

The Dip in This High-Yield Dividend Stock Is Attractive

Description

Pembina Pipeline Corp. ([TSX:PPL](#))([NYSE:PBA](#)) stock has experienced a nice pullback of ~7% from the recent ~\$43 per share level and is holding up relatively well compared to its peer group.

What can you expect from the stock going forward?

First, let's take a look at the business to see if it's a company you want to own.

The business

Pembina Pipeline transports and provides midstream services in North America. Through its pipelines, it transports natural gas and hydrocarbon liquids products, which are primarily produced in western Canada.

The company also has gas-gathering and processing facilities and an oil and gas liquids infrastructure and logistics business. As a result of Pembina Pipeline's integrated operations, it offers a full spectrum of midstream and marketing services to the energy sector.

The pending Veresen acquisition

Pembina Pipeline has been working on acquiring **Veresen Inc.** (TSX:VSN), which is expected to close by early fourth quarter. The combined company will have a diversified portfolio of crude oil, liquids, and natural gas pipelines, terminal, storage and midstream operations, gas-gathering and processing facilities, and fractionation facilities.

After the merger, Pembina Pipeline will have ~\$20 billion of growth opportunities, which improve the future prospects of the company. Not only will the company maintain an investment-grade rating of BBB, but it will also increase its dividend by 5.9% after the merger.



Growing dividend

The 5.9% dividend hike will be a one-time hike that's on top of Pembina Pipeline's regular dividend hikes.

Namely, Pembina Pipeline has already hiked its dividend this year. Its monthly dividend per share of \$0.17 is 6.25% higher than it was a year ago.

This year is the sixth consecutive year that Pembina Pipeline has hiked its dividend. In the last three, it increased its dividend per share at an average rate of 5%. It maintains a sustainable payout ratio of about 62%.

Combining with Veresen will not only increase the company's diversity, but it will also reduce the risk of the business as the company will generate more than 85% of fee-for-service cash flows. This improves the visibility of its cash flows as well as the safety of its dividend.

Since Pembina Pipeline aims for cash flow-per-share growth of 8-10%, it should have no problem maintaining a dividend-growth rate of at least 5%, like it has in the last three years.

Investor takeaway

Pembina Pipeline offers an above-average dividend yield of ~5.1% which should continue growing at a rate of at least 5% for the next few years. Moreover, the street consensus at **Thomson Reuters** also indicates substantial price appreciation as well — a mean 12-month price of \$50.30, or ~26% of upside.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/08/10

Date Created

2017/08/30

Author

kayng

default watermark

default watermark