Passive Income Alert: This 7.9%-Yielding Dividend Stock Soared 8% Last Week! (and It's Not Done Yet)

Description

Don't look now, but **Inter Pipeline** (TSX:IPL) is starting to pick up meaningful traction, witnessing shares soaring over 8% last week. Now, as you may know, the name was my top pick for July, and although I cited fundamental undervaluation and highly favourable technicals, I didn't think the pop would come so abruptly after my bullish call.

At the time of my recommendation, the stock yielded a 8.55% dividend yield, and just a week later, shares now possess a yield just shy of the 7.9% mark. In a prior piece, I noted the concept of "bonus yield" and how it could enrich the passive income streams of investors who choose to "lock in" higher-than-average yields on dipped dividend stocks.

Of course, nobody wants to lock in a dividend that's at high risk of being reduced due to pressures going on at the company-specific level, so it's of utmost importance that investors looking to score "bonus yield" do their homework and analyze the dividend to minimize a potentially disastrous scenario — a dividend reduction that goes hand-in-hand with a further drop in share price.

When it came to Inter Pipeline, however, the dividend didn't just seem "safe" to me. It looked poised for continued growth, even though the harsh industry conditions the company found itself in.

While the Inter Pipeline seemed to have limited financial wiggle room, the company did have a pipeline full of cash-flow-generative projects like the Heartland Petrochemical Complex, the first of its kind in Canada, that'd come online within a two-and-a-half year time frame. This project pipeline served as a light at the end of the tunnel, at least I thought.

For those patient investors able to stay the course and collect their dividend payments, there was substantial upside to be had, both in terms of a rebounding in shares and further annual dividend hikes.

Now that shares are up over 8% in a week, I still believe that there's plenty of bonus yield to go around, as shares are still ridiculously undervalued and the yield still higher than where it'll be once the stock reaches an equilibrium price more aligned with historical average valuations. Add the more favourable

Canadian energy outlook into the equation and Inter Pipeline looks like a deep-value bargain that probably won't last.

My takeaway

Buy Inter Pipeline before the dividend yield shrinks as a result of the appreciation in shares. In spite of the recent pop, you're still getting a big bargain in the grander scheme of things. A 12.33 EV/EBITDA is still a low price of admission to one of the most bountiful dividend stocks out there, and with medium-term catalysts on the way, Inter Pipeline may be your best buy this year.

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