



Did Pembina Pipeline Corp. Deserve to Rise 40%?

Description

As 2015 began, **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)) stock moved lower alongside falling oil prices. It was an odd correlation considering the company operates a business that is increasingly impervious to swings in commodity prices.

Now that crude prices have rebounded, investors have pushed Pembina's stock price up by nearly 40% year-to-date. It's gone from a massive market-lagger to a market-beater in under 12 months.

Should investors sell into the strength?

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A business built to last

Pembina doesn't actually explore and produce oil itself. Instead, it owns and operates pipelines that transport conventional and synthetic crude oil and natural gas liquids produced in western Canada.

Pipelines are a lucrative business. Pembina essentially owns a toll-road that transports the output of oil and gas companies. This has proven to be considerably more stable and more lucrative than conventional drilling.

Since 2007 crude prices have gone through massive gyrations, putting many oil producers out of business. Pembina's business has hardly noticed any cyclicity.

While the latest downturn hit operating income a bit, it's very clear that Pembina can generate impressive profitability and growth wherever crude prices go.

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Will the success continue?

Pembina's pipeline business retains its stability because it's largely run on volumes, not prices. This means that Pembina gets paid to ship the same volumes regardless of the price of the commodity.

By 2018, over 80% of earnings are expected to be derived from fee-for-service contracts. These deals are typically long term (think a decade or more) and contain no exit provisions for customers. It's not that customers often pull out either: currently 80% of contracts are with investment-grade firms.

Additionally, as its earnings suggest, Pembina has had no issue boosting volumes throughout the downturn. That's unlikely to change.

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A dividend to boot

Shares have rebounded strongly, but they still provide investors with a 4.8% dividend yield. Since 2006 management has grown the dividend by 4.9% annually.

Recently, Pembina brought \$650 million worth of new infrastructure assets into service in Alberta and Saskatchewan. These included additional processing capacity and new pipelines. Its last two projects also came in under budget.

In total, the next few years of already secured projects should nearly double profitability by 2018. Compared with any of its Canadian peers, it has the largest portfolio of committed growth projects.

Through 2018 an incremental \$600-850 million in annual EBITDA is expected to be added to Pembina's results due to major projects coming online.

Earnings stability and plenty of growth opportunities should continue to result in impressive dividend growth. Already at a 4.8% yield, shares still look attractive despite their run this year.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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2. TSX:PPL (Pembina Pipeline Corporation)

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