



Should Income Investors Buy Inter Pipeline Ltd. (TSX:IPL) Stock Today?

Description

Sometimes a [contrarian](#) approach can deliver above-average yield and provide a shot at some nice upside gains when sentiment improves for a stock or an unloved segment of the market.

Let's take a look at one high-yield stocks that might be an interesting buy right now for income investors with a bit of a stomach for volatility.

Inter Pipeline (TSX:IPL)

IPL traded for more than \$38 per share in September 2014, which was right about the time the markets realized the energy sector was about to get hammered. The crash in the Canadian oil sector hit producers as well as all the companies that provide services to them and investors pretty much dumped any stock remotely connected to the oil patch.

IPL went into a steep slide, and by early 2016 was down to \$20 per share. A year later it had moved back to just under \$30, but another downturn in the energy industry took it below \$20 near the end of 2018, and it currently trades for close to \$22 per share.

Upside opportunity

The company isn't an oil producer; it simply transports oil for conventional and oil sands producers. In addition, IPL has a natural gas liquids (NGL) processing division as well as a growing bulk liquids storage business in Europe. Revenue and earnings hit a record in 2018. In fact, funds flow from operations jumped 10% and net income rose 12% compared to the previous year. Throughput on the pipelines hit a new average high at 1.43 million barrels per day and the company raised the dividend for the 10th straight year.

On the growth side, a \$3.5 billion development projects is scheduled to go into service by the end of 2021 and generate additional annual EBITDA of at least \$450 million.

The payout ratio for 2019 was about 60%, so there shouldn't be much risk for the [dividend](#). In fact, IPL should have room to bump it up again this year even if cash flow remains at the 2018 level. Once the new assets are complete, investors could see larger hikes to the distribution, which is paid out monthly.

Should you buy?

At the time of writing IPL's dividend provides a yield of 7.8%. That's getting into the range where investors start to wonder if the market knows something they don't. A shock could certainly happen and the distribution could get trimmed, but all indications right now suggest the payout should be safe. If you can handle the ups and downs of the energy sector, this might be a good time to take a contrarian position in this stock.

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