



Pembina Pipeline Corp. (PBA)

Updated August 23rd, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	8.1%	Volatility Percentile:	20.1%
Fair Value Price:	\$43	5 Year Growth Estimate:	5.0%	Momentum Percentile:	67.1%
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.9%	Growth Percentile:	38.5%
Dividend Yield:	5.0%	5 Year Price Target	\$54	Valuation Percentile:	34.1%
Dividend Risk Score:	B	Retirement Suitability Score:	A	Total Return Percentile:	38.6%

Overview & Current Events

Pembina Pipeline Corporation is based in Calgary, Canada. It has been serving the energy industry of North America with its transportation and midstream services for 65 years. It owns an integrated system of pipelines that transport various hydrocarbon liquids and natural gas products produced primarily in western Canada. The company also has gathering and processing facilities. Pembina has a market cap of C\$24 billion and operates in three segments; Pipelines, Facilities, and Marketing & New Ventures. In 2018, these segments generated 54%, 25% and 21% of the company's total operating profit, respectively. All the figures in this report are in Canadian dollars.

In early August, Pembina reported (8/1/19) financial results for the second quarter of fiscal 2019. Revenue grew 4% and gross profit increased in all three divisions thanks to the contribution of assets that were recently placed into service and higher terminal revenue. Earnings were boosted by a \$326 million tax benefit thanks to Alberta's reduction of corporate tax from 12% to 8% within the next three years. Excluding this benefit, earnings increased 4% in the first half of the year over last year's period.

On August 21st, Pembina agreed to acquire Kinder Morgan Canada and Kinder Morgan's U.S. portion of the Cochin pipeline for \$4.35 billion in an all-stock deal, which will raise the share count of Pembina by about 25 million shares. This acquisition will enhance the fee-based and take-or-pay revenues of Pembina, which will become even more insulated from commodity prices after this deal.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.09	\$1.14	\$0.99	\$0.87	\$1.12	\$1.06	\$1.02	\$1.01	\$1.86	\$2.28	\$2.37	\$3.02
DPS	\$1.56	\$1.56	\$1.56	\$1.60	\$1.65	\$1.72	\$1.80	\$1.90	\$2.04	\$2.24	\$2.35	\$3.00
Shares¹	154	167	168	259	308	328	348	389	432	509	540	670

Pembina achieved record adjusted EBITDA of \$2.835 billion in 2018 and expects adjusted EBITDA growth of 0%-6% for this year. During the last decade, although Pembina has more than tripled its share count, it has grown its earnings-per-share at an 8.5% average annual rate. However, this growth has not been uniform, as the company failed to grow its earnings-per-share from 2009 to 2016. Nevertheless, the company currently enjoys strong business momentum while it has a long backlog of additional growth projects. Thanks to these projects, management expects to grow adjusted cash flow per share by 8%-10% per year and raise the dividend by about 5% per year for the foreseeable future. We have assumed 5% earnings-per-share growth beyond this year.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	---	24.3	32.9	41.7	36.5	48.3	37.4	36.4	23.1	19.2	19.8	18.0
Avg. Yld.	---	5.6%	4.8%	4.4%	4.0%	3.4%	4.7%	5.2%	4.8%	5.1%	5.0%	5.6%

1. In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Pembina has traded at remarkably high price-to-earnings ratios through much of the last decade. In addition, due to its huge capital expenses on growth projects, the company has posted negative free cash flows in most years so we cannot use cash flows to evaluate the stock. However, the valuation of the stock has returned to normal levels in the last two years, with its earnings multiple currently standing at 19.8. We assume a fair price-to-earnings ratio of 18.0 for the stock. If Pembina reaches our fair value estimate over the next five years, it will incur a -1.9% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	143%	137%	158%	184%	147%	162%	176%	188%	110%	98.2%	99.2%	99.3%

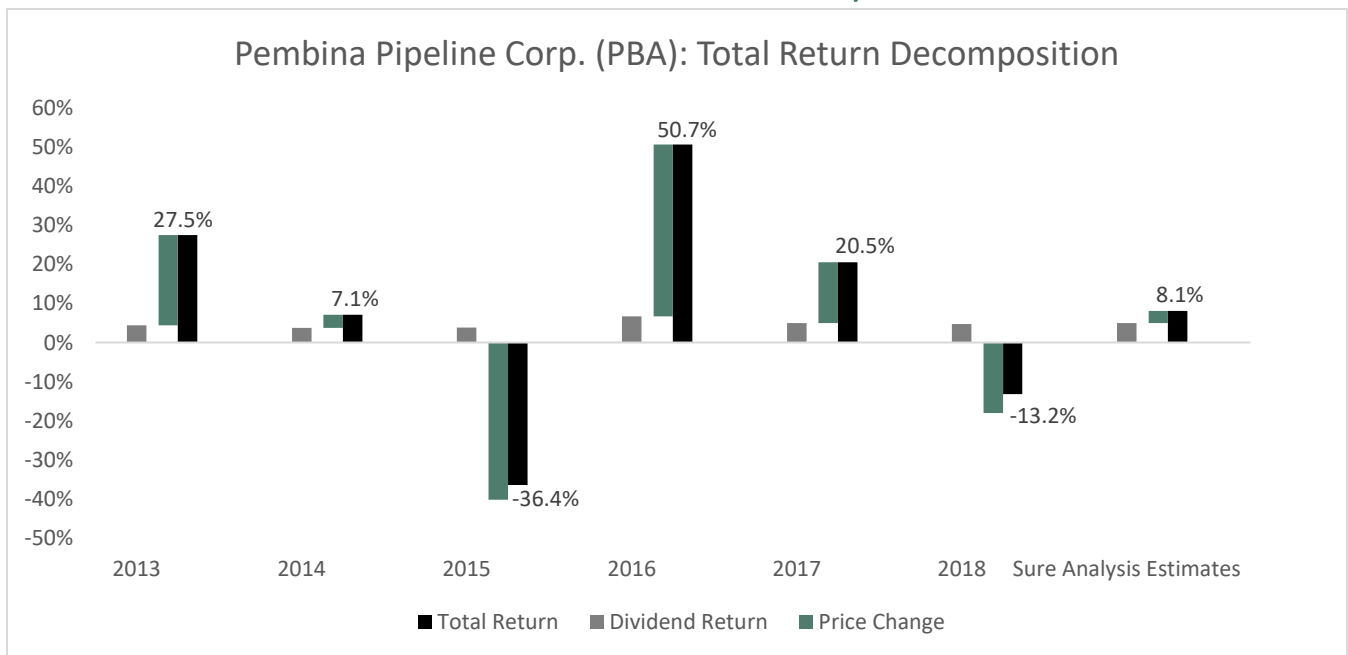
The competitive advantage of Pembina lies in its large scale and its integrated assets in some of the most prolific resource plays in North America. Pembina has steadily increased the fee-based portion of its EBITDA, from 77% in 2015 to 85% in 2018 and an expected 87% this year. It has pursued this strategy in order to secure a reliable and growing dividend, which is the top priority of management. Pembina has raised its dividend for 8 consecutive years and will keep growing its dividend for the foreseeable future, as it has markedly reduced its exposure to commodity prices. Moreover, the company has a much stronger balance sheet than most midstream companies, with its credit rating standing at a strong BBB level. Pembina pays dividends on a monthly basis, which is enticing for income-oriented investors.

While we expect Pembina to keep growing its dividend by about 5% per year in the upcoming years, investors should be aware that the dividend may come under pressure in the event of a major downturn, such as a recession, due to the elevated payout ratio.

Final Thoughts & Recommendation

Pembina reported record earnings last year and is poised to continue growing thanks to its long runway of growth projects and its recent acquisitions. However, the stock seems fully valued right now. As a result, we expect an 8.1% average annual return over the next five years and hence we rate the stock as a hold at its current price.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	812	1232	1676	3427	5006	6069	4635	4265	5400	7351
Gross Profit	338	279	344	507	787	852	832	1072	1429	1894
Gross Margin	41.7%	22.7%	20.5%	14.8%	15.7%	14.0%	18.0%	25.1%	26.5%	25.8%
SG&A Exp.	51	47	62	97	132	156	157	195	236	279
D&A Exp.	70	63	70	180	171	226	263	293	382	417
Operating Profit	217	230	282	410	654	678	651	878	1165	1588
Operating Margin	26.7%	18.7%	16.8%	12.0%	13.1%	11.2%	14.0%	20.6%	21.6%	21.6%
Net Profit	162	176	166	225	351	383	406	466	883	1278
Net Margin	20.0%	14.3%	9.9%	6.6%	7.0%	6.3%	8.8%	10.9%	16.4%	17.4%
Free Cash Flow	81	72	-192	-224	-195	-612	-1010	-668	-326	1030
Income Tax	-4	-8	39	75	143	167	199	189	142	464

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2581	2857	3339	8284	9142	11262	12902	15017	25566	26664
Cash & Equivalents	N/A	125	0	27	51	53	28	35	321	157
Accounts Receivable	83	105	117	313	419	154	111	161	177	177
Inventories	19	26	21	108	159	137	120	181	168	198
Goodwill & Int. Ass.	379	245	244	2623	2564	2841	2822	2834	4714	4409
Total Liabilities	1452	1806	2378	4009	3971	4926	5478	6721	11725	12260
Accounts Payable	58	99	141	301	359	444	373	475	465	519
Long-Term Debt	1272	1309	1626	2555	2275	2861	3323	4151	7556	7537
Shareholder's Equity	1129	1051	962	4270	4775	5456	6324	6787	11357	11921
D/E Ratio	1.13	1.25	1.69	0.60	0.44	0.45	0.45	0.50	0.55	0.53

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.9%	6.5%	5.3%	3.9%	4.0%	3.8%	3.4%	3.3%	4.4%	4.9%
Return on Equity	16.1%	16.1%	16.5%	8.6%	7.8%	7.5%	6.9%	7.1%	9.7%	11.0%
ROIC	7.5%	7.4%	6.7%	4.8%	4.9%	4.6%	4.1%	4.0%	5.2%	5.9%
Shares Out.	154	167	168	259	308	328	348	389	432	509
Revenue/Share	5.27	7.36	9.97	13.21	16.25	18.50	13.32	10.96	12.50	14.44
FCF/Share	0.52	0.43	-1.14	-0.86	-0.63	-1.87	-2.90	-1.72	-0.75	2.02

Note: All figures in millions of Canadian Dollars unless per share or indicated otherwise.

Disclaimer

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