Is Inter Pipeline Ltd (TSX:IPL) a Good Dividend Stock to Own?

Description

Inter Pipeline Ltd (TSX:IPL) has declined by more than 20% since the start of the year, which has pushed its already high yield up to 8.5%. Many investors will see it as too risky and too high of a yield to be sustainable, but that was already the case last year.

Not only has Inter Pipeline not cut its dividend, but it actually increased it just a few months ago. It's a surprising move given that the industry continues to struggle, but it's not the only company to have done so.

While it's understandable the company wants to offer a dividend to help entice investors, but the market may be looking for and expecting a cut. Last week, we saw **Altagas** get a bit of a boost when it announced it was slashing dividend payments, and investors may be waiting for Inter Pipeline to do the same.

Are the payouts sustainable?

Let's take a renewed look at the company's payouts to see if things have improved and if we can expect dividend payments to continue.

With monthly payouts of $0.1425, Inter Pipeline is currently paying $1.71 in dividends for every share on an annual basis. Its per-share earnings over the past 12 months, however, have come in at just $1.54, which is well short of its dividends.

However, if we look at cash flow, we do see a bit of a brighter picture. Over the last four quarters, Inter Pipeline has generated free cash flow of more than $400 million, which is more than the $323 million it has paid out in dividends during that time, equating to a payout ratio of about 80%.

If we look at it from a cash flow perspective, the payouts are a bit high, but could very well prove to be sustainable, as they have been over the past year. And if the price of oil climbs, things will get even better as the payout ratio will likely shrink as a result.

For a dividend investor, it's certainly tempting to load up on this stock. It looks to be in a good position given the industry, but if the stock continues to tank, any dividend income could be more than offset by a declining share price.

Is Inter Pipeline stock a good buy?

Currently, Inter Pipeline trades at around 13 times its earnings and a little more than twice its book value. Under normal conditions, it would be a good value buy for investors. The added complexity, however, is that the oil and gas industry is just not where it needs to be to get investors excited and for the stock to have much upside.

The danger in buying a falling stock is that it may not have reached a bottom just yet, and there's no way to know for sure that it will bounce back. There's still a lot of risk here, and investors shouldn't buy a stock solely for the dividend, as there's never a guarantee that it will continue.

If you're not risk-averse, however, Inter Pipeline could be worth taking a chance on, as the returns could be significant.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/14
Date Created
2018/12/20
Author
djagielski