Should Investors Buy Pembina Pipeline Corp After it was Upgraded?

Description

Canada's major crude transportation and pipeline companies continue to be resilient in the face of the oil rout that now sees oil prices hovering at around five-year lows. This has made analysts take a favourable view of these companies, and **Pembina Pipeline Corp** (TSX:PPL)(NYSE:PBA) has been the latest to have its outlook upgraded.

However, with oil prices so low and producers cutting production as they slash costs and capital expenditures, can Pembina continue to reward investors?

Now what?

Pembina is Canada's third-largest midstream crude transportation and pipeline company. It is an essential link between the energy patch and vital refining markets, allowing it to "clip the ticket" on every barrel of crude it transports across its pipeline network. Pembina operates on a classic "tollbooth" business model.

The capital intensive nature of this business, coupled with steep regulatory barriers, gives Pembina a wide economic moat that protects its competitive advantage. This has allowed Pembina to continue to grow earnings as it expands its network and boosts the amount of crude transported.

For the full year of 2014, Pembina reported a record year, with earnings up an impressive 9% compared to 2013, while cash flow was up by a very healthy 17%. Impressively, Pembina's operating margin shot up by almost 14% when compared to 2013, highlighting the company's growing profitability.

These solid results allow Pembina to continue to reward investors with a sustainable and juicy 4.3% dividend yield. These results also support management's goal of rewarding investors through regular dividend hikes that ensure 3-5% growth annually.

More importantly, despite the oil rout, I expect Pembina's earnings to continue to grow over the long term.

First, because oil remains an important component in a range of products that fuel our daily lives and economic activity. Even with Canadian oil producers slashing investments and slowing production growth, Canadian oil production is still expected to grow between now and 2020.

Second, Canada's oil producers have been battling a pipeline crunch due to insufficient pipeline capacity to meet demand. As Pembina operates a range of projects aimed at expanding its pipeline network, there should be sufficient existing demand for that additional capacity, which would thereby increase the volume of crude it transports.

With its transportation network continuing to grow, coupled with its wide economic moat, and demand for pipeline transportation from the patch, Pembina's earnings can only grow. This will allow the company to keep hiking its dividend and reward its investors with a steadily growing income stream, which has had a compound annual growth rate of 4% since inception.

So what?

I believe that Pembina should be a core holding in any income-oriented portfolio, with it being among Canada's best dividend-growth stocks. Its classic "tollbooth" business model, coupled with an ever expanding pipeline network and growing energy demand, virtually assures earnings growth. Pembina will continue to reward investors over the long term with regular dividend hikes and capital appreciation as its bottom line grows.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. Editor's Choice

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