Pembina Pipeline Corp Continues its Evolution Into an Industry Leader

Description

Founded in 1954, **Pembina Pipeline Corp** (TSX: PPL)(NYSE: PBA) has grown from a regional player in Drayton Valley, Alberta, into a major transporter of the province's conventional crude.

However, pipelines were not enough for this company, as it has also added truck transportation and oil-by-rail services to its portfolio. Pembina Pipeline has also been spending considerable cash to develop its natural gas processing capabilities, including three sweet gas processing plants in Grand Prairie, Alberta, and an ethane extractor outside of Hinton, Alberta.

The future hidden within the quarterly report

Revenue in the past quarter took a 37% bump, totaling $1.6 billion, up from $1.1 billion during the same period last year. This increased revenue was brought in by higher transportation volume, with an average of 1.64 million barrels per day moved, compared to an average of 1.49 million barrels per day moved during the same period last year.

The sour note was a drop in net revenue in its oil sands segment, which fell to $48 million from $51 million. However, in terms of year-to-date numbers, net earnings from the oil sands are still in the black, totaling $100 million compared to $94.6 million.

Pembina was also able to increase its dividend by 3.6% during the quarter, and is now offering investors $1.74 per year with a yield of 3.6%. This increase was made possible by the adjusted cash flow brought in from the recent expansion of its conventional pipeline business and the opening of its Saturn I facility.

Upcoming expansions

Looking at the bottom line, the numbers may appear troubling, but shouldn't be seen as such, with net earnings dropping to $77 million, or $0.21 per share, from $93 million, or $0.30 per share. These earnings may look a little slim, but this was a quarter of investment for Pembina Pipeline.

It has secured an additional $460 million worth of new capital projects. A major benefactor of these funds will be its third propane-plus fractionator at the Redwater facility, which is estimated to accommodate 55 million barrels per day. This expansion will increase the entire facility's capacity to 210 million barrels a day, making it the largest fractionation facility in Canada.

This is great news for investors, as this third phase of the Redwater facility is underpinned by long-term take-or-pay contracts with multiple producers. By the time the second quarter came to a close, the majority of the available capacity had already been booked up. Operations are expected to go into service in the second half of 2017.

This facility is only a small part of the overall expansion campaign going on at Pembina Pipeline, as it has a current project backlog of $7.3 billion with $3.5 billion in newly secured commitments. The company has also managed to reduce its debt-to-EBITDA ratio from 3.75% to 2.8% since 2011.

The end of the line

Pembina Pipeline Corp believes that, following its latest quarterly report, it is well on track to double its operating margins by 2016. This is because it has seen several of its key operating segments post double-digit improvements to their volumes and operating margins. The crude oil segment posted a 12% increase in volume and its operating margin climbed 21%. The gas services segment has seen a staggering 77% improvement in volume, with its margin up by 53%. Last but not least, the operating margin in its midstream operations increased by 63%.

CATEGORY

1. Investing

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