Income Investors: Should You Buy Inter Pipeline (TSX:IPL) Stock for Your TFSA?

Description

The search for better returns on TFSA investments often leads Canadian investors to dividend stocks.

This is particularly true right now with rates on fixed-income alternatives, such as GICs, barely paying enough to cover inflation.

The knock on stocks is that they carry risk. Changes in the market or the business can cause the share price to fall, taking a chunk out of your initial capital. Dividends, too, are not guaranteed, and when companies run into cash flow troubles, the distributions can get cut, or even eliminated.

As a result, investors have to balance their risk tolerance with the yield they wish to obtain in their portfolios.

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

Growth

IPL is a niche player in the Canadian midstream energy segment with oil sands and conventional oil pipelines as well as natural gas liquids (NGL) processing facilities. IPL also owns bulk liquids storage sites in several countries in Europe.

Growth has historically come from acquisitions and new developments.

In 2016, IPL spent $1.35 billion to acquire two NGL extraction plants from **The Williams Companies**. That deal was done during low point in the commodity cycle and at a large discount to the $2.5 billion cost of building the assets. Prices improved in 2018 and the assets have performed well for IPL.

In addition, IPL picked up plans for a propane dehydration facility. The company took some time to evaluate the business case and decided to move ahead.

The Heartland Petrochemical Complex, as it is known, is expected to go into operation in late 2021.

The facilities will convert propane into polymer grade propylene, which is used in the process to create plastics, fibres, and chemicals.

Alberta has vast amounts of low-cost propane feedstock, so there is an opportunity for the facility to generate strong cash flow. Management expects the Heartland site to generate average annual EBITDA of $450-500 million.

The company has invested $1.9 billion in the project, according to the Q3 2019 earnings report. The 2020 capital program is budgeting an additional $935 million.

Risk

The stock came under pressure in 2019 due to concerns that IPL will have to load up the balance sheet with debt to get the Heartland Project Completed. In the event cash flow in the various businesses takes a big hit due to weakening market conditions, there could be a risk of a dividend cut.

IPL is evaluating the option of selling the European business to help fund the capital program. The timing might be right as utilization rates in the bulk liquids storage business jumped to 92% in Q3 2019 compared to 74% in the same period last year. Funds from operations more than doubled to $30.5 million.

Should you buy IPL?

The payout ratio in Q3 was 87%, so the current cash flow is adequate to cover the dividend.

In the event the bulk liquid storage business is sold, the stock price could get a nice lift, as investors would feel more comfortable with the balance sheet. Once the Heartland Complex is complete, distribution growth should resume.

In the meantime, investors can pick up a solid 7.6% yield.

The stock comes with some risk, but the dividend should be safe. If you are searching for a high-yield stock to add to your TFSA income fund, IPL deserves to be on your radar.

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