This 5% Yield Is Set to Soar

Description

The quiet achiever of Canada's energy patch, **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA) continues to unlock considerable value for investors. The pipeline and midstream services company reported some solid numbers for the third quarter 2017 and is poised to unlock further value for investors now that it completed the needle-moving Veresen Inc. deal in early October. For these reasons, now is the time for investors to add Pembina to their portfolios.

Now what?

Pembina owns and operates one of the largest networks of oil and gas pipelines in Canada. Its infrastructure and services are integral to the operations of upstream oil companies operating in the energy patch, transporting the conventional oil, bitumen, and natural gas it produces to crucial markets.

The $9.7 billion combined cash and stock Veresen acquisition has significantly bulked up Pembina's gas processing and transportation capabilities while expanding its pipeline network to Chicago. The deal will give its earnings from pipelines and natural gas processing a significant boost over coming months.

The strengths of Pembina's business can be seen from its third-quarter 2017 results, where EBITDA shot up by an impressive 27% year over year, and cash flow went up by 22%, despite weak crude prices causing production to decline.

Importantly, costs continue to fall, giving Pembina's operating margin a healthy 27% bump compared to a year earlier. Along with record volumes of conventional crude being transported through its pipeline network, the company will continue to lift earnings, especially as a range of projects currently under development come online.

Pembina also has $2 billion of growth initiatives underway, which are forecast to commence operations between the end of 2017 and mid to late 2019, further supporting the transportation of greater oil and gas volumes.

Firmer oil and natural gas prices will also help to boost earnings, because as activity ramps up in the energy patch, there will be greater demand for Pembina's transportation, processing, and midstream services.

So what?

Pembina is an attractive play on higher crude with far less downside risk if oil prices soften compared to upstream energy companies. This is because demand for the services its provides remains relatively unchanging because of the crucial role that oil and natural gas play in powering our modern lives. The energy company also possesses a wide, almost insurmountable economic moat, which protects it from competition and supports earnings growth.

You see, the transportation and processing of crude, natural gas, and other petroleum products is heavily regulated, and tremendous amounts of capital are required to buy or build the necessary infrastructure. That means it is an oligopolistic industry, which endows Pembina and its peers with considerable pricing power, while further supporting demand for the use of their services and infrastructure.

For these reasons, along with the relatively inelastic demand for oil, Pembina not only offers considerable growth prospects, but it also has appreciable defensive attributes, which make it an ideal stock to own in preparation for an economic downturn.

Pembina has a long history of regularly hiking its dividend and is currently rewarding investors with a juicy yield of just under 5%. The expected growth in earnings, along with the stability of Pembina's cash flows, makes it highly likely that investors will be rewarded with additional dividend increases.

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