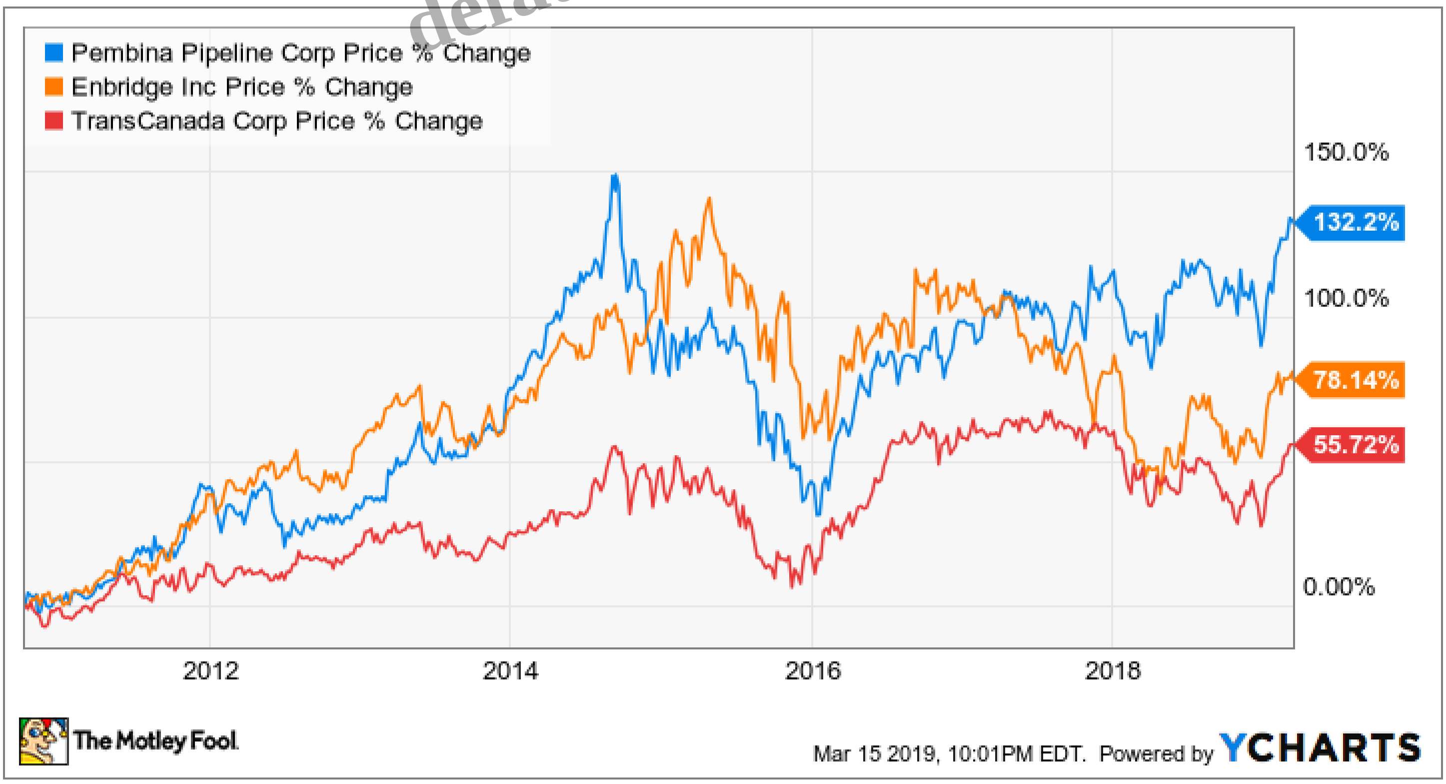
Gotta Love This Dividend Stock: 52-Week High and Still a Buy

Description

Some investors avoid stocks that are making 52-week highs because the stocks seem expensive. However, in the case of the dividend stock that I'm about to reveal, it's actually still a wonderful buy despite the stock recently making 52-week highs.

Pembina Pipeline (TSX:PPL)(NYSE:PBA) has been outrunning its bigger peers, including **Enbridge** and **TransCanada**! Here's the 10-year price action of Pembina and its bigger peers.



PPL data by YCharts.

Fabulous 2018 results

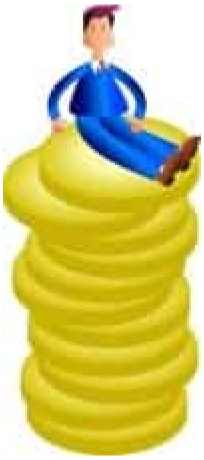
Pembina reported fabulous 2018 results, which was partly due to the acquisition of Veresen in 2017; Veresen contributed the first full year in 2018.

Pembina is to be applauded for successfully integrating the staff and systems of the two companies, which made the combined company stronger as a whole.

The 2018 results say it all. Revenue up 36% to $7,351 million. Diluted earnings per share climbed more than 22% to $2.28. Adjusted cash flow from operating activities per share increased by more than 30% $4.27. Adjusted earnings before interest, taxes, depreciation, and amortization rose by 67% to $2,835 million.

Pembina offers a safe and growing dividend

Don’t be alarmed that Pembina paid out 98% of earnings as dividends in 2018. The energy infrastructure company has huge chunks of depreciation, which are non-cash expenses that drag down its earnings but not its cash flow. Pembina only pays out about 55% of operating cash flow as dividends, which makes its dividend much more sustainable.



Pembina has a track record of maintaining or increasing its dividend per share since at least 2002, which demonstrates that management is strongly committed to the monthly dividend.

As of writing, Pembina offers a solid yield of 4.6%. The stable dividend stock’s five-year average yield is 4.66%, which indicates that the stock is fairly valued.

Pembina still has decent upside potential

Based on a normalized cash flow multiple, Pembina can trade at about $57 in a year, which represents more than 15% near-term upside potential. **Thomson Reuters** has a 12-month mean target of $55.10 per share on the stock, which represents more than 11% near-term upside potential.

In other words, when combining Pembina's dividend and price appreciation potential, buyers of Pembina stock today can get total returns in the range of 16-20% over the next 12 months. These are market-beating returns.

Investor takeaway

Pembina's balance sheet looks solid. The company is awarded an investment-grade S&P credit rating of BBB. At the end of 2018, Pembina had $157 million of cash and cash equivalents. The debt-to-asset ratio looked fine at 46%.

Management has been excellent in growing Pembina's profitability while paying an increasing dividend to shareholders over time. As a result, since before the last recession, the stock has delivered market-beating total returns of about 12.8% per year (versus the U.S.'s stock market's 7.6%), as well as generating more than 4.5 times the dividend income from the same investment in the U.S. stock market.

Currently, Pembina is a wonderful business that's priced fairly. According to Warren Buffett, Pembina is a buy. If you're looking for a bigger margin of safety, consider picking up shares on dips of 5-10%.

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