Bucking the Trend: This Energy Stock Has Soared by 35%

Description

Canada's oil patch is in full crisis mode. The price differential between North American bench mark crude oil prices (WTI) and Western Canadian Select (WCS) is hitting record highs. As of writing, Canada's heavy crude is trading at a $43 dollar discount to WTI. Even synthetic oil and light crude's differential is starting to magnify.

Given the widening differential, Canada's oil & gas stocks have been punished. Over the past six months, Canada's Oil & Gas Index has lost approximately 20% of its value. There is one outlier however, **Gibson Energy** (TSX:GEI). Since hitting lows in March, Gibson has been on a prolonged uptrend returning approximately 35%. It's the best performing TSX-listed oil and gas stock over the past six months.

Why the outperformance? Let's take a look.

Oil & gas infrastructure company

For starters, Gibson is not an oil producer. It is a midstream energy infrastructure and logistics company. Its network of assets move, blend, process, market and distribute crude oil, condensate, natural gas liquids (NGLs) and other liquids. Through its integrated network of terminals, pipelines, storage tanks and trucks, it transports energy products across North America.

Gibson has approximately 14 million barrels of storage capacity that are strategically located at the heart of North American oil production. The company's assets in western Canada are surrounded by the Montney, Duvernay, Viking and the Oil sands basins. In the U.S., it's assets are centrally located in the Permian and Scoop/Stack basins. Gibson's Hardisty terminal in Western Canada provides it with a significant moat, as it has the highest number of connections to inbound and outbound pipelines.

Oil price differential is a short-term tailwind

The biggest problem facing the oil patch is the inability to get oil to markets. There is a significant pipeline glut and as such, oil companies are producing more than they can ship. Oil producers are relying on storage facilities to hold their product until it can get to market. This makes Gibson a valuable partner.

Gibson is well insulated from the oil price differential, as less than 10% of its services are tied to commodity pricing.

Gibson expects the demand for storage to continue its upward trend. To meet demand, the company has begun construction on additional storage facilities at its Hardisty Terminal. Once operational, the new tanks are expected to add an additional 3.1 million barrels of storage capacity. The company expects it could add two to four extra tanks each year to keep up with demand.

Strong financial position

Over 80% of the company's earnings before interest, taxes, depreciation and amortization (EBITDA) come from are take-or-pay and fee-based contracts. This has led to stable and reliable cash flow, which is being re-invested into additional growth projects and to shareholders via dividend. The company expects to grow distributed cash flow by 10% through 2022 by investing $150-$200 million per year.

The company is well positioned to achieve its growth rate, as it's also one of the least indebted companies in the sector. Gibson's current leverage ratio of 2.9 times is below its targeted net debt leverage ratio of 3.0-3.5 times EBITDA. Over the trailing 12 months, the company's dividend payout ratio as a percentage of DCF was approximately 70%. This is at the low end of the company's 70%-80% range. Gibson is fully funded to deliver on all announced capital expenditures and dividends.

Foolish takeway

Gibson Energy is a great way to get exposure to the oil patch without the commodity exposure risk. It pays a healthy dividend, and demand for its products won't go away any time soon.

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