Huge Dividends Can Be Yours With This Crazy 8.7% Dividend Stock

Description

High-yield dividend stocks are highly sought after by many investors. However, chasing too high of yield can be risky as the long-term sustainability of such stocks is brought into question.

Yet, there are a few gems that offer both an incredibly high yield and a potentially safe investment. **Inter Pipeline** (TSX:IPL) and its excellent yield of 8.7% look to offer itself as just that type of stock. We look at its dividend payout history as well as its future growth prospects to determine whether or not it's a safe investment.

Dividend Aristocrat status

For the past 11 consecutive years, the company has managed to retain its Dividend Aristocrat status, hiking its annual yield every year. Just recently, it announced a dividend increase from 7.6% to 8.7%. The increase eased investors' fear of the company potentially losing its Aristocrat status.

However, with a current payout ratio of 130%, it looks far from healthy. Furthermore, the company's decision to invest in the construction of a $3.5 billion project – Heartland Petrochemical Plant – doesn't alleviate our fear of the company's long-term dividend sustainability either.

The good news is that right now, the company has a good credit facility of $1.6 billion and, over the past two years, generated a healthy undistributed cash flow of $670 million.

Assuming the Heartland project, once complete in 2021, does bring in the predicted EBITDA of approximately $500 million annually, the company currently has more than enough financial leverage to likely safely ride through a difficult 2020.

Future growth prospects

While the company averaged an annual growth rate in earnings of 5% in the past five years, analysts predict a far less stellar figure for this year, with its revenue and earning contracting by 1.8% and 17%, respectively.

However, 2021 looks to be more favourable for the company's growth as it completes its most ambitious project yet. This prediction is in line with the company's historical growth, which has mainly come from acquisitions and new developments.

While energy prices are still in a slump, it's unlikely to impact the future performance of Inter Pipeline. As a provider of services in the energy sector rather than a producer, the impact of volatility on its earnings is likely to be minimal.

By 2040, oil and gas production is expected to increase by around 58% and 33%, respectively. As a niche company that transports, stores, and refines these commodities, this trend also represents a steady growth for the company's earnings.

Summary

Back in 2019, about 15 Canadian companies lost its Dividend Aristocrat status. With an unhealthy payout ratio, high steak investments, and a gloomy picture for the oil industry in total at present, the sustainability of its dividends looks uncertain but only for this year.

If you can stomach the current risks associated with the investment, the value proposition on offer is hard to match. All bets are on the expected returns from the company's ambitious projects.

Once complete, if the company starts churning in strong cash flow as expected, investors can expect even further generous dividend increases down the road.

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