Taking a 2nd Look at Inter Pipeline (TSX:IPL)

Description

Investors should always be on the lookout for new opportunities. The COVID-19 pandemic disrupted the entire market and, in doing so, exposed some stocks as great options to buy, while completely decimated others. As markets begin to reopen, many of those decimated stocks deserve taking a second look.

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One such example is **Inter Pipeline** (TSX:IPL), and so far the stock has dropped over 40% in 2020.

Taking a second look: Interesting developments

One of the things that Inter Pipeline continues to do well is innovating. A clear example of this is the Heartland Petrochemical Complex (more on that in a moment), but there are other notable examples. Most recently, that example would be Inter Pipeline’s European bulk liquid storage business.

The company has been looking to offload most of its European holdings since last year. A recently signed $715 million deal with Spain-based CLH Group looks to do exactly that. Last month, Inter Pipeline CEO Christian Bayle noted that the sale would enable the company “to focus resources on developing our higher-growth Canadian businesses.”

After the deal, Inter Pipeline will still have storage capacity for 19 million barrels in Europe, while the proceeds from the deal will pay down debt and shore up the company’s balance sheet.

The sales will also provide fresh capital for the Heartland Complex that is under construction. The complex is the first of its kind in Canada. When complete, the facility will convert locally sourced propane into polypropylene. Polypropylene is an in-demand type of plastic that is used in a variety of manufacturing processes. Once fully operational in 2022, the Heartland Complex will add $450-500 million of long-term average annual EBITDA. That factor alone warrants taking a second look at Inter Pipeline.

Second look: Inter Pipeline as an income stock?

Inter Pipeline is best known as an income stock. At least that was the case up until earlier this year, when the company slashed its incredible dividend by a whopping 72%. Prior to the cut, critics of the stocks often noted that the company would eventually need to cut its dividend if no additional revenue stream or cuts were made.

That being said, Inter Pipeline's current dividend is *still* attractive. The company offers a monthly distribution with a yield that currently works out to a respectable 3.63%. Further to this, the company remains committed to increasing that dividend, as market conditions improve in the future.

In terms of results, Inter Pipeline most recently provided an update on the second fiscal back in August. In that report, the company reported funds from operations of $184.4 million, which came in lower than the $240.2 million reported in the same period last year. The drop was attributed to the collapse in global oil prices, which moved into negative territory this past spring.

What should you do?

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No investment is without risk. Inter Pipeline (or the entire energy sector, for that matter) may appear as too risky for some at the moment. That's not to say that the market won't improve or that Inter Pipeline won't recover.

If anything, the recent downturn in results and the dividend cut should be viewed as an opportunity. Inter Pipeline still trades at a highly discounted rate, and as the market improves, so too will Inter Pipeline's stock price. In other words, taking a second look is something that prospective investors really need to do.

Buy it, hold it, and let the recovery make you rich.

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