Is it Time to Buy This Massive 7.7% High-Dividend-Yield Oil Stock?

Description

Market analysts sound like a broken record with constant warnings of the coming of a recession. If you were to hear the side of the revered Alan Greenspan, the former U.S. Federal Reserve, a recession is not likely in America. That is good news for Canada, since its economy goes where the U.S. economy goes.

default watermark

Greenspan believes it's a period of deleveraging, and the market is not necessarily sinking into contraction. His view is contrary to the economic projections as well as market signals that global economies will stumble. Nevertheless, your focus should be to place your bet on companies where there's less risk to your capital.

Growing EPS

Inter Pipeline (TSX:IPL) pays a high dividend of 7.7%, which, to many dividend investors, is a major attraction. But it's not the monster dividend that is the main takeaway for investing in this $9.12 billion oil and gas midstream company.

You should appreciate the dividend stock more based on the company's profitability. Whether it's a rising or declining market, it should always be your primary focus.

Inter Pipeline has growing earnings per share (EPS). Over the last three years, the company grew its EPS by 7.1% annually. The growth rate isn't exactly high, but it is going in the ideal direction. Its EBIT margins did drop, although there's plenty of room for growth if margins begin to stabilize.

The company has four segments that combine to contribute to the growing EPS. Its energy infrastructure focuses on the transportation, storage, and processing of energy products in Western Canada and Europe.

The Oil Sands Transportation segment accounts for 48% of total EBITDA, while the Natural Gas Liquid (NGL) segment contributes 34%. The conventional oil pipelines (13%) and bulk liquid storage (5%) completes the rest.

Inter Pipeline has been generating stable and predictable cash flow for years now because of its high-quality assets. Shareholders can expect stronger returns in the future, as the company continues to acquire and develop more assets as part of its long-term strategy.

Competitive advantages

The main competitive advantage of Inter Pipeline is its low-risk business model. More than 80% of revenue comes from long-term, inflation-adjusted, and commodity-insulated contracts executed with investment-grade clients.

If you look at the two major contributing segments, the remaining contract duration in oil sands transportation is 20 years and five years in the NGL processing segment. After the 2008 financial recession, many investors built their energy portfolio around Inter Pipeline.

The stock is a known dividend all-star, because it boasts of a dividend streak of 10 years. If you invest $20,000 today, and assuming the 7.7% yield remains constant in the next decade, your investment will be worth more than double, or $41.994.

default watermark

Long economic life

Inter Pipeline’s energy assets like pipelines and storage tanks have long economic life spans. If clients can use these assets for decades, you can expect the company to continue making profits.

The current stock price is lower than it was three years ago. However, at $22.11, there is an upside potential of 26.6% based on analysts’ estimates. With the monster dividend, you’ll realize market-beating returns on Inter Pipeline in the next 12 months.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/07/22
Date Created
2019/11/05
Author
cliew

default watermark

default watermark