Should Pembina Pipeline Be Part of Your Portfolio?

Description

Pembina Pipeline (TSX:PPL)(NYSE:PBA) is a Canada-based company engaged in the maintenance of transportation and storage infrastructure for oil and natural gas producers across the country. The company also processes natural gas.

Pembina Pipeline has a strong 65-year track record of growth and has provided solid returns to investors over the decades. After adjusting for dividends, the stock has returned 40% year to date. In the last five years, dividend-adjusted returns stand at 33%.

Pembina Pipeline is attractive to income investors

Stocks that offer steady income are attractive bets given the underlying volatility in equity markets. Pembina Pipeline stock is a high-yielding machine that has provided its investors with constant returns both in the form of dividends and capital appreciation. It currently offers investors a forward yield of a tasty 6.3%.

Moreover, Pembina has also increased its dividend payouts over the years since 1998. In the past decade, the company's dividends have grown at a compound annual growth rate (CAGR) of 4.9%. In 2020, when the pandemic first shook the world and the oil markets had crashed, the company proved its mettle and maintained its dividend payouts, unlike most other oil and energy companies that had either cut down or completely suspended their payouts.

This showcased the company's highly resilient business model as 94% of its cash flows are backed by fee-based contracts.

Pembina Pipeline is open to strategic partnerships that can add value to the company. For example, a notable partnership for Pembina Pipeline is with **TC Energy** that saw both companies team up to create a carbon-sequestration hub that would help companies in meeting their ESG goals and achieve net-zero emissions targets.

Pembina failed to acquire **Inter Pipeline** in 2021. But as the consolidation in the energy infrastructure segment gains pace, Pembina is also an attractive takeover target for large-cap heavyweights looking for companies with expanding pipeline assets that generate a steady stream of cash flows.

Solid Q2 results for Pembina

Pembina's cash flows remain predictable across business cycles due to its contract-based business model and investment-grade balance sheet. As demand for oil has increased in 2021, Pembina is well poised to improve cash flows and earnings this year. In the first six months of 2021, its revenue rose to $3.99 billion, compared to $2.93 billion in the prior-year period.

Bay Street now expects Pembina sales to rise by 24.6% to $7.73 billion in 2021, while its earnings per share are forecast at $2.29, compared to a loss of $0.86 per share in 2020.

Pembina is a top-quality stock with strong core operations. It still has a lot of growth potential and is expected to outpace the **TSX** in the coming years as well. Pembina Pipeline remains an undervalued gem, making it attractive to value and income investors. Analysts tracking the stock expect it to gain close to 8% in the next 12 months. After accounting for its healthy dividend, annual returns will be close to 14%.

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