Why Inter Pipeline (TSX:IPL) Stock Rose 9.3% in August

Description

With debt levels that got uncomfortably high for many investors as well as uncertainty related to the funding of the company's Heartland project, **Inter Pipeline** (TSX:IPL) has been in the penalty box with investors for some time now. But during the month of August, some of this changed, or at least the perception of these risks changed.

Greater visibility

Firstly, the company announced that it is exploring the sale of its European bulk liquid storage business. The sale would allow the company to reduce its debt, which now stands at 60.5% debt to capital, and it would help the company finance its all-important $3.5 billion Heartland Petrochemical Complex.

So, while the sale did not happen yet, at least investors are being given an action plan.

Secondly, August was the month that the market found out, through an article in the *Globe and Mail*, that Inter Pipeline received an unsolicited bid, offering $30 per share. That's 23.6% higher than IPL stock's August closing price.

While management has said that they are not in discussions regarding the sale of the company, this provides investors with confirmation of the value in the company and its shares.

Lastly, with the funding and debt issue seemingly coming close to being adequately resolved, it raises the possibility of the dividend-reinvestment program (DRIP) program being terminated.

As shareholders reinvest their dividends back into the company, this results in shares outstanding increases. Shares outstanding increased from 385 million to 410 million in the last year, or 6.5%, partly as a result of the DRIP program. This erodes shareholder value, and terminating it would be positive for the stock.

Quarterly results

In August, Inter Pipeline also reported its second-quarter 2019 results. The results were overshadowed by the other announcements that I have just discussed, but they were pretty much in line with expectations, further alleviating concerns out there in the market.

Compared to last year, frac spreads were significantly lower in the quarter, which led to a reduction in ngl processing revenue (28% lower). Adjusted cash flow per share was also lower compared to last year, 10.6% lower. The results were at least in line with consensus expectations.

Overall, this quarter has shown that frac spreads may continue to be weaker and that turnaround activity will put pressure on cash flows going forward.

The more things change, the more they stay the same

At the end of the day, Inter Pipeline remains an excellent option for investors seeking stability and income.

Inter Pipeline continues to provide investors with a very generous dividend yield of 6.9%. The company has a strong history of dividend growth and stability, with 14 years of dividend increases and a five-year compound annual growth rate (CAGR) in dividends of 9%.

August finally gave patient shareholders reason to remain patient, as management provided a funding plan and cleared up some of the uncertainty plaguing the shares, and as external sources confirmed the value that we see in the company.

Foolish bottom line

Inter Pipeline stock had a very decent August, with the stock rising 9.3%, as it appears that the company is finally moving past its debt and funding issues.

Moving forward, the Heartland project will be a big contributor to the company. It will contribute approximately $450-$550 million in EBITDA annually upon its completion in late 2021. This compares to 2018 EBITDA of $1.25 billion. Importantly, this project remains on time and on budget.

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