



Is This Canada's Top Energy Infrastructure Stock?

Description

Higher oil has been a boon for many of Canada's upstream and integrated energy companies. While the stocks of many upstream oil producers have soared in recent weeks, the providers of crucial midstream services and energy infrastructure to the oil patch have lagged behind.

Companies such as **Pembina Pipeline Corp.** ([TSX:PPL](#))([NYSE:PBA](#)) and **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) have lagged behind oil. Pembina has risen by a paltry 1.5% for the year to date, while Enbridge has plunged by just over 7%. This is compared to the solid 24% gain for West Texas Intermediate (WTI). That has created an opportunity for investors seeking an attractively valued stock that is poised to soar when oil commences its next rally.

Now what?

While Enbridge has seen its value fall since the start of 2018, leading management to [institute a program](#) to address its shortcomings, including reducing its \$61 billion debt pile and simplifying its convoluted capital structure, it is Pembina which is the more attractive investment opportunity.

This is because the needle-moving \$9.7 billion acquisition of Veresen Inc., which occurred just over a year ago, saw Pembina's energy infrastructure become a crucial link connecting Canada's main oil- and gas-producing basins to North American energy markets. Those petroleum basins include the Montney formation, which is one of Canada's fastest-growing and important natural gas plays. The deal boosted Pembina's pipeline transportation capacity to around three million barrels daily and bolstered the processing capability of its Western Canadian natural gas infrastructure to about 5.8 billion cubic feet daily.

Many oil producers in the patch are frantically ramping up activity to take advantage of higher than expected [oil prices](#), which will drive greater demand for the utilization of Pembina's energy infrastructure.

You see, the marked sustained rally now sees the average price of WTI since the start of 2018 coming to US\$65.55 per barrel, which significantly exceeds even the most optimistic forecast annual averages made at the end of 2017. This clearly has created an opportunity for heavily indebted upstream oil and

gas producers to ramp up production and bolster much-needed cash flow.

Even without this incentive, Canadian oil output was expected to grow significantly, according to the Canadian Association of Petroleum Producers (CAPP), which has forecast that average daily output will expand by 1.4 million barrels daily between now and 2035.

These factors will trigger even greater demand for pipeline and storage facilities in Canada, challenging a system already suffering from significant capacity constraints.

Pembina, however, is positioning itself to take full advantage of this growing demand by expanding its pipeline, processing, and storage infrastructure. It has \$2 billion of secured growth projects under construction that are forecast to be completed and come online between the end of 2018 and 2020. There is also \$3.55 billion worth of uncommitted projects under consideration, which can be added to that portfolio as funding and resources become available. These will give EBITDA an incremental boost, as they commence commercial operations.

In fact, 2018 EBITDA is forecast to be \$2.65-2.75 billion, which represents a notable 56-62% increase over 2017. For the reasons discussed earlier, it is likely that the upper range of this guidance will be met or even be exceeded. That should not only give Pembina's stock a healthy boost, but also see management reward loyal investors with yet another dividend hike after the 5.6% increase to its monthly dividend announced as part of its first-quarter 2018 results.

So what?

Pembina's growth prospects make it an attractive investment for any investors. This is enhanced by its regular dividend hikes, sustainable and juicy 4.6% yield, solid balance sheet with a manageable level of debt, and the predictable nature of its predominantly contracted earnings.

CATEGORY

1. Dividend Stocks
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Date

2025/08/21

Date Created

2018/07/09

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