Lock In a 5% Yield by Buying Pembina Pipeline Corp. (TSX:PPL)

Description

Weaker oil has left some pundits concerned that another price collapse could be on the way with the North American benchmark West Texas Intermediate (WTI) trading at below US$65 a barrel. While WTI is likely to remain range bound for some time, it shouldn't prevent investors from bolstering their exposure to crude. One of the best means of doing so is by adding **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) to your portfolio and locking in a dividend yield of just over 5%.

Now what?

Pembina reported strong third-quarter 2018 results, which included EBITDA almost doubling compared to a year earlier to $732 million and net income tripling to $334 million. This significant increase in earnings was driven by a notable uptick in the volumes of oil and natural gas transported by Pembina's pipeline network.

For the quarter, the total volume transported rose by an impressive 34% year over year to 3.5 million barrels daily. That — along with the $9.7 billion Veresen Inc. acquisition as well as new assets coming online during the first half of 2018 and higher oil prices — gave Pembina's fee-based revenue a solid lift. This more than offset a 21% year-over-year increase in operating expenses.

The strong quarterly result coupled with a solid performance from previous quarters leaves Pembina on track to meet its 2018 guidance. The company expects adjusted EBITDA of $2.75-2.85 billion for the year, which, at the bottom end, is 62% greater than 2017.

Pembina's earnings are secure because 64% of its fee revenue is earned from take-or-pay contracts. The company's earnings should continue to grow at a steady clip because Pembina has a large portfolio of projects under development, including $3.1 billion worth of assets under construction, which are expected to enter service by the end of 2020. There is also another $4.5 billion of uncommitted projects in the pipeline.

Because of Canada's transportation constraints, which are preventing oil producers from getting their product to key U.S. refining markets, there will always be strong demand for Pembina's infrastructure and services. It those pipeline capacity constraints which are responsible for the considerable buildup of oil reserves in Western Canada; reserves have reached record levels, causing the spread between WTI and Canadian heavy oil known as Western Canadian Select (WCS) to widen significantly. By the end of October 2018, the discount applied to WCS had risen substantially to see it trading 61% lower than WTI. This underscores the need for Canada to expand its pipeline network and why demand for Pembina's assets as well as services will remain strong.

Pembina also has a 50% interest in developing a polypropylene plant with **Petrochemical Industries Company K.S.C**. The project has an estimated $4 billion capital cost and is anticipated to be capable of producing around 550,000 metric tonnes per annum of polypropylene. The plant, on completion, will be able to take advantage of the low prices for natural gas in Alberta and thus should be a highly profitable venture once it enters service. Pembina's Jordan Cove Liquefied Natural Gas (LNG) project on completion will allow it to take advantage of the growing demand for LNG, which is expected to roughly double over the next 12 years.

The company also finished the third quarter in a solid financial position, holding $300 million in cash and $2.2 billion remaining undrawn on an existing credit facility.

So what?

Pembina remains one of the most appealing means for investors to bolster their exposure to crude. Not only does it possess a wide moat and contractually protected revenues, but the growing demand for the utilization of its infrastructure will give earnings a solid lift, which should cause its stock to appreciate. If investors buy Pembina now, they can lock in a reliable regularly growing dividend, which is yielding a juicy 5%.

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Date

2025/08/20
Date Created
2018/11/06
Author
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