



Pembina Pipeline Corp.'s Q1 Earnings Are Out: What Should You Do Now?

Description

Pembina Pipeline Corp. ([TSX:PPL](#))([NYSE:PBA](#)), one of the leading transportation and service providers to North America's energy industry, announced its first-quarter earnings results after the market closed on May 5, and its stock has responded by making a slight move to the downside. Let's break down the results and the fundamentals of its stock to determine if we should use this weakness as a long-term buying opportunity or if it could continue lower from here.

Breaking it all down

Here's a summary of Pembina's first-quarter earnings results compared with its results in the same period a year ago.

| Metric | Q1 2016 | Q1 2015 |
|--------------------|----------------|----------------|
| Earnings Per Share | \$0.23 | \$0.32 |
| Revenue | \$1.02 billion | \$1.15 billion |
| Net Revenue | \$394 million | \$375 million |

Source: Pembina Pipeline Corp.

Pembina's earnings per share decreased 28.1%, its revenue decreased 11.9%, and its net revenue increased 5.1% compared with the first quarter of fiscal 2015. The company noted that its steep decline in earnings per share could be attributed to higher net finance costs and general and administrative expenses, which more than offset higher gross profit and lower taxes.

It also noted that its slight decline in revenue was largely due to the drop in commodity prices, which impacted its midstream business, while its slight increase in net revenue was driven by higher revenue volumes in its Conventional Pipelines segment and lower costs of goods sold.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Net earnings decreased 15% to \$102 million
2. Total throughput volume increased 2.8% to a record 1.8 million barrels of oil equivalents per day
3. Conventional Pipelines revenue volumes increased 5.8% to a record 670,000 barrels per day
4. Oil Sands & Heavy Oil contracted capacity remaining unchanged at 880,000 barrels per day
5. Gas Services average revenue volumes remained unchanged at 113,000 barrels of oil equivalent per day
6. Midstream natural gas liquids sales volumes increased 9.3% to 141,000 barrels per day
7. Operating margin increased 10.9% to \$315 million
8. Gross profit increased 3.9% to \$237 million
9. Adjusted earnings before interest, taxes, depreciation, and amortization increased 11.6% to \$269 million
10. Adjusted cash flow from operating activities decreased 1.9% to \$209 million

Should you be a long-term buyer of Pembina today?

It was a solid quarter overall for Pembina given the many headwinds facing the energy sector, but it did report year-over-year declines on both the top and bottom lines, so I think the weakness in its stock is warranted. With this being said, I think the stock represents a great investment opportunity for the long term for three primary reasons.

First, it's a value play. Pembina's stock now trades at just 29.3 times fiscal 2016's estimated earnings per share of \$1.28 and only 22.9 times fiscal 2017's estimated earnings per share of \$1.64, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 34.8 and the industry average multiple of 58.7. These multiples are also inexpensive given the company's estimated 16.7% long-term earnings growth rate.

Second, its growing asset base will drive growth. Pembina commissioned \$1.3 billion of assets in 2015, \$740 million of assets so far in 2016, and it has over \$4.5 billion of assets in development that will be commissioned through 2018. These new and planned assets are backed by contracts with Pembina's customers, which reduces risk and maximizes its growth potential.

Third, it has a high dividend and is a dividend-growth and monthly income play. Pembina pays a monthly dividend of \$0.16 per share, or \$1.92 per share annually, which gives its stock a high and safe yield of about 5.1%. Investors must also note that the company has raised its annual dividend payment for four consecutive years, and its two hikes since the start of 2015, including its 4.9% hike in March, have it on pace for 2016 to mark the fifth consecutive year with an increase.

With all of the information provided above in mind, I think Pembina Pipeline Corp. is one of the top buys in the energy sector. All Foolish investors should strongly consider beginning to scale in to long-term positions today.

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