This Is the Top Income Growth Stock to Own for 2019 and Beyond

Description

Despite oil's latest weakness and mixed outlook, which has caused the North American benchmark West Texas Intermediate (WTI) to plunge to under US$50 a barrel, investors should not be deterred from acquiring quality energy stocks. The secret is to identify those with wide economic moats, strong operations, secure earnings, and considerable growth potential.

One that stands out is midstream services provider and pipeline company **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). Its stock has lost 11% over the last year compared to WTI losing around 20% and the **Energy Select Sector SPDR ETF** plunging by 22%. This can be attributed to a range of strengths that the company possesses, key being its fortress like economic moat.

Almost unassailable economic moat

The energy infrastructure industry is particularly difficult to enter because of significant regulatory hurdles and the immense amount of capital required to build or buy pipelines, storage, and processing assets. This protects industry participants from competition, thereby assuring their earnings.

Furthermore, the relative inelastic demand for oil and natural gas along with growing production ensure that demand for the utilization of that infrastructure continues to grow at a steady clip. This is particularly the case when it is considered that Pembina's pipeline network forms a critical link between Canada's energy patch and crucial U.S. refining markets. Because Canadian oil production is expected to rise by around 33% between now and 2035, demand for the utilization of Pembina's transportation, storage, and processing infrastructure will grow.

The importance of Pembina's infrastructure network can't be understated when it is considered that it connects major oil-producing operations in Alberta to U.S. refining markets. The company's pipelines span the key oil sands-producing region around Fort McMurray, the booming Montney, DuVernay, as well as Deep Basin natural gas plays and the light oil-producing Cardium formation and Williston Basin.

Growing capacity and earnings

Pembina continues to expand the operational footprint as well as the capacity of its pipeline network and other related infrastructure. It has an extensive portfolio of assets under development, including $3.1 billion of secured capital projects, which will be commissioned between now and the first half of 2021. The growing capacity of Pembina's pipeline and processing infrastructure will give earnings a healthy bump.

The certainty of the company's earnings is enhanced by the contracted nature of its operations. For 2018, 64% of Pembina's adjusted EBITDA will come from take-or-pay contracts, while a further 21% is derived from fee-for-service agreements. This — along with its wide economic moat and the inelastic demand for energy — virtually assures Pembina's earnings. It also means that they will keep growing as its pipeline capacity expands, because significant transportation bottlenecks already exist, meaning that demand far exceeds current pipeline capacity.

These factors also endow Pembina with significant defensive qualities, which reduces its susceptibility to economic downturns.

Pembina has forecast that 2019 EBITDA will expand by around 5% compared to 2018 to somewhere between $2.8 and $3 billion. That growth will not only give its stock a healthy lift but also further ensures the sustainability of its dividend. Growing earnings have allowed Pembina to reward investors with regular dividend increases, hiking that payment for the last six years to see the company now yielding a very juicy 5.5%. As Pembina's earnings rise, there will undoubtedly be further dividend hikes ahead.

Why buy Pembina?

The midstream services provider remains a top buy for investors seeking a combination of growth, income, and defensive characteristics. Its high-quality energy infrastructure, growing demand for the utilization of those assets, and almost unassailable economic moat makes it an ideal defensive, income-generating investment.

Meanwhile, Pembina's capital development program signifies that its energy transportation, storage, and processing capacity will expand at a solid clip, which will act as a powerful tailwind for earnings, thereby causing its stock to appreciate. These attributes make it a must-own core holding for any portfolio.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:PBA (Pembina Pipeline Corporation)
2. TSX:PPL (Pembina Pipeline Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/08
Date Created
2019/01/03
Author
mattdsmith