Income Investors: This Energy Stock Has Paid 222 Consecutive Dividends

Description

For the decade between 2004 and 2014, dividends from Canada's largest energy producers were in most income investors' portfolios.

There were dozens of producers that offered payouts of 6% … 8% … even 10% annually–dividends that had years of consistent records behind them. It seemed like the party would go on forever.

And then without warning, the unthinkable happened. Oil collapsed from $110 all the way down to below $30 over a period of 18 months, taking most of these dependable energy dividends with it. Company after company slashed their payouts and then eliminated them all together.

Investors responded pretty much exactly how you'd expect. They abandoned the sector almost completely, content to take their money now and ask questions later.

But not every energy dividend got decimated during this recent rough patch. Some managed to not only keep paying steady dividends, but actually increase their payouts.

Pembina Pipeline Corp. (TSX:PPL)(NYSE:PBA) is one such company, making 222 consecutive dividend payments dating back to its 1997 IPO. Here's why the company is well poised to make at least 222 more.

Great assets

Pembina is primarily a pipeline company, with more than 9,100 km of conventional oil pipelines and 1,650 km of oil sands and heavy oil pipelines. The company also has some 15 million barrels of oil storage capacity, 20 truck terminals, and more than 1,700 MMcf/d worth of natural gas processing facilities.

Pembina is aggressively expanding via additional growth projects. It has identified some $7.5 billion in potential capital expansion opportunities with $5 billion currently under construction. These projects are expected to be completed by the end of 2017 at the latest.

These projects are projected to grow Pembina's EBITDA from $1 billion in 2015 to between $1.65 and $1.95 billion by the time they come into service in 2017. If commodity prices normalize by then, EBITDA could easily exceed $2 billion.

Management has been making an effort to move contracts away from commodity prices and towards take and pay–deals that pay on a volume basis. It's been projected that 81% of revenue in 2016 will come from fee-based contracts, increasing to 84% by 2018. That compares to 66% in 2014.

Solid balance sheet

Pembina is much less levered than many of its peers. Its credit rating is a solid BBB, meaning its debt is investment grade. Most competitors have approximately the same debt rating.

As of March 31, Pembina had a debt-to-assets ratio of approximately 24.5%. **Enbridge** had a debt-to-assets ratio of close to 50%, while **TransCanada's** debt-to-assets ratio was closer to 55%. This ratio for Pembina will go up as it uses debt to fund new projects, but it's still encouraging to see it have a healthier balance sheet than competitors.

The company has already planned how it will finance the $5 billion in planned projects; it will use a combination of term debt, its credit facility, internally generated cash flow, preferred shares, and a small amount of equity financing it used to pay for the acquisition of natural gas assets from **Paramount Resources.**

That dividend

Pembina became a publicly traded company back in late 1997. It paid its very first dividend in December of that year, giving investors $0.16 per share, which was two months' worth of dividends.

The company hasn't missed a dividend payment since and has paid out 222 consecutive payments. It has also done a good job of growing the payout and recently boosted it to $0.16 per share. Over the last decade Pembina has increased its dividend at a 5% annual pace. That's not bad for a company with an already generous payout.

Based on the current share price of $38.80, Pembina pays investors a dividend of 4.95%. This kind of payout easily trumps that of most other stocks or fixed-income alternatives. With a payout ratio of approximately 70% of adjusted cash flow from operating activities, Pembina looks poised to continue paying out for years to come.

CATEGORY

1. Dividend Stocks
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