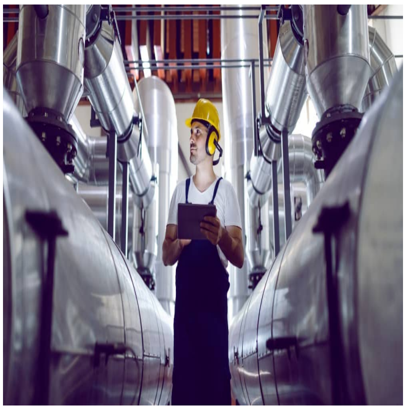

Why Inter Pipeline Stock Popped +8% on Tuesday

Description

Suitors of **Inter Pipeline** (TSX:IPL) stock are swiftly shoring up the hidden value of the dividend stock. The stock fell to as low as $5 per share during the pandemic market flash crash in March 2020 and even cut its dividend by 72% around that time.

There was no helping it. Its yield climbed to alarming levels of 21%. The market knows that those kinds of astronomical yields aren't sustainable.

However, Inter Pipeline has a portfolio of energy infrastructure assets that were still generating a decent amount of cash flow despite pandemic disruptions. It was also working on the major multi-year project of the Heartland Petrochemical Complex (HPC).

It wasn't easy for investors to consider Inter Pipeline stock during the market crash. At that time, I wrote, "At normalized levels, the stock should trade closer to $20. This represents an upside potential of about 155%, but it could take a few years for it to get there. Meanwhile, investors can enjoy a yield of 6.1%."

I always aim to be conservative in my estimates, which is why I projected the stock could return to normalized levels in a few years instead of a year, which is what's happening now. The stock is less than 5% away from the $20 level now.

As the HPC approaches completion, which is expected at the end of 2021, the company has become increasingly more valuable. After all, HPC will start generating cash flow in 2022, contributing an average EBITDA of $450-500 million per year.

The bidders

In February 2021, **Brookfield Infrastructure Partners** announced its intention to acquire Inter Pipeline at $16.50 per share, a transaction valued at $13.5 billion. The offer implied that Inter Pipeline shareholders could receive $16.50 per share in cash or 0.206 of a Brookfield Infrastructure share. BIP also suggested that it could sweeten the deal to $17-$18.25 per share.

Since that news from February, Inter Pipeline stock has hovered around $17.50 per share until today, when its second suitor appeared. **Pembina Pipeline** just announced a higher offer of $19.50 per share, but it'll be an all-stock deal. This immediately triggered the stock to climb as high as $19 per share at writing.

Brookfield Infrastructure actually scooped up just below a 20% stake in Inter Pipeline during the pandemic market crash. Either way, Brookfield Infrastructure will still earn a hefty profit on its Inter Pipeline shares.

Some food for thought

It wasn't easy holding on to stocks during the market crash. Everyone knows to buy low and sell high, but at the time, low stocks fell even lower very quickly. Consequently, many investors were fearful.

During a market crash, pundits would say that it's safer to buy a stock after it has somewhat stabilized. In the case of Inter Pipeline, that would have been in the $11-14 per share range.

If you bought at that level, you would be sitting on gains of 35-73%, which would be awesome price appreciation versus the average long-term market returns of about 7%. Let's not forget that Inter Pipeline also provided a yield on cost of 3.4-4.4% that was paid out in monthly dividends. This is juicy income compared with today's low-interest rates.

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