Buy Pembina Pipeline Corp. Before it's Too Late

Description

With the collapse in commodity prices, shares of **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) have dropped almost 11% over the past 12 months compared to a nearly 5% gain for the TSX overall. Since its highs in September, shares are down nearly 30%.

While operating in the energy sector has punished Pembina due to lower commodity prices, savvy investors should be aware of the company's ongoing efforts that will significantly mitigate any future impact of energy price swings.

The business
Pembina is an energy infrastructure company that allows investors to participate in the oil and natural gas liquids industry across Canada and North Dakota. The company is primarily a midstream operator whose 8,800-km pipeline network transports hydrocarbon products and extends across much of Alberta and parts of British Columbia, Saskatchewan, and North Dakota. Pembina also operates some natural gas terminals and processing plants.

Shifting to reduce commodity price exposure
Currently 64% of revenues are on a volume basis. After the completion of some major infrastructure projects, however, this is expected to increase to 80% by 2018.

Management believes that these future projects are much needed, and they are already being backed by 40 customers under long-term, firm-service agreements. A large portion of revenues will run on take-or-pay contracts, where customers are responsible for toll/fee payments regardless of actual volumes shipped.

All of this adds up to a business that should reduce its commodity price-related revenues significantly by 2018.

Growth opportunities still exist despite lower commodity prices
Despite the recent fall in commodity prices, management is moving forward with some ambitious projects. At $5.9 billion, Pembina has the largest committed growth capital program among its midstream peers.

As mentioned, most of these are run on the fee-for-service model and are already backed by committed customers.

Is the recent price correction overdone?
Markets over the past several months have been dramatically more challenging for the energy industry than in recent years, especially with respect to commodity pricing. While exposed to the energy industry, Pembina is increasingly becoming a fee-for-service provider, making itself much less vulnerable to commodity price swings.

Still, as a volume-based business, Pembina needs to have customers continuing to pump out raw materials for transport. Even though its revenues are not directly contingent upon commodity price swings, should customers' drilling become less economically viable, Pembina would be hurt on volumes.

At current levels, most of the company's serviced regions look to be approaching break-even pricing. This would imply that any further deterioration in commodity prices may bring revenue pressures.

If the major underlying commodity exposures either hold in price or revert back towards pre-crisis levels, however, Pembina should be able to capitalize. Management has a history of bringing on successful projects, within budget and on time.

Well positioned for the future
At these levels, shares look very attractive if your belief is that commodity prices will stabilize or improve. With a pipeline of committed projects expected to come online over the next few years, Pembina will have solid revenue growth should it see the volumes it expects.

CATEGORY

1. Energy Stocks
2. Investing

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