Income Investors: Get 6.6% Yield on a Stock Hitting New 12-Month Highs

Description

Gibson Energy Inc. (TSX:GEI) might not be a name that you hear mentioned very often around the water cooler, but the company has a long history in the Canadian oil patch and might be in the early innings of a significant recovery.

Story

Gibson got its start in the early 1950s as a crude oil marketing company. The business soon expanded into trucking, rail cars, and pipelines as the industry required services to move oil around western Canada. In 1957, Gibson was the first company to build storage tanks at Hardisty and later added tanks in Edmonton.

By the late 1960s, the company had the first vehicles of its growing fleet of trucks specially built to haul heavy crude oil. In the 1970s, Gibson expanded into the asphalt transportation market and its services broadened to include rail car loading operations.

The 1980s saw Gibson get into the natural gas liquids (NGL) processing business and then become a major player in the retail and wholesale propane market through a series of acquisitions.

Growth continued through the 1990s with storage capacity at Hardisty hitting one million barrels in 1995. In 2002, Gibson bought a refinery and changed its name to Gibson Energy.

In 2008, Riverstone Holdings bought Gibson from Hunting PLC. The business expanded its footprint in the United States through an acquisition in 2010, and then went public in 2011, trading on the TSX.

As a publicly traded company, Gibson made a large additional acquisition in the United States and expanded storage capacity at Hardisty to 10 million barrels.

Tough times

The oil rout hit Gibson hard, sending the stock from its peak of $37 in 2014 to a low near $13 in early 2016.

In 2017, Gibson began a restructuring process that now has the company refocusing on the midstream infrastructure segment. Non-core asset sales already include the industrial propane business and the U.S. Energy Services businesses. In total, Gibson intends to monetize as much as $375 million in assets this year and in 2019. The NGL Wholesale and Canadian Truck Transportation operations are on the block.

The stock has made up some lost ground, however, currently trading at $20 per share. With the recovery underway in the energy sector, more gains could be on the way.

Financials

Gibson reported solid results for Q2 2018. Adjusted EBITDA from continuing operations came in at $100 million, thereby representing a 71% increase over the same period last year. Distributable cash flow rose 80% to $78 million.

Growth

Gibson is adding one million barrels of storage at Hardisty, in addition to another 1.1 million that is already under construction. South of the border, Gibson is pursuing opportunities in the Permian Basin in Texas.

Dividend

Gibson pays a quarterly dividend of $0.33 per share, which is good for an annualized yield of 6.6%. The trailing 12-month payout ratio is back below 80%, so the distribution should be safe.

Should you buy?

The stock jumped on the Q2 results, and continued progress on the strategy transition should provide additional support. If you think the oil recovery has legs, Gibson should be an attractive pick today.

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