Pembina Stock Hits 52-Week High on Joint-Venture News

Description

Pembina Pipeline (TSX:PPL)(NYSE:PBA) shares climbed to 52-week highs this week, as the company made several announcements to investors. First, Pembina stock reported record-setting earnings. Then management announced a joint venture with private equity firm KKR & Co to combine assets.

What happened?

The joint venture with KKR would see the combination of western Canadian natural gas-processing assets with Pembina stock. The deal would be worth $11.4 billion, giving Pembina enormous exposure to the rising natural gas volumes in western Canada. This helps, as natural gas prices continue to climb with supply disruptions affecting the industry.

Pembina stock will head the new company, owning 60% and KKR the rest. The new combined venture should deliver natural gas output of five billion cubic feet per day. Furthermore, the energy giant stated it would then increase its dividend by 3.6% after the deal closes, which should be during the second or third quarter.

So what?

The deal should lead to immense efficiencies and cost reductions, according to both companies. Pembina stock expects mid- to high single-digit growth in adjusted cash flow per share over the next five years. Yet while all this sounds like great news, and it is, analysts like Michael Shaw from Raymond James warn to be cautious.

Shaw maintained his “market perform” recommendation recently, though raised the target price by a dollar to $44.50. This came from the company’s strong fourth-quarter results and 2022 outlook. Favourable commodity prices, financial strength and increased drilling activity all led to solid results. Furthermore, its marketing game really upped the ante in 2021, which all led to a record year end.

Still, Shaw believes the solid performance is already reflected in the company's share price of $43.76 as of writing. The company's performance is in line with its performance from the last several years, so it looks to be fairly priced. This is why Shaw continued to hold his "market perform" weighting for Pembina stock.

Now what?

Pembina stock trades at a fairly valued 21.79 times earnings, so Shaw is right it certainly isn't in value territory. Yet recent news is definitely strong enough for long-term investors to consider the company. Pembina saw a strong quarter that led it to increase its guidance of between $3.35 to $3.55 billion for 2022.

Add to that an increase in the monthly dividend, and investors certainly have enough reason to buy up Pembina stock as a long-term hold. You can now pick up a dividend yield of 5.94% as of writing, with shares up 13% year to date.

While shares may be at 52-week highs, they're still a ways off from the $50 share price Pembina stock hit before the market crash. That would represent an upside potential of another 16% as of writing. And with a new joint venture on the books, there could be a massive increase in revenue that shareholders can look forward to in 2022 and beyond.

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