3 Reasons to Invest in Pembina Pipeline Corp.

Description

Canada's third largest pipeline and midstream (oil transportation, storage and wholesale marketing) company **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) continues to go from strength to strength.

While it certainly doesn't have the media profile of its higher profile and at times controversial peers **Enbridge** (TSX:ENB)(NYSE:ENB) or **TransCanada** (TSX:TRP)(NYSE:TRP), it continues to perform strongly. Delivering considerable value for investors, with its share price shooting up 28% for the year to date. As we shall see, it is also well positioned to deliver further value for investors.

1. Profitable, high-quality company
Pembina while not the most exciting investment, has seen its share price grow consistently over the last decade, delivering a return of 400% to investors. This solid return has come on the back of consistently strong growth, which over the last five years has seen revenue grow five times, cash flow grow four times and net income more than double.

For 2013 alone in comparison to the previous year, revenue shot up 47%, cash flow by a massive 81% and net income a whopping 56%. This solid financial performance was on the back of the transportation of higher volumes of petroleum products, the completion of new pipeline expansions and firmer propane prices.

In 2013, conventional pipelines transported an average of 492,000 barrels of oil per day, an 8% jump over 2012. This was primarily driven by increased oil production in the patch, which hit a new production record in December 2013 according to the National Energy Board. Pembina also continued to expand the capacity of its pipeline network throughout 2013, further boosting transportation capacity and driving revenue growth.

2. Plenty of future growth catalysts
With Pembina boosting 2014 capital expenditure by 56% in comparison to 2013 to $1.5 billion and the completion of a range of projects over the foreseeable future, revenue, cash flow and the bottom line can only continue to grow.

This gives Pembina a particularly positive outlook especially when it reached binding commercial agreements to proceed with constructing approximately $2 billion in pipeline expansions in December 2013. It is expected these expansions will come into service between late 2016 and 2017.

They are underpinned by long-term take or pay transportation services agreements with 30 customers in Pembina's operating areas, reducing much of the contractual and financial risk associated with the project.

Canadian crude production is also expected to grow exponentially over the foreseeable future, with some analysts expecting it to reach as high as 6 million barrels of oil per day. The Canadian Association of Petroleum Producers has taken a more conservative approach and forecast Canadian oil production will hit 4.9 million barrels of oil daily in 2020 and 6.7 million barrels of oil by 2030.

Such strong production growth coupled with current transportation bottlenecks and demand for pipeline capacity bodes well for Pembina to continue growing the volume of petroleum products it transports. Over the foreseeable future, I expect Pembina to experience significant revenue growth, which can only contribute to increased cash flows and a strong bottom line.

On a final note, Pembina has also been able to deftly avoid much of the controversy its peers like TransCanada and Enbridge have experienced when seeking regulatory and environmental approvals for its projects. This has allowed it to proceed with a range of critical pipeline expansion projects with a minimum degree of regulatory risk.

3. Solid dividend yield

An appealing aspect of Pembina is its solid dividend yield of just over 4%, which since inception in 1997 has a compound annual growth rate of over 3%. That gives investors a steady return that is higher than either inflation or the risk-free rate (as represented by the three-month Canadian Treasury bill).

This is also one of the better dividend yields in the patch and compares favorably with its peers, being superior to Enbridge's 2.9% and TransCanada's 3.9%.

Foolish bottom line

Pembina not only continues to go from strength to strength, but is well positioned to take advantage of the opportunities growing Canadian crude production offers. This will see the company's financial performance and bottom line continue to grow while it rewards investors for their loyalty and patience with a solid 4% dividend yield.

CATEGORY

1. Investing

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2. NYSE:PBA (Pembina Pipeline Corporation)
3. NYSE:TRP (Tc Energy)
4. TSX:ENB (Enbridge Inc.)
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