



Is Pembina (TSX:PPL) a Buy After Announcing This \$4.35 Billion Acquisition?

Description

In August, **Pembina Pipeline** ([TSX:PPL](#))([NYSE:PBA](#)) made big news when it announced that it was going to be acquiring **Kinder Morgan Canada** as well as the U.S. part of the Cochin Pipeline, which is owned by **Kinder Morgan** for about \$4.35 billion.

It's a big move that increases its exposure in the oil sands, but Pembina sees it as having significant upside, noting in the press release, "The assets to be acquired under the Transaction are predominantly supported by long-term, fee-for-service, take-or-pay contracts, which are underpinned by investment grade counterparties."

Pembina has had good growth in recent years with sales of \$7.4 million in 2018 rising by 36% from the previous year and 72% from 2016. Profits have also risen in each of the past three years, more than tripling since 2015. The acquisition of Kinder Morgan Canada should help Pembina continue adding to those impressive results.

No interest in Trans Mountain for now

Although Pembina is interested in Kinder Morgan's assets, that doesn't mean that it's interested in the [Trans Mountain pipeline](#), which was previously owned by the company. Pembina does believe that it has the capability to operate the pipeline successfully, but it has made it clear that it doesn't want "all the noise that that entails." The Trans Mountain pipeline has been a controversial project, to say the least.

While the pipeline would definitely add even more growth for Pembina, there are still uncertainties surrounding it and whether it will get built, as there is no shortage of opposition to it. Pembina's desire to keep away from that negative press is not a bad move for the company, as taking it on could simply drain its cash flow.

Dividend to be increased

The company's confidence in the deal for Kinder Morgan's assets was noted in the press release. Pembina also announced that it would be increasing its [dividend payments](#) from \$0.20 to \$0.21, assuming that the deal goes through. The company's senior VP and CFO Scott Burrows stated, "This transaction strengthens the quality of Pembina's adjusted EBITDA, is accretive to adjusted cash flow per share and fits squarely within Pembina's financial guardrails. Combined, these factors give us confidence to increase our dividend by approximately five percent upon close of the Transaction."

Should investors buy Pembina?

Initially, investors were not very excited about the deal, with the stock falling the day it was announced and for multiple days following the news. It's hard to blame investors given the bearishness in the industry. Since March, Pembina stock has failed to produce any sustained momentum for investors, as outside of a couple of strong months to start the year, things have remained very volatile for the oil and gas stock.

However, for those that haven't given up on the industry just yet, Pembina could be one of the better stocks to own today. Trading at 16 times earnings and two times book value, it's not going to cost a big premium to own the stock, and the monthly dividend is also a nice bonus for investors. There's definitely a lot of potential for the stock, but it may take a long time before it gets realized.

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