



## 3 Reasons to Buy and Hold Pembina Pipeline Corp. Forever

### Description

A key action that can erode the wealth of investors is trading too frequently in order to garner quick profits. The secret to investing success is the exact opposite.

Investors should identify those companies with quality underlying businesses, wide economic moats, and stable earnings growth and then, like Warren Buffett – one of the greatest investors of all time – buy and hold them in perpetuity. A key characteristic of those types of companies is their ability to consistently reward investors year after year, as they have done for decades.

One company that stands out for all of these reasons is Canada's third largest provider of transportation and midstream services to the energy patch, **Pembina Pipeline Corp.** ([TSX: PPL](#))([NYSE: PBA](#)).

Its strengths can be distilled into a few key points.

First, Pembina's business is extremely difficult to replicate.

Not only would it take a significant capital investment to construct such a large pipeline network, but there are significant regulatory barriers to be overcome. For these reasons the crude pipeline transportation and midstream services industry has steep barriers to entry that minimize competition and protect Pembina's competitive advantage.

Second, Pembina's business is virtually recession-proof.

The demand for petroleum-based products, including fuels, is virtually inelastic with it now a key component of our modern lives, powering transportation, and electricity generation as well as being used in a range of manufacturing processes. It is also expected the long-term demand for petroleum will grow exponentially as major emerging economies including India, southeast Asia, and Brazil continue to modernise and grow.

Furthermore, significant lack of pipeline capacity in the patch and expectations that Canadian crude production will grow by 5% annually between now and 2020 should drive further demand for pipeline

transportation services.

These characteristics not only endow Pembina with relatively stable earnings, but virtually guarantee earnings growth particularly with the company focused on boosting the capacity and reach of its pipeline network.

During the third quarter of 2014 Pembina acquired the Vantage pipeline which originates in Tioga, North Dakota, and terminates near Empress, Alberta. This pipeline has capacity for 40,000 barrels of crude per day and significantly expands Pembina's natural gas liquids transportation capacity. It also has a range of projects underway focused on boosting capacity of its existing pipeline network. These projects are expected to add additional capacity of up to 680,000 barrels of crude daily by 2017.

Third, and the key reason for holding Pembina, is the company's history of rewarding investors through a regular and steadily growing dividend. Pembina has paid a dividend since 1997 and has hiked its annual dividend for the last three consecutive years.

More telling is how companies manage dividend payments in times of economic adversity. During the global financial crisis, when other companies were slashing dividends or eliminating them altogether, Pembina maintained its dividend. This gives Pembina a tasty 4% dividend yield, which despite having a payout ratio of 151%, remains sustainable on the back of solid earnings and cash flow growth.

More importantly, I expect Pembina's dividend to continue growing as the capacity of its pipeline network grows and increasing Canadian crude production creates greater demand for transportation and midstream services.

Pembina is a dividend machine that continues to reward investors year after year, paying a dividend with yield which is significantly greater than any of its peers. This makes it one company investors should buy and hold forever, in order to reap the benefits of the steadily growing regular income stream coupled with solid growth potential.

## **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

## **TICKERS GLOBAL**

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

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