Gibson Energy Inc.: An Undervalued Energy Company That Doesn't Care About Oil Prices

Description

Because it operates in the energy sector, **Gibson Energy Inc.** (TSX:GEI) has been treated like any other oil-related company, so shares are down 45% over 12 months. While the company's name might imply that it produces oil, it's actually a midstream player, a space that is regarded as less volatile than actually drilling for oil.

As a midstream player, Gibson provides necessary services and infrastructure no matter what oil prices are, such as refining, distribution, terminals, and pipelines. One of the most attractive aspects of this business is that it is largely volume based, so while the underlying price of oil may fluctuate, Gibson can maintain its margins. In fact, only 25% of its revenues are directly tied to the price of commodities.

Still getting punished

Despite the company's advantages, it seems to have been punished with the rest of the sector. Over the past year shares are down roughly the same amount as one of its customers, **Husky Energy Inc.** (TSX:HSE), an oil and gas producer. Due to the collapse in oil prices, Husky Energy is expected to have a loss of $0.07 a share this year. Because of its midstream model, however, Gibson is expected to turn a profit of $0.30 a share.

Here's a quick example that shows how Gibson can continue generating profits despite wild swings in commodity prices. Gibson's terminals and pipelines business contributes 31% of company profits, its biggest segment. It serves major, international customers like **Royal Dutch Shell plc**, **BP plc**, and **Total SA**.

In 2013 when oil prices averaged $100 a barrel, the segment turned a profit of $96 million. When prices collapsed to just $50 a barrel in 2014, segment profit actually grew to $117 million. This year, with oil hovering around $30 a barrel, segment profit should grow yet again to over $130 million. Now that's resiliency.

Investing when others are scared

Because Gibson can turn a profit regardless of oil prices, it has a consistent stream of cash flow to put towards growth projects, acquisitions, and dividends. Over the past 12 months the company has generated over $400 million in profits. This leaves plenty of cash to dedicate towards acquisitions, most of which should come at very attractive prices. Having excess cash in a bear market is always a good position.

After expenses and growth initiatives, it should still have over $200 million in distributable cash flow, more than covering its dividend payments totaling roughly $160 million. That dividend current pays out a 9% yield–not bad for a company that still has excess cash leftover. Most high-yield energy names are running big losses today, covering their dividends through increased borrowing, share sales, or asset sales.

Gibson looks like the rare company with a high, sustainable dividend and an underpriced, misunderstood business.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

TICKERS GLOBAL

1. TSX:GEI (Gibson Energy Inc.)

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