what profit margins.

Most important, Inter Pipeline's low-risk business plan generates stable cash flow from its diversified group of assets, ensuring that the [payout ratio](#) doesn't move above 80%.

In the third quarter, Inter Pipeline's payout ratio was 55%, well below its maximum.

The bottom line on Inter Pipeline stock

If you don't mind investing in the oil and gas industry, the income Inter Pipeline's quarterly dividend [provides](#) is stable and growing.

In my opinion, it's an income investor's dream stock.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date

2025/09/30

Date Created

2018/11/09

Author

washworth

default watermark

default watermark