Latest Results Highlight Why Pembina Pipeline Corp. (TSX:PPL) Is North America's Top Energy Infrastructure Stock

Description

While oil has rallied significantly since the start of 2018 to see West Texas Intermediate (WTI) up by over 16%, Canadian energy infrastructure stocks such as **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) have trailed behind. The pipeline and midstream services provider has only gained 2% for that period, weighed down by market concerns over the extreme volatility of oil, the impact of rising interest rates, and uncertainty over the economy. While these are valid fears, they shouldn't deter investors from adding Pembina to their portfolios, especially after it reported some strong second-quarter 2018 results.

Now what?

Some impressive aspects of Pembina's second-quarter performance were that revenue surged by a remarkable 68% year over year, operating cash flow shot up by an incredible 62%, and net income more than doubled to $246 million. Those notable results were largely driven by the additional $10 billion in assets acquired as part of the needle-moving **Veresen Inc.** deal and new assets coming online from Pembina's large portfolio of projects under development.

Because of these additional assets, which expanded the capacity of Pembina's pipeline network, the company reported record transportation volumes of 3,385 barrels daily for the quarter.

Such solid growth will continue over the remainder of 2018 and into 2019.

You see, oil's unanticipated rally, which sees WTI trading at over US$67 a barrel, has created a strong incentive for upstream oil producers to ramp up activities and bolster production. This is because many cash-starved oil producers desperately need to boost cash flow to meet debt obligations and investment in well development activities to stave off rising decline rates.

As a result of higher oil prices, many drillers are investing additional capital in exploration and development drilling in order to expand their oil output as rapidly as possible. The Canadian Association of Petroleum Producers (CAPP) expects domestic oil production to expand by a third between now and 2035. This will place even greater strain on a pipeline network that is already incapable of meeting demand.

However, it also creates a ready-made market for Pembina's $1.8 billion portfolio of projects that are currently under construction and that are expected to come online between now and the end of 2020. Those projects on commissioning will significantly boost the capacity of Pembina's transportation and storage infrastructure.

In fact, many of these projects will help to alleviate the transportation bottlenecks that are responsible for creating the considerable discount that is applied to Canadian heavy oil. That underscores just how important Pembina's operations are to Canada's energy patch, particularly when it is considered that deep discount has been sharply impacting the financial performance of some of Canada's largest bitumen producers.

What makes Pembina a particularly appealing investment is the stability of its earnings, because 75% of all revenues are contractually locked in. This makes the company highly resilient to economic downturns and helps to ensure that there is sufficient cash flow to fund capital expenditures for maintenance and development as well as enhancing the sustainability of its dividend.

Pembina also finished the second quarter with a solid balance sheet, including considerable liquidity made up of $81 million in cash and an undrawn $2.5 billion on an existing credit facility. The company also successfully completed a range of refinancing activities during the second quarter, extending the maturity dates for a large proportion of its debt. This gives Pembina additional time to amass further cash to meet is debt obligations while continuing to fund its dividend.

So what?

Pembina is a highly attractive play on higher crude. Not only does it possess a wide economic moat and form an integral part of the energy patch by providing critical transportation, processing, and storage infrastructure, but its earnings are poised to grow at a solid clip. While investors wait for the strength of its operations and growing portfolio of assets to push its market value higher, they will be rewarded by Pembina's sustainable regularly growing monthly dividend, which yields a tasty 5%.

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Date
2025/08/26
Date Created
2018/08/13
Author
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