



Income Investors: Should You Lock in This 8.4% Yield?

Description

Income investors can count on a smoother ride in their stock portfolios during market downturns if they hold stocks with sustainable dividends.

[Dividend investing](#) is both a defensive and offensive strategy, which allows investors to collect stable income no matter if the market is going up or down. When the market is down, they can reinvest the dividends in the best opportunities available.

Currently, income investors are given the opportunity to lock in a whopping 8.4% yield in **Inter Pipeline** (TSX:IPL) stock.

A business overview

IPL primarily transports, processes, and stores energy products in Western Canada. Its 2019 EBITDA diversification is estimated to be 54% in oil sands transportation, 24% in natural gas liquids processing, 12% in oil conventional pipelines, and 10% in bulk liquid storage.

Pipeline volumes declined 7%, while bulk liquid storage fell about 4% to 78% in the first quarter compared to the same quarter in the previous year. The increased natural gas liquids processing volumes of 10% wasn't enough to turn things around and the company's funds from operations per share were down 22% year over year. Thankfully, the dividend appears to be sustainable.

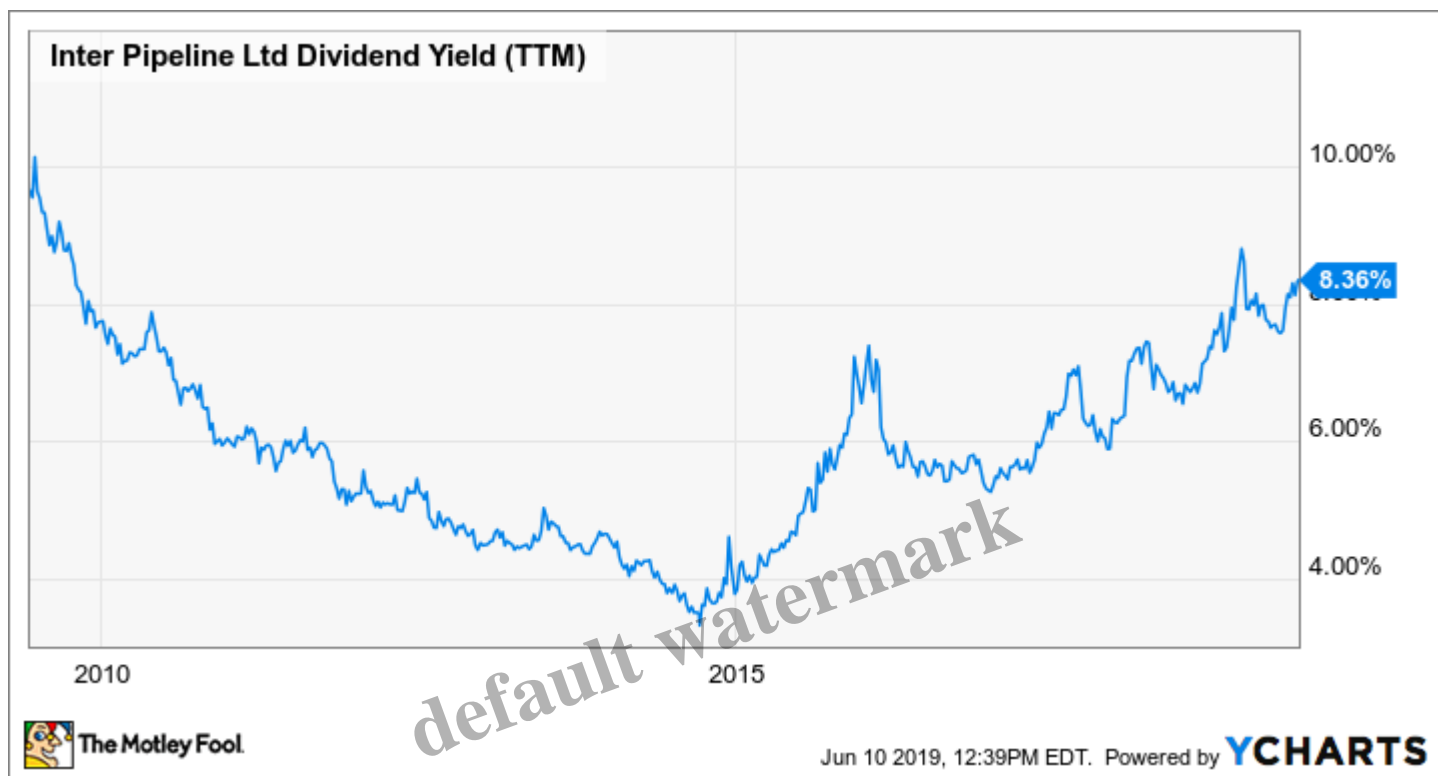
Is the big dividend yield sustainable?

Companies that have increased their dividends over time tend to maintain safe dividends. Inter Pipeline is a Dividend Aristocrat that has increased its dividend for 10 consecutive years, with one-, three-, five-, and 10-year dividend growth rates of 3.4%, 4.3%, 7.4%, and 7.2%, respectively.

The dividend growth rate has slowed down significantly in recent years, partly because Inter Pipeline is making a large investment in the Heartland Petrochemical Complex over multiple years. Specifically,

it's investing \$3.5 billion in the project that's expected to complete by late 2021.

So, the company is investing all this money, but won't be generating cash flow from the big project until it completes. And that's weighing down the stock in the near term, giving investors the opportunity to lock in an 8.4% yield, which is rare.



IPL Dividend Yield (TTM) data by YCharts. The 10-year yield history of IPL stock.

The dividend was sustained by a payout ratio (after sustaining capital) of 87% in the first quarter, while the company targets a payout ratio of less than 80%. So, the near-term dividend growth will likely continue to be below the company's historical average.

Foolish takeaway

The Heartland project makes up close to 95% of Inter Pipeline's secured projects through 2021. So, IPL won't experience a big boost in cash flow until this significant growth project goes into service.

Meanwhile, IPL maintains an investment-grade balance sheet with an S&P credit rating of BBB+. It also has \$4.4 billion of additional projects that it can add to its "pipeline." However, it probably won't start on those projects until the capital-intensive Heartland project is close to completion.

Income investors should welcome the opportunity to lock in [a big yield](#) of 8.4%, but don't expect meaningful capital appreciation over the next one to two years.

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