



## Why Inter Pipeline (TSX:IPL) Stock Rallied Yesterday

### Description

**Inter Pipeline Ltd.** (TSX:IPL) stock is rallying over 2.5% after the company released its first-quarter earnings. The quarter was quite dismal and slightly below forecasts. So why is Inter Pipeline stock rallying today?

Well, the rally today follows Inter Pipeline stock's 50% decline since February. This decline came as the need for a [dividend cut became glaringly obvious](#). Heavy debt and falling cash flows made this a necessity. Finally, in late March, it happened. Investors are still licking their wounds after Inter Pipeline's 72% dividend cut.

But let's take a look at this defensive stock today.

Are there good reasons why the stock is rallying right now?

### Inter Pipeline earnings update

In the first quarter, we got to see how Inter Pipeline is hurting. [The dysfunctional oil market](#) hit Inter Pipeline results. And the impact of the coronavirus hit Inter Pipeline results. These problems are macro problems affecting all companies.

The demand/supply imbalance hit Inter Pipeline in its natural gas liquids (ngl) processing segment. All told, the company's funds from operations came in at \$207.5 million versus \$211.5 million last year. The second quarter will be worse than the first quarter.

Because both the oil market and coronavirus shocks will be factors for the full three months of the quarter, in the first quarter, only the last month was impacted by these shocks.

Oil sands transportation revenue accounts for 65% of Inter Pipeline's funds from operations. This is a comforting fact, as this revenue is stable; 70% of Inter Pipeline's EBITDA is cost-of-service and fee-based contracts, which means that cash flows are pretty predictable and reliable, lowering the risk.

## Inter Pipeline stock has a gold mine in the Heartland Petrochemical Plant

The major growth opportunity at Inter Pipeline is its Heartland Petrochemical Plant. This plant will “convert locally sourced low-cost propane into a high value, easy to transport plastic.” Unfortunately, the coronavirus pandemic has also impacted the building of this plant. The cost estimate has increased 14% to \$4 billion.

This increase includes delays caused by the coronavirus shutdown and other factors, such as the need for additional resources. The completion and start-up dates have also been affected.

In a worse-case scenario, the start-up date might be pushed back to early 2022. At the end of the day, we can still expect the Heartland Complex to contribute \$450 to \$550 million in EBITDA upon its completion. For some perspective, recall that 2019 total EBITDA for Inter Pipeline was approximately \$1 billion.

Inter Pipeline is looking for a partner for its Heartland project. The goal is to gain access to a financial partner that will help the company reduce its debt and improve its cash flows. When this comes, it will be a big catalyst for the stock. In the meantime, Inter Pipeline has increased its credit facility and now has access to \$2.2 billion in credit lines.

## Inter Pipeline stock outlook

Inter Pipeline’s outlook is highly uncertain. But Inter Pipeline stock is looking pretty cheap right now. It is essentially trading at book value, with a dividend yield of 4.4% at writing. The company is still a utility company, with much of its revenue remaining fairly stable.

Inter Pipeline is a major petroleum transportation, storage and natural gas liquids processing company. Inter Pipeline stock is a solid bet for a recovery in the energy market.

## Foolish bottom line

Inter Pipeline stock is rallying today after the company’s first-quarter results and update. The stock looks like a bargain right now, with limited downside and significant upside.

### CATEGORY

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2. Energy Stocks
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