



Inter Pipeline (TSX:IPL): Is There More Upside Coming?

Description

The Calgary-based **Inter Pipeline** (TSX:IPL) is an interesting Canadian stock. Its massive 7% dividend yield indicates that this bet may carry a lot of risks. But on the flip side, you have a company which is growing fast and has many high-return projects under its belt.

Tempted by IPL's high-profile growth projects, Hong Kong-based **CK Infrastructure Holdings**, a company backed by one of Asia's wealthiest families, made a \$12.4 billion offer to purchase the company, according to a recent report in the *Globe and Mail*. That offer was rejected by IPL in July for reasons that include perceived political risks.

The report further said that CK Infrastructure pitched a friendly cash offer of \$30 a share at Inter Pipeline — a 30% premium to where the company's stock was trading at the time.

The news fueled a 16% jump in IPL shares since early August when the newspaper first reported the development, taking its share to more than \$25, as investors speculated on a possible takeover deal.

Diversified energy assets

The current momentum in IPL stock supports my view about this stock — that it [trades much below](#) its potential — and many investors get confused when they look at its high yield.

The firm runs a diversified business in the energy infrastructure space. It operates a large pipeline network and 16 strategically located petroleum and petrochemical storage terminals in Europe. Its NGL business is one of the largest in Canada.

With its diversified operations, IPL is also expanding fast. In Canada, IPL is in the middle of building a \$3.5 billion petrochemical complex near Edmonton to convert propane into polypropylene plastic. In late October, IPL announced a \$354 million deal to buy European storage terminals from Texas-based **NuStar Energy**.

No doubt the company's petrochemical project is a massive undertaking, and it has put pressure on its cash flows, but IPL can handle this situation by off-loading some of its assets to fund this lucrative growth project.

The company has been raising its payout annually at a slower rate recently amid lingering pressure on its stock price. Another reason keeping investors on the sidelines is that there is no near-term growth catalyst. The Heartland Petrochemical Complex, which will convert locally sourced propane into polypropylene plastic used in packaging, textiles, and other products, won't be ready until 2021.

Bottom line

The recent offer by CK Infrastructure clearly indicates that IPL is developing a business which is catching the attention of global investors. Once the company is done with its growth phase, it might get a much a better price than \$30 a share. For long-term investors, the time to take a position in IPL stock is now.

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Date

2025/08/23

Date Created

2019/09/11

Author

hanwar

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