1 Energy Infrastructure Stock Offering a Unique Opportunity to Play Higher Oil

Description

Oil's latest rally, which sees the North American benchmark West Texas Intermediate (WTI) trading at almost US$69 per barrel, its highest price since late 2014, has brought the spotlight firmly back onto Canada's beaten-down energy patch. While many upstream oil stocks have surged, it is Canada's energy infrastructure stocks that may present the best opportunity for investors seeking to cash in on the increasingly optimistic outlook for crude.

One of North America's largest energy infrastructure companies, **Pembina Pipeline Corp.** (TSX:PPL)(NYSE:PBA), offers a compelling opportunity for investors seeking exposure to higher crude. For the year to date, its stock has pulled back by 11% compared to oil rising by 13%, creating an opportunity for investors.

Now what?

For 2017, Pembina reported record results. Net earnings almost doubled compared to a year earlier to $891 million, driven by net revenue expanding by 27% and an impressive 40% increase in operating cash flow.

These impressive numbers can be attributed to Pembina completing the $9.7 billion transformative acquisition of Veresen Inc. That deal significantly expanded Pembina's liquids natural gas pipeline and storage network at time when capacity constraints were weighing on the price of Canadian crude blends. The impact of those capacity constraints will only worsen, as upstream oil producers ramp up production to take full advantage of higher crude.

Any significant increase in oil and other petroleum liquids volumes will cause demand for Pembina's infrastructure to skyrocket, leading to ever-growing utilization rates and hence higher earnings. Once the acquisition is fully bedded down, it will deliver a range of efficiencies, which will give EBITDA a healthy boost. Even when WTI was trading at around US$60 per barrel, Pembina was forecasting a massive 50% year-over-year increase for adjusted EBITDA during 2018. Now that WTI has raced past the US$65-a-barrel mark, that figure can only grow.

Pembina is not resting on its laurels since completing the Veresen deal. The company has $1.7 billion of projects aimed at expanding its pipeline, processing, and storage capacity. Upon completion, these projects will reduce the capacity constraints impacting Canadian crude prices, while giving Pembina's capacity, and hence earnings, a healthy boost.

What is particularly appealing about Pembina's business is that a large portion of its earnings and growth are contractually locked in. That helps to ensure consistent cash flows, while protecting Pembina's earnings from downturns in the price of crude and natural gas which, in the volatile market environment that now exists, is an important attribute to possess.

Pembina is also focused on maintaining a solid balance sheet to ensure there is ample capacity to finance its growth initiatives and endow it with the flexibility to respond to changes in its operating environment.

So what?

Pembina is among the most attractive, yet less-risky means of playing higher oil prices. That appeal is enhanced by the company's long history of rewarding investors with a regularly growing dividend. Pembina has hiked its dividend for the last six years straight, giving it a juicy yield of just over 5%. There is every likelihood that as earnings grow because of higher oil and greater demand for its infrastructure that more increases are on the way.

Pembina is an attractive investment for investors seeking growth and regular income, making it a core holding for every portfolio.

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