



Is Inter Pipeline (TSX:IPL) a Good Investment?

Description

At the onset of 2020, **Inter Pipeline** (TSX:IPL) was regarded as one of the best long-term investments on the market. The company boasted an appetizing monthly dividend and was full of long-term growth potential. Today, the stock is trading near 40% lower year to date, and its once-great dividend was slashed. In other words, investors need to determine whether Inter Pipeline is still a good investment.

What Inter Pipeline offers

As the name suggests, Inter Pipeline is an energy infrastructure company that boasts an impressive pipeline network. Pipelines are historically great investment options, owing to their stable and recurring revenue streams. In the case of Inter Pipeline, the company also operates a profitable storage tank business that is scattered across Europe.

Inter Pipeline continues to seek out new growth opportunities across its business segments and expand to new ones. The most promising initiative at the moment is the Heartland Petrochemical Complex. The multi-billion-dollar facility is currently under construction. Once complete, the facility will convert locally sourced propane into a type of plastic used heavily in manufacturing. The complex will be the first of its kind in Canada, providing upwards of \$400 million in EBITDA.

Let's talk results

In the most recent quarter, Inter Pipeline reported funds from operations of \$184 million, while net earnings topped \$63 million. In the same period last year, Inter Pipeline saw FFO hit \$240.2 million and reported record-breaking earnings of \$260 million.

During the most recent quarter, Inter Pipeline saw an average throughput of 1.37 million barrels per day. Turning to Inter Pipeline's storage business, the company saw capacity utilization reach 98%.

When compared with last year's results, Inter Pipeline's bottom line hardly seems telling of a good investment. Further to this, Inter Pipeline's slashed its once-impressive dividend earlier this year.

Is Inter Pipeline a good investment?

Should you buy Inter Pipeline? There are a few key considerations that prospective investors need to consider.

First, Inter Pipeline's performance in the past quarter is a direct result of the COVID-19 pandemic. In other words, these results aren't about something the company did or didn't do. The pandemic impacted (and continues to impact) the entire market.

If anything, investors should be looking at the long-term opportunity that Inter Pipeline offers in conjunction with the currently discounted stock price. Worth noting is that the discount is nearly 40% in 2020, which brings me to my next point.

Second, let's revisit the dividend. When Inter Pipeline slashed its dividend, many investors jumped ship. I get that investors hate it when companies slash their dividends. Let's recognize what Inter Pipeline has done since the dividend cut.

Inter Pipeline's net debt levels have fallen, and the (new) current dividend carries a sustainable payout ratio of 27.9% that leaves room for growth. The current yield is now 3.45%, which is a lower but still a [very respectable return](#).

Finally, Inter Pipeline is well funded through the next few years, when the Heartland Complex will be online.

The Heartland Petrochemical Complex is still progressing on schedule. The [expected growth](#) from that facility, along with the diversified revenue stream it will introduce, will drive significant growth over the long term.

In short, we can answer our original question. Inter Pipeline is *still* a good investment. Buy it now at a discount, collect the dividend, and watch it grow.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date

2025/07/23

Date Created

2020/08/31

Author

dafxentiou

default watermark

default watermark