Want Monthly Tax-Free Income in Your TFSA? Consider This Beaten-Down Energy Stock

Description

If you're looking to generate a steady, tax-free income stream in your TFSA, energy stocks are some of the best options out there. After years of falling prices, **TSX** energy stocks are cheap as hell, and while the price of oil presents a risk to many of them, there are options with less exposure to commodity prices.

Case in point: pipelines. As pipelines make money off fees (based on distance transported), their income is not vulnerable to commodity price swings. Although pipeline stocks do tend to fall during oil price collapses, their fundamentals aren't affected as much as upstream oil & gas stocks are. So as long as *demand* for oil remains strong, a pipeline can keep growing and delivering solid dividends to investors.

Currently, pipeline stocks are among the highest yielders on the TSX. Not only that, but many of them have been raising their dividends steadily over the years. You might be familiar with some of Canada's bigger pipeline companies and the income they offer. In this article I'll be talking about a less-known pipeline stock whose yield is truly incredible:

Inter Pipeline

Inter Pipeline (TSX:IPL) is a diversified energy company that transports oil and processes natural gas. The company's pipeline system spans 7800 kilometers and transports 1.4 million barrels of oil a day. It also has a large LNG refining and processing business that is around half the size of its core transportation business.

Inter Pipeline is currently investing in an integrated Petrochemical Complex known as Heartland. The company has invested $1.3 billion in the project in total, making it a major cost outlay. However, the complex is expected to produce 525,000 tonnes of propylene a year, which would add significant earnings power to the company.

Why it's beaten down

Inter Pipeline shares are down about 50% over the past five years, which is a big part of why the stock yields 8.6%. No doubt a big part of why the stock is falling is because of the broader weakness in the energy sector. Stocks have a tendency to move together with their sectors, so while Inter Pipeline's long term growth trend is solid, it has been hit by sector-wide selloffs affecting the oil and gas industry.

From 2014 to the present, Inter Pipeline's funds from operations (FFO) grew from $2.19 billion to $2.8 billion, meaning that the fall in its stock price has not corresponded to a decline in income potential.

Is the dividend sustainable?

Based on Inter Pipeline's growth in funds, its dividend looks sustainable. The payout ratio based on FFO is only 69%; although that figure rises considerably if you go off EPS, FFO is a better measure of a company's short term ability to pay dividends. Additionally, IPL has raised its dividend every year since 2008, indicating a solid trend of dividend growth.

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