Contrarian Investors: Score a Dividend Yield of 8% on This Oversold Stock

Description

Buying unloved stocks can come with risks and the strategy certainly requires some courage.

However, finding good companies with decent long-term growth potential while they are out of favour can result in investors booking nice gains when sentiment improves. The best down-and-out names tend pay attractive dividends that should be safe. This way you get paid well to wait for better days to arrive.

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Let's take a look at one unloved Canadian dividend stock that might prove an interesting pick for your contrarian portfolio today.

Inter Pipeline (TSX:IPL)

IPL currently trades at $20.70 per share at writing. At this price, investors can pick up an 8.25% dividend yield with a shot at a reasonable 50% gain in the stock price over the medium term.

IPL's assets include oil sands pipelines, conventional oil pipelines, and natural gas liquids (NGL) extraction assets in western Canada. Overseas, IPL owns a bulk liquids storage business with facilities located in the UK, Ireland, Germany, Denmark, Sweden, and the Netherlands.

Last year the bulk liquids group took a hit due to lower utilization rates, but the gas processing business picked up the slack. In Q1 2019, the roles have somewhat reversed, although the storage group's gain didn't fully offset the year-over-year dip in the funds from operations from the gas processing division. Oil sands throughput remained steady, and the conventional oil pipelines had a weaker year-over-year quarter.

The market is taking a short-term view and has punished the stock despite the fact that IPL generated record profits last year.

On the growth side, IPL makes strategic acquisitions when deals come up during times of market weakness. The company is also building a $3.5 billion polypropylene plant. The Heartland

Petrochemical Complex is scheduled for completion in late 2021 and is expected to add EBITDA of at least $450 million per year.

IPL has raised its dividend for 10 straight years. Whether another increase is on the way in 2019 remains be seen, but the existing distribution should be safe. The 2018 payout ratio was 60%, and even with the rough start to 2019, the dividend is still easily covered with a payout ratio of 82%.

IPL's balance sheet remains in decent shape and while ongoing volatility should be expected in the various business lines the overall long-term outlook should be positive.

Should you buy?

During times of positive market sentiment, this stock can move significantly higher. At the start of 2017, the shares traded for close to $30, and it wouldn't be a surprise to see IPL take another run at that level as markets improve and the company completes the HPC project.

If you have a contrarian style and can ride out some ongoing volatility, it might be a good time to start nibbling on this stock.

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