



Inter Pipeline (IPPLF)

Updated August 10th, 2019 by Kay Ng

Key Metrics

Current Price:	\$25	5 Year CAGR Estimate:	11.4%	Volatility Percentile:	41.7%
Fair Value Price:	\$24	5 Year Growth Estimate:	5.1%	Momentum Percentile:	59.2%
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Growth Percentile:	49.7%
Dividend Yield:	6.9%	5 Year Price Target	\$31	Valuation Percentile:	83.9%
Dividend Risk Score:	A	Retirement Suitability Score:	A	Total Return Percentile:	92.1%

Overview & Current Events

Inter Pipeline is based in Calgary, Alberta in Canada and has traded publicly since 1997. Its energy infrastructure assets transport, process, and store energy products largely in Western Canada and at a much smaller scale in Europe. Inter Pipeline has paid a cash distribution since 1997 and an increasing distribution for 10 consecutive years. It trades on the Toronto Stock Exchange with the ticker TSX:IPL. It also trades over-the-counter in the U.S. under the ticker IPPLF. All the figures in this report are in Canadian dollars. Inter Pipeline has a market capitalization of \$10.2 billion and operates in four segments. The company estimates 2019 EBITDA diversification as follows: 54% Oil Sands Transportation, 24% Natural Gas Liquids Processing, 12% Conventional Oil Pipelines, and 10% Bulk Liquid Storage.

Inter Pipeline reported its second-quarter results on August 8, 2019. In Q2, Inter Pipeline generated revenue of \$642 million, up 2% versus the same period a year ago. Funds from operations (FFO) fell 8% to \$240 million and was down 13% to \$0.59 on a per-share basis. Pipeline volumes (including Oil Sands Transportation and Conventional Oil Pipelines) fell 3%, natural gas liquids processing volumes increased 18%, and bulk liquid storage declined about 1% to 83% capacity. FFO for NGL processing fell 29% year over year and was the biggest drag on FFO. For the quarter, growth capital spending roughly doubled to \$364 million as the company continued its multi-year investment in the Heartland Petrochemical Complex, which is scheduled to complete by late 2021, for a total investment of \$3.5 billion. In July, Inter Pipeline completed the Kirby North Connection project, which is underpinned by a long-term take-or-pay agreement with Canadian Natural Resources (CNQ). It invested \$110 million in the project ahead of schedule and under budget. In August, it announced a \$100 million conventional pipeline project to connect its Bow River and Central Alberta pipeline systems. This project is expected to complete in the first half of 2020.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFO/S	\$1.28	\$1.29	\$1.52	\$1.61	\$1.65	\$1.76	\$2.31	\$2.47	\$2.65	\$2.80	\$2.41	\$3.09
DPS	\$0.845	\$0.905	\$0.9675	\$1.055	\$1.1775	\$1.32	\$1.485	\$1.57	\$1.63	\$1.685	\$1.715	\$2.26
Shares¹	254.6	258.0	264.2	275.2	306.8	326.2	336.4	367.9	379.8	403.8	428.0	556.7

Inter Pipeline has been using a combination of debt and equity offerings to fund its growth. From 2009 to 2018, it increased its outstanding shares by about 5.3% per year. The share count climbed 6.3% in 2018 due partly to the large investment in the Heartland Petrochemical Complex. We're estimating a higher 6% share count growth from 2019-2021 due to the Heartland project, after which through 2024, we're expecting the usual roughly 5% growth. The ever-higher share count is going to be a dampener on FFO/S growth.

From 2009 to 2018, Inter Pipeline increased its FFO/S by 9.1% per year. We maintain our FFO/S estimate of \$2.41 for 2019. We also expect the FFO/S to stay roughly flat to 2021 until the Heartland project goes into service, which will add materially to cash flow. Inter Pipeline projects Heartland to generate on average \$450-500 million in EBITDA per year.

1. Shares in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Inter Pipeline (IPPLF)

Updated August 10th, 2019 by Kay Ng

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/FFO	8.4	11.6	11.6	14.6	15.7	20.4	9.6	12.0	9.8	6.9	10.3	10.0
Avg. Yld.	7.8%	6.1%	5.2%	4.5%	4.6%	3.7%	6.7%	5.3%	6.3%	8.7%	6.9%	7.3%

Inter Pipeline has traded at a wide valuation range since 2009 with the average P/FFO being about 12. We do not expect any material growth in cash flow through 2021 until the Heartland project comes online. Thereafter, we expect growth of about 8.5%, largely from the project, as such we think a fair 2024 P/FFO of about 10 makes sense to reflect weaker near-term growth. Unexpected, the stock appreciated 14% in two days based on a rumor that another company wanted to buy it out for \$30 per share. As such, the stock trades near fair value.

Safety, Quality, Competitive Advantage, & Recession Resiliency

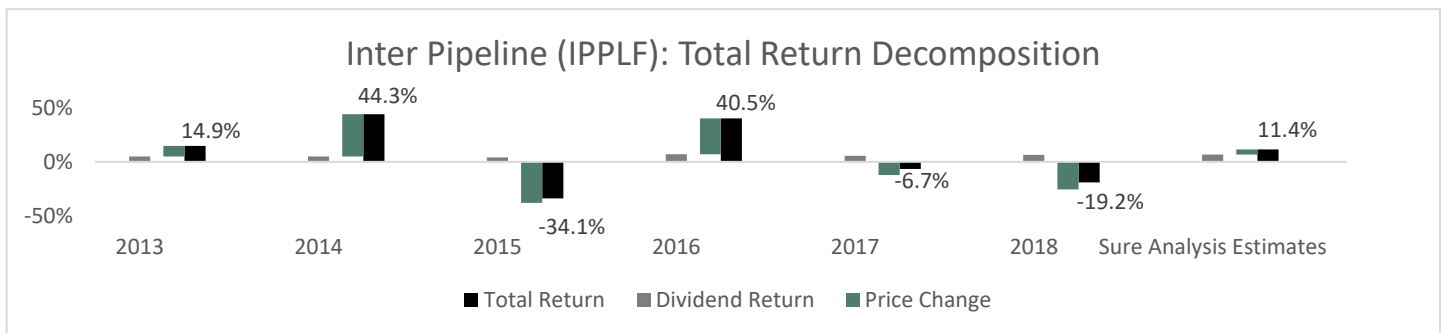
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	66.0%	70.2%	63.7%	65.5%	71.4%	75.0%	64.3%	63.6%	61.5%	60.2%	71.2%	73.1%

In the last recession and energy price collapse, Inter Pipeline’s funds from operations stayed stable, which combined with a sustainable payout ratio, keeps its dividend safe. The company has some advantages by having the core of its assets concentrated in Western Canada and keeping costs low that way. This allowed it to earn a high EBITDA margin of 48% in 2018. Inter Pipeline’s interest coverage ratio was 6.2 in 2018, and it’s likely to head lower from the increased debt that the company took on, such as the \$750 million long-term note offering it announced in March 2019. Currently, the company maintains an investment-grade S&P credit rating of BBB+. We expect the company to focus on completing the Heartland project and reducing its debt levels before considering another big project. Inter Pipeline is exploring the potential of selling its European bulk liquid storage business, which would help reduce its debt levels and fund its capital program. From 2009 to 2018, Inter Pipeline’s payout ratio averaged 66%. We expect the payout ratio to be in the 70% range over the next few years due to expected slower growth until the Heartland project completes.

Final Thoughts & Recommendation

There’s a heightened risk in the company’s capital program concentration in Heartland, which is worth close to 95% of the \$3.7 billion secured capital program. That said, the company also has another \$4.2+ billion potential projects that it can add to its “pipeline” to boost growth. As well, we think there’s price appreciation potential for longer-term investors with a holding period of at least three years. Over the next five years, we estimate total returns of 11.4% in the stock, coming from a current yield of 6.9%, FFO growth of 5.1%, and multiple contraction of -0.6%. Inter Pipeline’s high yield should appeal to income investors.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

1. Shares in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Inter Pipeline (IPPLF)

Updated August 10th, 2019 by Kay Ng

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	814	967	1165	1206	1323	1410	1313	1378	1744	2001
Gross Profit	332	414	783	843	898	914	973	980	1155	1269
Gross Margin	40.8%	42.9%	67.2%	69.9%	67.8%	64.8%	74.1%	71.1%	66.2%	63.4%
SG&A Exp.	43	52	66	78	83	78	60	101	100	106
D&A Exp.	90	85	101	125	123	129	148	173	197	211
Operating Profit	199	278	428	464	140	503	625	591	688	753
Operating Margin	24.5%	28.7%	36.7%	38.5%	10.6%	35.7%	47.6%	42.9%	39.5%	37.7%
Net Profit	139	229	251	307	-56	303	335	340	406	457
Net Margin	17.1%	23.7%	21.5%	25.5%	-4.3%	21.5%	25.5%	24.6%	23.3%	22.9%
Free Cash Flow	-271	14	312	1	-1437	-602	328	468	501	103
Income Tax	-14	6	81	89	84	104	147	114	143	166

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	4245	4715	4755	5712	7192	7449	6507	7529	8240	8415
Cash & Equivalents	17	23	50	65	44	53	29	16	21	34
Accounts Receivable	116	129	107	148	231	135	132	168	195	178
Inventories							0	10	10	7
Goodwill & Int. Ass.	508	515	503	623	580	514	429	508	524	496
Total Liabilities	2992	3387	3280	3950	4953	4973	4232	5165	5485	5504
Accounts Payable		178	159	295	544	336	159	206	266	343
Long-Term Debt	2478	2795	2603	3128	3703	3938	3483	4307	4322	4155
Shareholder's Equity	1253	1328	1391	1668	1972	2195	2033	2364	2755	2911
D/E Ratio			1.87	1.88	1.88	1.79	1.71	1.82	1.57	1.43

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.7%	5.1%	5.3%	5.9%	-0.9%	4.1%	4.8%	4.8%	5.2%	5.5%
Return on Equity	12.8%	17.7%	18.4%	20.1%	-3.1%	14.6%	15.8%	15.4%	15.9%	16.1%
ROIC				6.9%	-1.0%	4.9%	5.5%	5.5%	5.9%	6.5%
Shares Out.	254.6	258.0	264.2	275.2	306.8	326.2	336.4	367.9	379.8	403.8
Revenue/Share	3.41	3.76	4.47	4.46	4.63	4.30	3.92	4.00	4.66	5.14
FCF/Share	-1.14	0.05	1.20	0.00	-5.03	-1.84	0.98	1.36	1.34	0.27

Note: All figures in millions of Canadian Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.