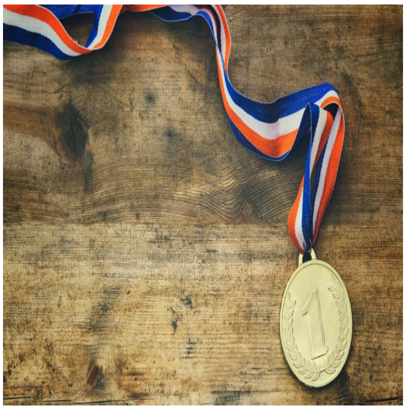

Monthly Income Investors: This Top Stock Now Yields 8.1%

Description

Every now and again, there's an opportunity staring you right in the face — something that can be easily missed because it's so obvious. We're too busy overturning rocks for potential treasure that we ignore the easy prize just sitting there.

I believe such an opportunity is here today with **Inter Pipeline** (TSX:IPL), which offers investors a safe +8% yield and significant capital appreciation opportunities. Let's take a closer look.

The skinny

As it stands today, Inter Pipeline is an attractive mixture of energy infrastructure assets. Approximately half of its earnings come from three major pipelines that connect Alberta's oil sands with refineries near the Edmonton area. These pipelines were built with the future in mind; they utilize approximately half their total capacity.

The rest of the company is a mixture of NGL processing facilities, conventional oil pipelines, and bulk fuel storage, both in Alberta and in Europe. Inter Pipeline recently added to its European bulk storage business, spending US$270 million to acquire storage space capable of storing 9.1 million barrels of crude.

Growth potential

Inter Pipeline has committed to spending some $200 million on improving its pipeline network over the next couple of years, and it has identified more than $4 billion in long-term growth projects it may potentially explore in the future. But I'd be remiss if I didn't mention its current big growth project, the $3.5 billion Heartland Petrochemical Complex.

Heartland will be able to produce approximately 525 kilotonnes of polypropylene, which is the single largest polymer in the world. It is used in the construction of all sorts of common goods, including car parts, medical equipment, textiles, and currency.

Polypropylene is made primarily from propane, and there's a huge oversupply of propane in the Alberta market right now. This means Heartland's input costs should remain low for the foreseeable future. The company projects Heartland will have the lowest costs in the whole industry, which is always a nice place to be.

Management projects Heartland will add $450-$500 million to the company's total earnings before interest, taxes, depreciation, and amortization when it's finally completed in 2022.

This should have a significant impact to Inter's total funds from operations, which already checked in at $2.80 per share in 2018. Predicting earnings for next year is difficult, never mind three years from now. But I estimate Inter Pipeline could earn $4 per share in funds from operations once Heartland is up and running. Remember, shares trade at just under $21 each today.

That dividend

Some investors believe Inter Pipeline's dividend is about to be cut based solely on its yield, which is currently 8.1%. That's simply too high, these folks argue.

Nothing could be further from the truth. In 2018, Inter Pipeline generated $2.80 per share in funds from operations and paid out $1.69 per share in dividends. That gives the company a payout ratio of approximately 60%. Earnings would have to collapse for the payout to be in jeopardy, and I don't see that happening.

A simple rule in investing is a company that has recently hiked its dividend isn't in danger of cutting that payout. Management knows how badly that would look. Inter has already raised its payout in 2019 from $1.69 per share to $1.71, which marks the 11th consecutive year of dividend increases. Sure, growth has slowed, but that's to free up capital to pay for Heartland.

The bottom line

Every few years, the market sells off Inter Pipeline shares, creating a nice buying opportunity. We're in the middle of one of these buying opportunities today. Investors should load up on shares, content to collect a nice 8.1% dividend while waiting for the stock to go up. That's my strategy, anyway.

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