Pembina Pipeline Corp. Is Down 40% Despite Limited Exposure to Oil Prices

Description

Despite operating a business that is increasingly impervious to swings in commodity prices, **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) stock has fallen right alongside oil prices.

Instead of producing oil itself, the company owns and operates pipelines that transport conventional and synthetic crude oil and natural gas liquids produced in western Canada. Pembina essentially owns a toll-road that transports the output of oil and gas companies. This business has proven more stable and more lucrative than conventional drilling.

One of the more attractive aspects of the business is that it's largely run on a volume, not a price, basis. This means that Pembina gets paid to ship the same volumes regardless of the price of the commodity. Still, shares have fallen over 40% since the rout in oil began. This, it seems, has given investors a rare chance to buy a stable, growing, high dividend stock.

Profits are increasingly reliable

As mentioned, a majority of Pembina's revenues are derived from a toll-like business. In 2014, 64% of sales were based on this fee structure. Thanks to some attractive projects under development, however, 82% of the business should be on these contracts by 2018. An additional benefit is that these contracts are typically long term (think a decade or more). There are no exit provisions either, adding another layer of stability to an already consistent business.

Growth projects remain

Wherever there is oil or gas production, pipelines are necessary. Without an adequate pipeline, output is typically forced onto railroads, a more expensive and dangerous method. The natural advantages to pipelines has given Pembina plenty of room for expansion.

Recently, Pembina brought $650 million worth of new infrastructure assets into service in Alberta and Saskatchewan. These included additional processing capacity and new pipelines. Its last two projects also came in under budget. In total, the next few years of already secured projects should double profitability by 2018, adding $700 million to $1 billion in EBITDA. Compared with any of its Canadian peers, it has the largest portfolio of committed growth projects.

The dividend is supported by high profits and low debt levels

Today, Pembina shares yield a bit over 5.6%. In a low interest rate environment, this can be very attractive, especially given the future growth prospects.

More importantly, the dividend appears to be very stable. Aside from the reliable nature of its revenues, cash flow growth has far outpaced the growth in dividends for over a decade. Since 2005, Pembina's dividend has grown by 5.8% annually compared to a 9.1% annual growth rate in cash flows. As new assets are placed into service, the dividend has plenty of room for further growth.

In 2014 Pembina had debt levels that stood at three times EBITDA, near the low end of the industry. Its current debt usage is also very attractive, with an average maturity length of 15.4 years and a weighted-average interest rate of 4.6%. Importantly, 96% of this debt is at a fixed rate, meaning the company won't be on the hook when interest rates start to rise.

In all, Pembina is an income stock with plenty of growth prospects over the next few years.
Shares should appeal to a wide variety of investors.

CATEGORY

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Date
2025/08/26
Date Created
2015/11/09
Author
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