Should Inter Pipeline (TSX:IPL) Stock Be on Your High-Yield Buy List?

Description

Income investors are seeking out high-yield stocks that might offer a shot at some big gains in the share price while paying out generous and sustainable dividends.

Let’s take a look at **Inter Pipeline** (TSX:IPL) to see if it deserves to be in your portfolio.

Diversified assets

IPL is an energy infrastructure player operating oil sands pipelines, conventional oil pipelines, and natural gas liquids (NGL) processing businesses in Canada. It also has a growing bulk liquids storage division in Europe.

The oil sands group contributed 48% of 2018 EBITDA and NGL processing added 34%, while 13% came from the conventional oil segment and bulk liquid storage rounded things out with 5%.

Growth

IPL grows through strategic acquisitions and organic development projects. In recent years, the company bought two NGL extraction facilities for $1.35 billion and picked up additional storage capacity in Europe.

On the development side, IPL is spending $82 million to expand its Central Alberta Pipeline system and is investing $3.5 billion to build its Heartland Petrochemical Complex. The polypropylene facility is scheduled for completion in late 2021 and is expected to add $450-500 million in annual EBITDA.

Dividends

IPL raised the dividend in 2018 for the 10th straight year. The current annualized payout of $1.71 per share provides a yield of 8.5%. The 2018 payout ratio was 60%, so the distribution should be sustainable. Roughly 70% of 2018 EBITDA came from cost-of-service and fee-based contracts.

Cash flow has increased by a compound annual growth rate of 8.3% over the past 10 years and by nearly 12% over the past five years.

Risks

Rising interest rates can put pressure on borrowing costs and eat up cash flow available for distributions. At the moment, it appears interest rates are going to remain at current levels or even pull back a bit over the next couple of years.

Commodity prices also impact cash flow. About 30% of 2018 EBITDA was commodity-based, so fluctuations in market prices can have an impact on cash flow. For example, Q1 2019 saw a drop in the funds from operations in the NGL processing business due to weaker margins. This group helped the company report record earnings in 2018 when prices increased.

Should you buy?

IPL trades at $20 per share compared to $25 last summer and nearly $40 five years ago. Contrarian investors who buy now can pick up a solid dividend and simply ride out the current downturn while they wait for better days to arrive. If you have some cash sitting on the sidelines, IPL might be an interesting pick today.

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