



## The Case to Buy Pembina Pipeline Corp. Today

### Description

**Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)), one of the leading transportation and midstream service providers to North America's energy industry, has watched its stock soar higher in 2016, rising more than 12%, and I think the rally is only getting started for four reasons. Let's take a closer look at these reasons to see if you agree and if you should buy the stock today.

#### 1. Its strong Q4 results could support a continued rally

On February 25, Pembina released very strong earnings results for its fourth quarter ended on December 31, 2015, and its stock has responded by rising nearly 3% in the weeks since. Here's a quick breakdown of eight of the most notable statistics from the report compared with the same period in fiscal 2014.

1. Net earnings increased 54.8% to \$130 million
2. Earnings per share increased 45.5% to \$0.32
3. Net revenue increased 33.9% to \$407 million
4. Operating margin increased 55.9% to \$304 million
5. Gross profit increased 64.6% to \$237 million
6. Earnings before interest, taxes, depreciation, and amortization increased 52.9% to \$260 million
7. Adjusted cash flow from operating activities increased 57.1% to \$0.77 per share
8. Total pipeline throughput volume increased 0.5% to 1.73 million barrels per day

#### 2. It's stock is undervalued

At today's levels, Pembina's stock trades at just 26.9 times fiscal 2016's estimated earnings per share of \$1.26 and only 21.3 times fiscal 2017's estimated earnings per share of \$1.59, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 34.4.

With the multiples above and its estimated 10.8% long-term earnings growth rate in mind, I think Pembina's stock could consistently trade at a fair multiple of at least 30, which would place its shares around \$38 by the conclusion of fiscal 2016 and around \$48 by the conclusion of fiscal 2017, representing upside of more than 12% and 41%, respectively, from today's levels.

### **3. Its new assets and recent acquisitions will drive growth**

In fiscal 2015, Pembina brought \$1.3 billion of new fee-for-service assets into service, including new gas plants and pipeline expansions, and it has \$5.3 billion of projects in the works that will be placed into service through 2018. In fact, in its fourth-quarter report, it stated that it would be "bringing new assets online almost every quarter into 2017," and that these projects are back by contracts with its customers, meaning they will begin generating revenues immediately.

Also, on March 17 Pembina announced a \$556 million acquisition of assets from **Paramount Resources, Ltd.** The acquired assets include Paramount's recently constructed Kawka sour natural gas processing complex and the associated infrastructure, including gas gathering pipelines, sales gas transportation pipelines, and future disposal wells.

This acquisition was very strategic, because the Kawka assets are already physically connected to Pembina's Cutbank Complex via an existing pipeline that is operated by Paramount, so it is expected to be immediately accretive to Pembina's cash flow per share.

### **4. It has a great dividend**

Pembina pays a monthly dividend of \$0.16 per share, or \$1.92 per share annually, which gives its stock a yield of about 5.7% at today's levels.

It is also very important to make two notes.

First, Pembina has raised its annual dividend payment for four consecutive years, and its recent increases, including its 5.2% hike on March 17, has it on pace for 2016 to mark the fifth consecutive year with an increase.

Second, I think the company's consistent growth in cash flow from operating activities, including its 6.3% year-over-year increase to an adjusted \$2.53 per share in the fiscal 2015, and its growing fee-for-service asset base will allow its streak of annual dividend increases to continue going forward.

### **Is there a place for Pembina in your portfolio?**

Pembina Pipeline Corp. represents a great long-term investment opportunity, so all Foolish investors should take a closer look and strongly consider beginning to scale in to positions today.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **TICKERS GLOBAL**

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2. TSX:PPL (Pembina Pipeline Corporation)

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