



Gibson Energy Inc. Just Raised \$300 Million: What Now?

Description

This week, shares of **Gibson Energy Inc.** ([TSX:GEI](#)) were halted pending some major news: it announced a deal with BMO Capital Markets and RBC Capital Markets to raise \$200 million in equity financing and \$100 million in debt.

What will Gibson do with this fresh capital?

[generate_fund_chart](#)

A lifeline

“The net proceeds of the offering will be used to initially repay bank indebtedness, fund the company’s previously announced 2016 and 2017 growth capital program, and the potential expansion thereof,” the company said in a press announcement. What exactly does that mean?

With nearly every oil and gas company struggling to maintain profitability following a rapid collapse in oil prices, Gibson has followed its peers in focusing on funding its current business goals. The company spent nearly \$700 million in capital expenditures over 2014 and 2015 compared to a total of just \$300 million over 2012 and 2013. This year, as well as 2017, the company anticipates spending roughly \$300 million annually, so expenditures will remain fairly elevated. Fresh capital will help meet this project costs.

While Gibson only trades at 3.8 times debt-to-equity, management has reiterated that it wants to maintain a “conservative financial profile to execute current growth initiatives and capitalize on additional opportunities as they arise.”

The company still has positive free cash flow along with a manageable, staggered maturity profile for long-term debt, but raising fresh capital should help it maintain its current credit rating (S&P: BB stable) and grow even as competitors are struggling to survive.

Less volatile than other energy options

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 20% of its revenues are directly tied to the price of commodities. Additionally, 77% of revenues come from large-cap oil producers, reducing the credit risk of its customer base.

Dividend is likely safe, unless management targets other opportunities

Last year, Gibson generated \$220 million in distributable cash flow. Its dividend, which yields 8.05%, cost the company less than \$160 million to maintain, leaving plenty of cushion room. While the dividend can likely be maintained, management may target acquisitions or growth projects to take advantage of struggling competition. From 2016 to 2017, the company anticipates \$400-600 million in organic growth project opportunities.

If you're looking for a long-term way to play rebounding oil prices but want something a bit less volatile than energy producers, Gibson Energy is a great alternative.

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1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. TSX:GEI (Gibson Energy Inc.)

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