



Pembina Pipeline Corp. (PBA)

Updated November 12th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	3.5%	Market Cap:	\$18.9 B
Fair Value Price:	\$24	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	11/23/21
% Fair Value:	138%	5 Year Valuation Multiple Estimate:	-6.2%	Dividend Payment Date:	12/15/21
Dividend Yield:	6.1%	5 Year Price Target	\$29	Years Of Dividend Growth:	5
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	5.0%

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 \$18.9 billion and operates in three segments: Pipelines, Facilities, and Marketing & New Ventures. In 2020, these segments generated 57%, 30% and 13% of the company's total gross profit, respectively. All the figures in this report are in U.S. dollars.

In early November, Pembina reported (11/5/21) financial results for the third quarter of fiscal 2021. In contrast to previous quarters, Pembina greatly benefited from the improved prices of crude oil and NGLs. Thanks to improved margins on NGL and crude oil sales as well as higher marketed NGL volumes, earnings-per-share nearly doubled over last year's quarter. Earnings would have grown more if the company had not hedged a material portion of its volumes.

Pembina is facing a headwind from the pandemic, which has caused a downturn in the energy market. This downturn has caught Pembina off guard, with a material debt load. As a result, Pembina cut its capital expenses by -37% last year and deferred some growth projects. On the bright side, the energy market has begun to recover from the pandemic.

On June 1st, 2021, Pembina agreed to acquire Inter Pipeline for C\$8.3 billion, in an all-stock deal. The two companies have highly connected and complementary assets. However, on July 27th, 2021, the deal was cancelled, as Inter Pipeline agreed to be acquired by Brookfield Infrastructure Partners. Pembina will receive a termination fee of C\$350 million.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.00	\$0.87	\$1.09	\$0.92	\$0.77	\$0.73	\$1.43	\$1.76	\$2.00	\$1.68	\$2.00	\$2.43
DPS	\$1.58	\$1.60	\$1.60	\$1.50	\$1.35	\$1.38	\$1.57	\$1.73	\$1.78	\$1.87	\$2.00	\$2.00
Shares¹	168	259	308	328	348	389	432	509	518	550	551	700

During the last decade, although Pembina has more than tripled its share count, it has grown its earnings-per-share at a 5.9% average annual rate. This growth has not been uniform, as the company failed to grow its earnings-per-share from 2010 to 2016. Nevertheless, the company has a long backlog of additional growth projects. Thanks to these projects, management previously stated that it expected to grow adjusted cash flow per share by 8%-10% per year and raise the dividend by about 5% per year beyond this year. Due to the volatile record of Pembina, we prefer to be somewhat conservative and thus we expect the company to grow its earnings-per-share by 4% per year beyond this year.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	32.9	41.7	36.5	48.3	37.4	36.4	23.1	19.2	18.2	15.5	16.5	12.0
Avg. Yld.	4.8%	4.4%	4.0%	3.4%	4.7%	5.2%	4.8%	5.1%	4.9%	7.2%	6.1%	6.8%

¹ In millions.

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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. The stock is now trading at a price-to-earnings ratio of 16.5, which is higher than our assumed fair earnings multiple of 12.0. We have assumed such a low fair earnings multiple due to the appreciable debt load of the company. If the stock trades at our fair value estimate in five years, it will incur a -6.2% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

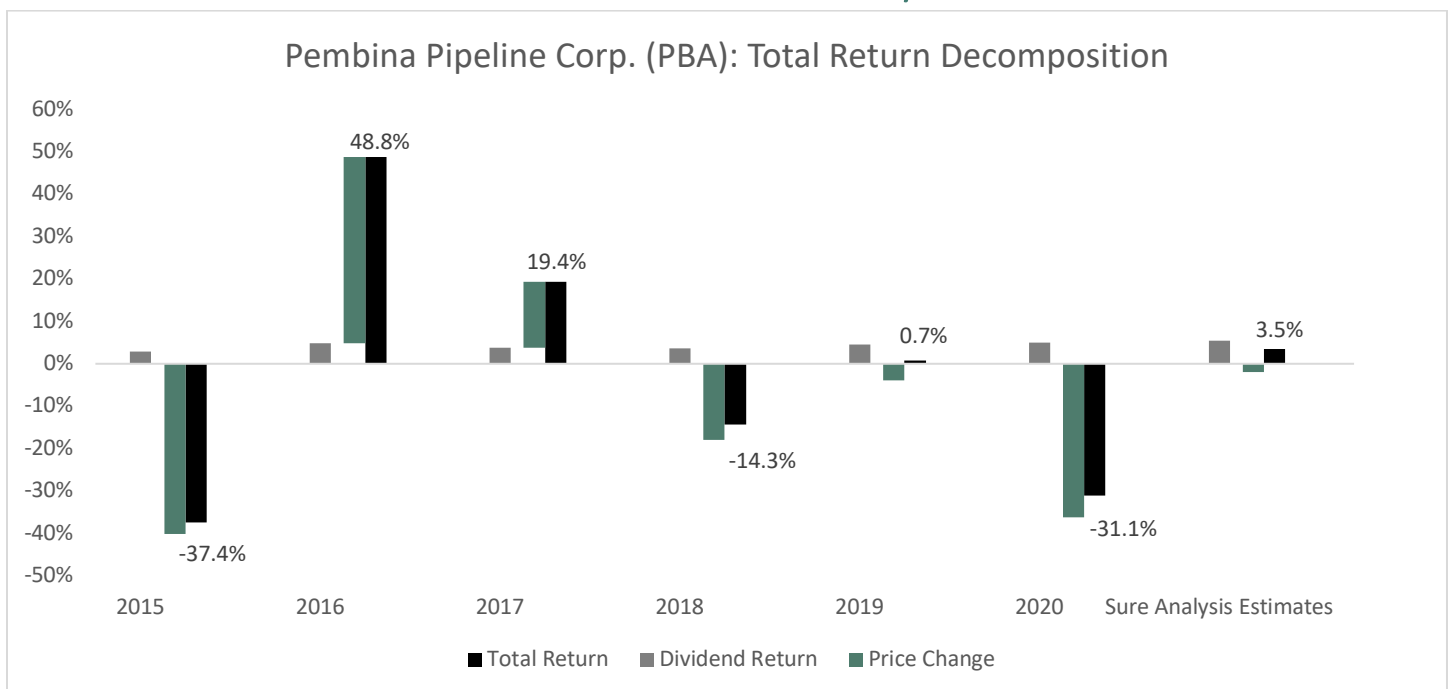
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	158%	184%	147%	162%	176%	188%	110%	98.2%	89.1%	111%	100%	82.2%

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 90%-95% 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 (in CAD) for 8 consecutive years and pays dividends on a monthly basis, which is enticing for income-oriented investors. In addition, it has a stronger balance sheet than most midstream companies, with its credit rating standing at a BBB level. However, the company has been caught in the ongoing downturn with a significant debt load, with its current liabilities of \$1.9 billion (due in the next 12 months) exceeding its current assets of \$1.0 billion. If the pandemic lasts longer than expected, investors should be aware that the dividend may come under pressure due to the elevated payout ratio and the significant debt load of the company.

Final Thoughts & Recommendation

Pembina is likely to recover from the pandemic in the upcoming quarters, but the market has already priced part of the recovery in the stock. As a result, we expect the stock to offer a 3.5% average annual return over the next five years. We thus rate the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,695	3,428	4,861	5,497	3,632	3,221	4,167	5,672	5,447	4,629
Gross Profit	348	507	764	772	652	809	1,103	1,462	1,840	1,499
Gross Margin	20.5%	14.8%	15.7%	14.0%	18.0%	25.1%	26.5%	25.8%	33.8%	32.4%
SG&A Exp.	63	97	128	141	123	147	182	215	223	184
D&A Exp.	71	180	166	205	206	221	295	322	382	522
Operating Profit	285	410	635	614	510	663	899	1,225	1,606	1,329
Op Margin	16.8%	12.0%	13.1%	11.2%	14.0%	20.6%	21.6%	21.6%	29.5%	28.7%
Net Profit	168	225	341	347	318	352	681	986	1,135	(236)
Net Margin	9.9%	6.6%	7.0%	6.3%	8.8%	10.9%	16.4%	17.4%	20.8%	-5.1%
Free Cash Flow	(194)	(224)	(189)	(554)	(791)	(504)	(252)	795	668	913

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	3,271	8,327	8,586	9,701	9,297	11,138	20,331	19,685	25,075	24,637
Cash & Equivalents	---	27	48	46	20	26	255	115	99	64
Accounts Receivable	143	326	394	364	331	119	141	444	440	453
Inventories	21	109	149	118	86	134	134	145	96	173
Goodwill & Int. Ass.	239	2,637	2,408	2,447	2,034	2,102	3,749	3,237	4,933	4,972
Total Liabilities	2,329	4,030	3,729	4,243	3,948	4,985	9,324	9,032	12,162	12,862
Accounts Payable	139	303	337	382	269	352	370	584	549	340
Long-Term Debt	1,593	2,568	2,137	2,465	2,395	3,079	6,009	5,520	7,772	8,529
Shareholder's Equity	942	4,292	4,485	4,700	4,557	5,034	9,031	8,829	10,604	9,418
D/E Ratio	1.69	0.60	0.44	0.45	0.45	0.50	0.55	0.52	0.60	0.73

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.5%	3.9%	4.0%	3.8%	3.3%	3.4%	4.3%	4.9%	5.1%	-0.9%
Return on Equity	16.8%	8.6%	7.8%	7.6%	6.9%	7.3%	9.7%	11.0%	11.7%	-2.4%
ROIC	6.8%	4.8%	4.9%	4.7%	4.1%	4.1%	5.2%	5.9%	6.2%	-1.2%
Shares Out.	168	259	308	328	348	389	432	509	518	550
Revenue/Share	10.08	13.21	15.78	16.76	10.44	8.28	9.65	11.14	10.60	8.42

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

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