After Falling 50%, Gibson Energy Inc. Shares Now Yield a Reliable 7.7%

Description

As an integrated midstream solutions provider, **Gibson Energy Inc.** (TSX:GEI) is built with low exposure to direct swings in energy prices. It offers terminals and pipelines (31% of profits), processing and distribution (29%), environmental services (17%), truck transportation (15%), and marketing (9%). The integration between business segments ensures higher asset utilization, while the diversified nature of profits helps balance volatility.

Because it's not directly involved in the production of commodities, Gibson Energy isn't as exposed to price swings. About two-thirds of revenues are not effected by price changes in the market. The remaining one-third of revenues, which is affected by market prices, is specifically set up to limit any potential swings.

So, why have shares dropped by over 50%?

The terminal and pipeline business remain strong

At least one business segment is producing record profits. The operating performance in the terminal and pipeline segment produced similar results as compared with the second quarter with a profit of $34.2 million. This represents an increase of 27% over 2014 levels–and is clearly unaffected by lower oil prices.

In fact, depressed commodity prices have been a boon to the segment as terminal capacity has exploded. The recent growth was partially supported by 1.7 million barrels of new storage capacity. Construction on remaining growth projects remains on time and on budget.

Management believes that they "have strong visibility to future cash flow growth based on a phased commissioning schedule." In fact, they believe that investors can count on continued and consistent profitability from the segment through to 2020.

Processing and distribution are also strong

The company's processing and distribution businesses delivered strong results with profits of $36.4

million in the third quarter, a near-record level of profitability. The primary contributor to these strong results was a 61% increase in road asphalt sales, which was supported by favourable weather that extended the paving season, along with market share gains in certain Canadian and northern U.S. locations.

In total, this means that over 60% of Gibson Energy's business is producing solid profit growth. The rest of the segments are still profitable as well, with marketing bringing in $6 million, trucking bringing in $11.4 million, and environmental services bringing in $14.2 million.

What should you do?

By all accounts, Gibson Energy is fortunate to have a cash flow base that is, to a large degree, resilient in spite of drilling activity levels. Management has said that they have a "high degree of certainty regarding growing our future cash flow and the increasing percentage of the cash flow that is backed by long-term take-or-pay contracts." Still, the market has given little credit to it.

If you're looking to buy a beaten-down energy name that has little financial difficulties and can make money regardless of energy prices, Gibson Energy looks to be the perfect stock. As of last quarter, the company had $36 million of cash and an undrawn $500 million revolving credit facility. It also has no long-term debt due until 2020. Those factors, along with continued profitability, should give investors a high degree of comfort.

Perhaps the biggest perk is that investors are paid to wait until the market realizes the stock's true value. Because of the drop in share price, shares are now yielding 7.7%. That is too good to give up.

CATEGORY

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1. TSX:GEI (Gibson Energy Inc.)

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