Should You Rush to Buy Pembina Pipeline (TSX:PPL) Stock?

### Description

So far, **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) stock has corrected by about 32% this year. A record drop in crude oil prices following temporary demand disruptions and excess supply took a toll on the stock prices of companies in the oil and gas space, including Pembina Pipeline.



While low oil prices aren't conducive for Pembina Pipeline, it has limited direct commodity exposure, which makes it relatively immune to the deterioration in commodity prices. Moreover, the significant decline in its stock price makes it a value buy and presents an excellent opportunity to own a stock that pays consistent dividends with solid forward yield.

## Solid underlying business

While volume declines amid low oil prices are likely to play spoilsport in the near term, Pembina's diversified revenue channels provide a strong underpinning for future growth and reduce risk. Pembina's underlying business is highly contracted, which ensures steady cash flows. Moreover, more than 90% of its adjusted EBITDA is backed by long-term, fee-based contracts. Also, about 68-72% of these long-term contracts are supported by cost-of-service or take-or-pay contracts, which have no volume or price risk.

Pembina's recent acquisitions and focus on developing highly contracted assets have helped it in diversifying its exposure across commodities with credit-worthy counterparties. Moreover, these acquisitions have resulted in the resilient cash flow stream, making the business relatively immune to the economic downturn.

## Safe and high dividend yield

Pembina is a Dividend Aristocrat, implying it has a long history of consistently paying higher dividends. Investors should note that Pembina has distributed $4.5 billion in dividends in the last five years. Moreover, its dividends have grown by 6.5% annually during the same period. Also, the company has never reduced its dividends.

The decline in Pembina's stock price and increased dividends have driven its yield higher. Currently, Pembina stock offers a lucrative dividend yield of 7.7%, which is backed by fee-based cash flows. Pembina's dividends are not reliant on its businesses that have direct commodity exposure, implying that future payouts are safe.

In 2019, Pembina's common share dividends accounted for about 73% of its fee-based distributable cash flows, indicating that its payouts are more than covered through businesses that generate steady cash flows.

## Strong financials

Pembina maintains a strong balance sheet with $2.5 billion in liquidity, which is more than enough to fund its operations. Amid the COVID-19 outbreak, Pembina lowered its 2020 capital investment plan, which will boost cash flows. Moreover, the reduction in capex will not have any impact on its base business. Besides, Pembina will continue to spend on new projects that will come into service in 2020.



## Bottom line

Pembina's diversified cash flows position it well to outperform the broader markets in the long run. Moreover, the decline in Pembina's stock presents an excellent opportunity to earn big yield and gain from capital appreciation along the way.

Pembina's steady, cash flow-generating capabilities, diversified and low-risk business model, and consistent dividend payouts make it an ideal stock for long-term investors seeking growth and income.

**CATEGORY**

1. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. 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. Coronavirus
2. Dividend Stocks
3. Energy Stocks
4. Investing

**Date**
2025/08/23
**Date Created**
2020/05/19
**Author**
snahata