Is Pembina Pipeline Corp. Still a Buy at These Levels?

Description

For investors who enjoy receiving monthly dividends, it would seem that shares of **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) may be ripe for the taking. The company has raised the monthly dividend from $0.16 per share in March to $0.17 per share in April. The good news for investors is, they have found a company which is not only a dividend payer, but also a dividend grower.

While most investments in the oil industry have performed terribly over the past few years, shares of Pembina have increased by close to 10% over the past year and by more than 60% over the past five years. As shares traded at a low price near the $28 mark in early 2016. By the end of 2016, shares rebounded to approximately $42 and now trade near the $44 mark.

Although it is highly unlikely for investors to receive a large amount of capital appreciation from this investment, the upside to purchasing this security is that there is a very high likelihood of receiving a dividend yield of close to 4.5%, while receiving raises in the dividend on a fairly regular basis.

By all accounts, this is not an exciting investment as the beta of the company is currently measured at 0.29. For those who are not aware, the beta is a measure which tells investors how volatile a security is in comparison to the rest of the market. In the case of this pipeline company, the very low beta will translate to a lower expected return. The benchmark is the overall market, which has a beta of one.

Looking at the dividend yield and the sustainability of the payout, investors need not worry. The total dividends paid divided by the cash flow from operations was no more than 32.5% in 2016 and 36.7% in 2015. Looking at the first quarter of 2017, the payout ratio was 30%. The dividend could be raised again before the year is out.

Where the potential enters the picture is in the form of capital expenditures. With over $3.5 billion of capital expenditures over the past two fiscal years and depreciation of only approximately $556 million, it is clear than the company is in the process of extending capacity to drive revenues higher in the future.

The challenge currently facing investors looking to enter a new position is that the current price is not far from the 52-week high of $44.65. The risk of purchasing at this level is that the market may incorrectly price in the bad news of a potential decline in oil prices, which has been ongoing for some time. Although it is easy to understand that oil moving through a pipeline has very little to do with the actual price of a barrel of oil, sometimes different parts of the industry get lumped in together. Patient investors need not worry.

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