



Inter Pipeline (TSX:IPL) Soars 12%: Is This Stock a Buy Today?

Description

Contrarian investors are always searching for beaten-up stocks that have the potential to deliver huge returns on a change in sentiment.

Let's take a look at **Inter Pipeline** (TSX:IPL) to see if it deserves to be on your [buy list](#) today.

Earnings

IPL is a niche player in the Canadian energy sector with oil sands pipelines, conventional oil pipelines, and natural gas liquids (NGL) processing facilities. It also has a bulk liquid storage business in Europe.

The company just reported solid Q2 2019 results. Net income hit a record \$260 million, showing the value of contributions from acquisitions and improvements in funds flow in the conventional oil pipelines segment.

Oil sands pipeline funds flow came in at roughly \$150 million, which was consistent with Q2 last year. Conventional oil pipelines funds flow increased \$1.4 million to \$49.6 million.

Bulk liquid storage funds flow jumped from \$17.4 million to \$26.9 million, supported by added revenue coming from recently acquired facilities in the U.K. and the Netherlands. Total storage utilization was 83% for the quarter. Demand is improving, and IPL says the July utilization rate hit 90%, which should bode well for Q3 results.

The NGL processing business had a rough quarter compared to Q2 2018 due to weaker market conditions. Funds from operations in the unit slipped \$29.2 million to \$72.1 million.

Overall, IPL had a solid quarter at a time when much of the energy sector is still struggling.

Growth

IPL is on track with its \$3.5 billion Heartland Petrochemical Complex. The facility should be completed

and in operation by the end of 2021. IPL is targeting additional \$450-500 million in average annual EBITDA once the development goes into service.

IPL is also finding smaller tuck-in projects across its existing infrastructure base.

Dividends

IPL pays a month dividend of \$0.1425 per share. That's good for an annualized [yield](#) of 7%.

The Q2 payout ratio was 73%, so the distribution should be safe. The full-year 2018 payout ratio was 60%.

IPL has raised the dividend for 10 straight years. If the second half of 2019 generates results in line with the Q2 numbers, investors should see another hike in the coming months.

Should you buy?

IPL surged from \$21.75 to above \$24.50 after the Q2 results came out. Investors had pushed the share price down amid weakness in the energy sector and potential cash flow issues. Those concerns appear to be overblown, and the stock is recovering some lost ground.

At this point, IPL still appears oversold. The Heartland project is moving along as planned, and falling bond yields and a halt to interest rate hikes should reduce borrowing costs.

The dividend should be safe, and the stock has attractive upside potential on better market sentiment. IPL traded above \$35 per share five years ago when WTI oil was US\$100 per barrel.

If you have some cash sitting on the sidelines, IPL might be an interesting pick right now for an income-focused portfolio.

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aswalker

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