



Is Inter Pipeline's (TSX:IPL) 8.4% Yield Safe?

Description

Inter Pipeline Ltd (TSX:IPL) is a dividend stock that to some investors might consider too good to be true. At more than 8% and with payouts being made monthly, it would be hard to keep dividend investors away if they truly believed that the dividend was sustainable.

However, given the high percentage and the fact that oil and gas itself is a bit riskier than other stocks, many investors are likely to be skeptical. Let's take a closer look at whether the dividend is in trouble or whether investors should consider adding this stock to their portfolios.

Current payout ratio

The company recently hiked its dividend payments to 14.25 cents, which means that shareholders will be earning \$1.71 per share every year. Its earnings, however, over the past four quarters have been well below that, with earnings per share totaling just \$1.40, which means that Inter Pipeline is paying more than its earns per share.

To add a bit more context, we can look at cash flow and ignore amortization and non-cash items that really have little impact on whether a company can continue paying dividends. Unfortunately, this doesn't paint a much better picture for the company with Inter Pipeline having negative free cash flow over the past two quarters.

If we're looking at its past performance, there are definitely some concerning signs suggesting that the dividend may be in trouble. However, this is a company that [increased its payouts](#) while many were struggling during the downturn just to stay afloat. Inter Pipeline has shown a strong commitment to increasing payouts, and a cut wouldn't happen easily.

That said, just because a company has grown its dividend does not mean that it won't cut it. In some cases, a dividend being reduced or eliminated can sometimes [improve](#) the share performance because investors are encouraged when the company frees up valuable resources.

Why a cut might not happen

Ratios aside, one reason investors might be a little optimistic about Inter Pipeline's dividend is that the industry looks to be in better shape today than it was even a year ago. With more stability in oil prices and a changing political environment in Canada, there might be more opportunity than ever for oil and gas stocks to start flourishing again.

The most recent quarter was a particularly good one for energy stocks as a result of a higher prices — a trend that could continue for the foreseeable future, especially with OPEC looking to keep production cuts intact.

Bottom line

From afar, I'd say Inter Pipeline's dividend might be too risky to consider relying on today. However, with a closer look at the industry, I'd be tempted to say that it should be okay given its prospects for the future. At minimum, hesitant investors could simply take a wait-and-see approach for now.

The stock isn't trading too far from its low, and it could be a good time for investors to lock in the high yield before the share price starts to recover.

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

2025/07/04

Date Created

2019/05/28

Author

djagielski

default watermark