Don't Miss This Solid 8% Dividend Stock

Description

If you want big dividends, check out pipeline stocks. These companies own and operate — you guessed it — pipelines. This is a great business to be in. Since 1995, shares of **Enbridge** have risen by more than 1,000%. When including dividends, **TC Pipelines** has posted similar results.

Those aren't the only games in town. There's another pipeline stock that I like even *more* — one that could deliver double-digit returns for the next decade and beyond. You're going to want to take a close look at **Inter Pipeline** (TSX:IPL).

Lock them in

Pipelines are a terrific business partly because customers don't have many other options. Consider a small oil producer in Alberta. After hydrocarbons are extracted, the company needs to get the production to market. Before it can do that, it must get the output to a refinery. The refining process turns raw oil into usable products like jet fuel, diesel, and petrol, all of which entail different methods. Without refinement the production isn't very useful.

As a small oil producer, what are its options? When considering cost, scalability, and safety, it's down to pipelines and railroads. Pipelines take years to build and come with intense regulatory pressures, none of which this little company can afford. Similarly, the firm can't afford the time or expense to build its own railroad. Working with existing pipeline and rail companies is its best bet.

Due to economies of scale, crude by rail is typically much more expensive than using a pipeline. Using a railroad to ship output is usually only done when excess supply is overpowering pipeline capacity, or when there are no local pipelines available. So, after all this, the company is basically stuck with using its local pipeline provider. Many times there's just one, forming a pseudo-monopoly.

Now you can understand the power of pipeline operators. They're the only game in town, and if you want to stay in business, you'd better pay up.

Double down

Inter Pipeline's strategy is to dominate oil sands transportation in Alberta. It operates many of the largest oil sands pipeline systems in Canada. Because oil sands production is unique, Inter Pipeline has built specialized infrastructure to handle processes like bitumen blending and diluent transportation. In total, it has 3,300 kilometres of pipeline and 3.8 million barrels of nearby storage capacity.

Here's the best part: Inter Pipeline *overbuilt* its infrastructure on purpose. It can theoretically handle *twice* as much throughput as it's currently experiencing. While it's not much appreciated by the market, the company has already spent the capital necessary to grow for years, if not decades. That could turn this stock into a cash flow machine.

Over the last decade, cash flow has increased by 8% per year. Over the last five years, cash flow has grown by 12% per year. If its customers continue to grow production, cash flow could rise by 15% or more per year starting in 2020. That's an opportunity that is clearly not priced in.

Existing contracts, which cover roughly half of its potential capacity, have more than 20 years remaining. These are cost-of-service contracts, so Inter Pipeline's profits won't be impacted by swings in oil prices. If extension provisions are exercised, these contracts may persist for another 40 years. That provides plenty of long-term downside protection.

While you wait for Inter Pipeline's capacity to fill up, you can enjoy its lofty dividend, which, in recent weeks, has touched 8%. That payout should be fully back-stopped by contracted capacity. I expect the total annual return of this stock to remain in the double digits for another decade or more.

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