Inter Pipeline (TSX:IPL) Stock Investors: Move Your Money Here

Description

Inter Pipeline (TSX:IPL) stock has been a roller coaster. When the year began, shares were at $22. During the nadir of the coronavirus pandemic, shares plummeted below $6. Since then, the stock has doubled in price to $12.

What are investors supposed to make of this?

The most important thing to understand is that the risk/reward balance has shifted sharply. Inter Pipeline has some clear trouble spots, which could ultimately sink the entire company. However, the discounted valuation reflects many of those challenges.

Fortunately, you don't need to risk any of your capital here. That's because there's a very similar business with much better prospects for the year to come. Plus, the market downturn pushed this company's stock lower, meaning you'll also get a bargain price if you buy now.

Meet the pipeline king

Let's talk about pipelines. If you're invested in Inter Pipeline, you likely have a good idea, but brushing up on the basics should allow you to make a wise choice when it comes to stock picking.

Pipelines are like private highways for fossil fuels. If you want to ship your oil or natural gas quickly, safely, and cheaply, you go with a pipeline. But this infrastructure costs billions to build and can take a decade to construct. That means industry supply is low.

Demand, however, continues to rise. Cheaper extraction methods have caused fossil fuel production to surge in North America. This is expected to persist through at least 2030.

So, we've got rising demand and limited supply. That's great news for pipeline owners. It's a big reason why Inter Pipeline stock did so well before the recent crash.

But if you really want to take advantage of this buying opportunity, you'll look to a company like **Enbridge**

(TSX:ENB)(NYSE:ENB). It's the largest pipeline owner in North America. The structural advantages here are clear.

Should you ditch Inter Pipeline?

ENB has a market cap *16 times* larger than IPL stock. You may want to bet on the higher growth prospects of a smaller competitor, but given the dynamics of this industry, it's best to stick with the biggest.

As we learned, pipelines are like highway networks. The bigger the network, the more valuable it is. Enbridge, for example, can ship your natural gas from British Columbia to the Gulf of Mexico. If you want to serve the Canadian market, no problem. The U.S. market is also accessible.

What about export markets? With access to both coasts, you can target European or Asian opportunities, whichever is offering the highest price at the time.

Inter Pipeline cannot match this scale. Many of its pipelines are region specific. If customers want to ship long haul, they'll need to pay Enbridge. There's no way around it.

Due to the coronavirus, Enbridge stock hovers near a multi-year low. Its dividend, which is fully backed by internal cash flows, stands at a historical high of 8%!

Inter Pipeline, meanwhile, has a dividend of just 4%. Its smaller network, meanwhile, is more at risk if the market remains soft, especially given its exposure to oil sands customers.

If you're betting on pipelines, stick with Enbridge.

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