TFSA Investors: 5 Reasons to Load Up on This Undervalued Energy Stock Right Now

Description

While the equity markets are in turmoil, it is good to have a steady stream of income to help navigate a tough macro situation. The bear market has crushed valuations, making several stocks attractive at the current price.

Further, dividend-paying stocks have seen yields shoot up in this sell-off. Energy companies have seen billions of dollars wiped off in market value and they are trading at multi-year lows.

This decline provides an opportunity for growth, value, contrarian and income investors to buy high-quality stocks at rock-bottom prices.

Here we look at one such energy company that's trading 54% below its 52-week high. In the last two days, the stock has gained a staggering 59% in market cap.

Pembina was grossly oversold

I had identified **Pembina** (TSX:PPL)(NYSE:PBA) as a value buy on March 19, just before the stock took-off. There were plenty of reasons to load up on this company. First, Pembina is not a pure-play energy company. It is a transportation and midstream service provider and owns an integrated system of pipelines to transport various products including natural gas and hydrocarbons.

Pembina generates around 66.4% of revenue from Marketing and New Ventures, 22.8% of revenue from pipelines and 10.7% from its facilities business.

Second, in terms of balance sheet strength, it's right up there with Canada's top energy players. Pembina has a net asset to sales ratio of 3.93 while this ratio for Enbridge stands at 3.1. Pembina's net debt to EBITDA multiple is 4.1 compared to Enbridge's leverage ratio of 5.4.

Third, Pembina President Michael Dilger bought stock worth $791,000 for $31.62, which is far higher compared to the current price of $24.18. If company management believes the stock is undervalued at that price, investors can follow suit and buy the company at a considerable discount.

Fourth, Pembina has a forward yield of 10.5% as it pays a dividend of $2.52 per share. It has increased dividend payments for four consecutive years. In the last three years, annualized growth was 6.2%.

With 85% of the company's adjusted EBITDA is protected by long-term contracts, its stream of cash flows can be expected to be steady in these turbulent times.

Fifth, Pembina is trading at an extremely cheap valuation. Its forward price-to-earnings multiple stands at 9.8. Comparatively, its sales are expected to increase by 3.2% in $7.46 billion in 2020 and 3.3% to $7.71 billion.

Pembina's earnings are expected to fall 20.8% in 2020, but rise by 11.5% in 2021 at an annual rate of 6.5% in the next five years. Pembina has a price-to-sales ratio of 1.86 and a price to book ratio of 0.97, making it an attractive pick for value investors.

The verdict

Energy prices are bound to move higher in the upcoming months or else several companies may go bust. Pembina has announced a 45% cut in capital expenditure for 2020.

This, coupled with low top-line volatility due to fee-based cash flows make Pembina one of the most exciting stocks right now.

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. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/26
Date Created
2020/03/21
Author
araghunath