



Will Inter Pipeline (TSX:IPL) Stock Cut its Dividend?

Description

Inter Pipeline (TSX:IPL) has been paying a [high dividend yield](#) for a while now. It's been one of the better dividend stocks on the TSX for years now. However, now with both the coronavirus and low price of oil hammering oil and gas stocks, it's come time to re-evaluate whether this is still a safe dividend stock to own. As of the end of last week, shares of Inter Pipeline have crashed more than 60% over just the past month.

There's been a colossal sell-off in oil and gas. Investors are having doubts as to which companies will be able to survive the latest adversity to hit the sector. Inter Pipeline pays a monthly dividend of \$0.1425, which yields more than 21% at a share price of \$8. That's an astronomical payout that investors would be naive to expect to stay at that rate. A dividend yield of 10% is already high, let alone one that's at 20%. The problem in the market today is that prices have been very erratic. The yield may continue to change.

Assessing its payout ratio

But regardless of price, we can analyze the strength of the company's financials to help discern whether Inter Pipeline can continue making its dividend payments. In 2019, Inter Pipeline's earnings per share was \$1.31. That's well shy of its annual dividend payments of \$1.71 and would put its payout ratio at over 130%. From a cash flow perspective, things aren't any better. Inter Pipeline had negative free cash flow of \$753 million in 2019. That's a change from the previous four years, where its free cash flow was positive.

And the challenge for the company is that with more tumultuous times in store for the oil and gas industry, 2020 may be an even worse year for Inter Pipeline. That can make it even less likely that the company can continue making its dividend payments.

Should investors buy Inter Pipeline for its dividend?

As tempting as it may be to lock in this dividend yield, investors would be taking on significant risk in

doing so. There was a grim outlook for oil and gas even before oil prices fell this past month. It's gone from bad to worse in an industry that's been struggling since 2014, and there's little reason to believe it'll get better anytime soon.

A dividend cut looks to be inevitable at some point this year. Inter Pipeline may be able to hold off in announcing a cut in the near future, but I'd be surprised if one doesn't happen before the end of 2020. A company has no obligation to keep a dividend going. And as cash tightens up, it becomes an easy way to free up cash flow. No company wants to cut its dividend. But when the markets are as challenging as they are today, it becomes a necessity to do so sooner rather than later.

During a bear market, investors would be better off looking at stocks in much [safer](#) industries to invest in that aren't heavily impacted by commodity prices. There's simply too much risk to invest in Inter Pipeline today.

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