



## Pembina Pipeline Corp. Had a Strong Q3 and More Growth Could Be on the Way

### Description

**Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)) released its third-quarter results last week. The company's net revenue rose 25% year over year, but earnings per share of \$0.22 dropped from \$0.25 a year ago. However, adjusted EBITDA of \$365 million was up from \$287 million a year ago for an increase of 27%.

The company also announced that it had closed the acquisition of Veresen Inc. on October 2.

Let's take a closer look at the results and the earnings release to see if Pembina is a good buy today.

### Segment analysis

Most of the increase in the company's top line came from its midstream segment, where revenues grew 32% year over year. Conventional pipeline revenue also increased by 27%, while gas services rose by 22%. However, the company's oil sands and heavy oil segment saw sales increase by just 4%.

Operating margin this quarter was up 27%, and the biggest improvement came from conventional pipelines, which increased 44%. The margins from the midstream segment grew 18%, while gas services improved 27%. Oil sands and heavy oil saw no improvement in the margin, despite an increase in sales.

### Why did the company see a decrease in earnings?

Although Pembina saw an improvement across its segments, the company's earnings were still down 11% from last year. The biggest reason for the decline was due to the company's hedging activities. In Q3, Pembina incurred a \$61 million loss on financial instruments related to commodity-related derivatives.

Although hedging can help secure a price, there is a risk that it won't go as planned and, in this case, result in a loss. However, hedging can help provide some stability amid fluctuating commodity prices, and a loss from those activities is a small price to pay to ensure the company's financials don't see even more variability.

There were other items that negatively impacted the company's earnings as well. Pembina saw other expenses rise \$13 million and finance costs also grew by \$17 million.

### **What the acquisition of Veresen means**

Pembina's president and CEO Mick Dilger said, "With increased size and scale, greater diversification and a broader service offering, the future is bright for Pembina. Going forward, we are capable of pursuing expanded growth opportunities in support of continued value creation for our shareholders."

Veresen's share price [got a big boost](#) when the acquisition was announced earlier this year, as the two companies provide complementary services and should be able to create significant synergies along the way.

### **Increase in dividend**

On the day the acquisition was announced, Pembina hiked its dividend by 5.9%. The company [continues to offer a very attractive payout](#) to investors looking for regular income. If Pembina achieves the growth and synergy that it expects from the acquisition, then it's very likely that the dividend could see even more growth in the years to come.

### **Is the stock a buy?**

Pembina had a good quarter overall, and the acquisition of Veresen should be able to propel its growth further, especially if the price of oil continues to rise. It's a great stock to buy for its dividend, and as the oil and gas industry continues to recover, Pembina's stock could soar.

### **CATEGORY**

1. Investing

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