



Inter Pipeline (TSX:IPL): Should You Bite on the 7.7% Dividend Yield?

Description

Inter Pipeline (TSX:IPL) has arguably been the [hottest TSX stock this July](#) with shares now up around 10% over the past two weeks. While the stock has a considerable amount of momentum, shares are still down over 42% from all-time highs reached in 2014, so there's still plenty of value to be had and a massive 7.7% dividend yield to lock-in for value-conscious income investors who are afraid of missing out on a name that could be on the cusp of rebounding.

In addition to the potential for capital gains, the dividend while stretched isn't just safe; it's capable of growing at a low single-digit rate through the 2020s thanks in part to cash-flow-generative projects due to come online over the medium term. One of the more promising projects, the Heartland Petrochemical Complex is poised to be a major source of growth for a firm that's been down in the ditches.

The pipeline stocks are a real test of investor patience, and although investors have been ditching them to the curb in recent years, there is an opportunity for long-term thinkers to pay a dime to get a dollar.

Inter Pipeline stock still looks severely undervalued given catalysts like Heartland, which I think are being discounted by Main Street. Factor in the possibility of surging crude volumes and I think Inter Pipeline is a safer investment than its stock chart would suggest.

The way I see it, you're getting a fair margin of safety, a well-supported dividend that's more likely to grow than be cut, and now more recently, a fair bit of momentum. While the stock could surrender a chunk of the gains posted this month, I'm still a fan of the risk-reward trade-off given the trajectory of long-term cash flows, and the underrated pipeline of growth projects.

Over the nearer term, [tuck-in acquisitions](#) will unlock some growth, and although the July rally could be over right here, I still think income investors who intend to hold the name for at least three years will do very well with a position at these depressed levels.

A big (and safe) dividend at a wonderful price. What's not to love?

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