



Pembina Pipeline Corp. (PBA)

Updated November 17th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	3.3%	Market Cap:	\$19.2 B
Fair Value Price:	\$31	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	11/23/22
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.3%	Dividend Payment Date:	12/15/22
Dividend Yield:	5.6%	5 Year Price Target	\$31	Years Of Dividend Growth:	5
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Sell

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 66 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 \$19.2 billion and operates in three segments: Pipelines, Facilities, and Marketing & New Ventures. In 2021, these segments generated 45%, 35% and 20% of the company's total pre-tax profit, respectively. All the figures in this report are in U.S. dollars.

In early November, Pembina reported (11/3/22) financial results for the third quarter of fiscal 2022. Pembina greatly benefited from improved margins on crude oil and natural gas. Given also higher toll fees due to inflation and contribution from recently completed projects, the company more than tripled its earnings-per-share over last year's quarter. Given the strong business momentum, we have raised our annual forecast from \$2.20 to \$2.60.

On August 16th, 2022, Pembina and KKR combined their western Canadian natural gas processing assets into a single, new joint venture entity, which is owned 60% by Pembina and 40% by KKR. The value of the joint venture is C\$11.4 billion (~\$9.0 billion) and Pembina has the role of the operator and manager. The two companies formed this joint venture to create synergies and offer improved customer service.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.87	\$1.09	\$0.92	\$0.77	\$0.73	\$1.43	\$1.76	\$2.00	\$1.68	\$1.72	\$2.60	\$2.60
DPS	\$1.60	\$1.60	\$1.50	\$1.35	\$1.38	\$1.57	\$1.73	\$1.78	\$1.87	\$2.00	\$1.96	\$2.00
Shares¹	259	308	328	348	389	432	509	518	550	551	556	700

During the last decade, although Pembina has more than doubled its share count, it has grown its earnings-per-share at a 7.9% average annual rate. This growth has not been uniform, as the company failed to grow its earnings-per-share from 2012 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 and the all-time high earnings-per-share expected this year, we prefer to be somewhat conservative and thus we expect the company to post flat earnings-per-share in 2027 vs. 2022.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	41.7	36.5	48.3	37.4	36.4	23.1	19.2	18.2	15.5	17.8	13.5	12.0
Avg. Yld.	4.4%	4.0%	3.4%	4.7%	5.2%	4.8%	5.1%	4.9%	7.2%	6.5%	5.6%	6.4%

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 13.5, 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 -2.3% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

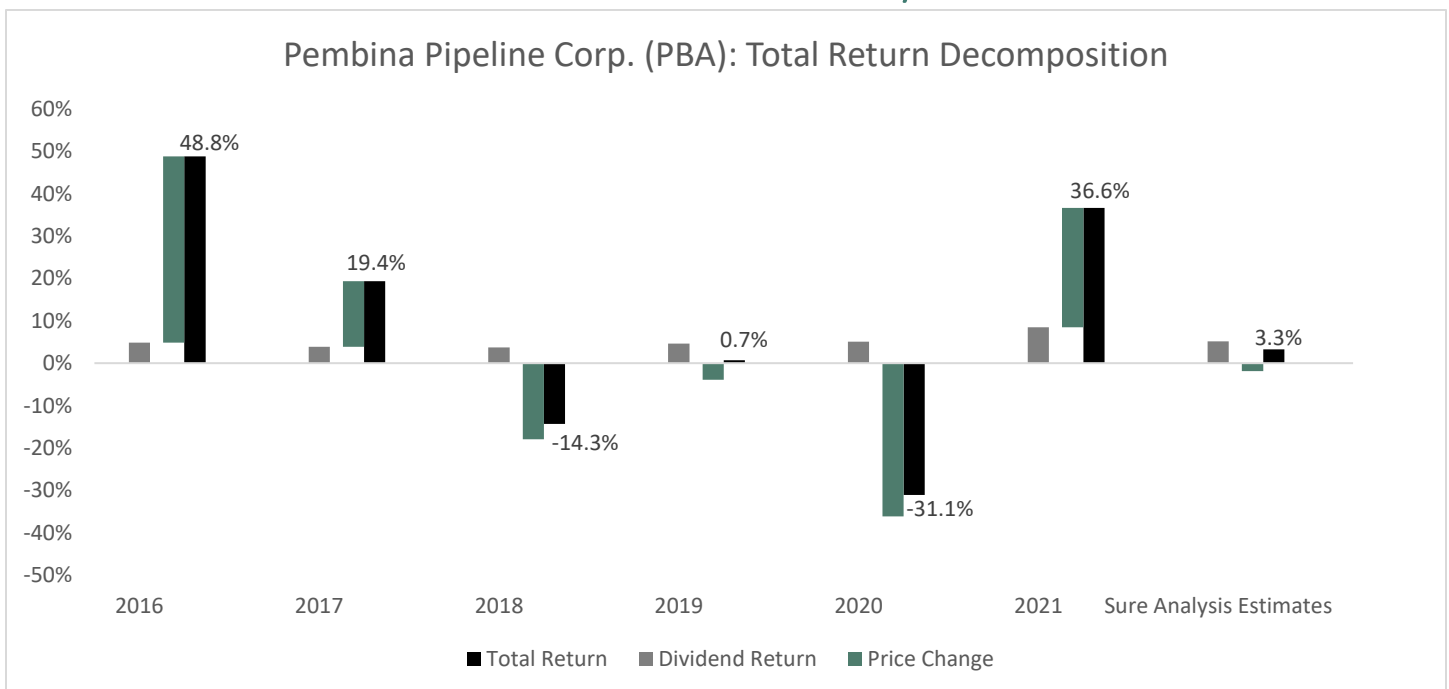
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	184%	147%	162%	176%	188%	110%	98.2%	89.1%	111%	116%	75.4%	76.9%

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. Nevertheless, if Pembina faces a major downturn, its dividend may come under pressure due to the elevated payout ratio and the material debt load of the company.

Final Thoughts & Recommendation

Pembina greatly benefits from the multi-year high prices of oil and gas, which have resulted from the war in Ukraine, but the market has already priced the favorable commodity environment in the stock. As long as the war in Ukraine keeps going, Pembina could keep thriving, but the stock will have material downside risk whenever the war ends. We expect the stock to offer a 3.3% average annual return over the next five years, as its 5.6% dividend may be partly offset by a -2.3% valuation headwind. We thus maintain our sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,428	4,861	5,497	3,632	3,221	4,167	5,672	4,801	4,443	6,881
Gross Profit	538	770	793	679	757	1,137	1,796	1,840	1,499	2,111
Gross Margin	15.7%	15.8%	14.4%	18.7%	23.5%	27.3%	31.7%	38.3%	33.7%	30.7%
SG&A Exp.	97	128	141	123	147	182	215	223	184	244
D&A Exp.	180	166	205	206	221	295	322	382	522	577
Operating Profit	441	641	636	537	610	934	1,560	1,606	1,329	2,065
Op Margin	12.9%	13.2%	11.6%	14.8%	18.9%	22.4%	27.5%	33.4%	29.9%	30.0%
Net Profit	225	341	347	318	352	681	986	1,135	(236)	991
Net Margin	6.6%	7.0%	6.3%	8.8%	10.9%	16.4%	17.4%	23.7%	-5.3%	14.4%
Free Cash Flow	(224)	(189)	(554)	(791)	(504)	(252)	795	668	913	1,589

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	8,327	8,586	9,701	9,297	11,138	20,331	19,685	25,075	24,637	24,671
Cash & Equivalents	27	48	46	20	26	255	115	99	64	34
Accounts Receivable	326	394	364	331	119	141	444	440	453	588
Inventories	109	149	118	86	134	134	145	96	173	295
Goodwill & Int. Ass.	2,637	2,408	2,447	2,034	2,102	3,749	3,237	4,933	4,972	4,892
Total Liabilities	4,030	3,729	4,243	3,948	4,985	9,324	9,032	12,162	12,862	13,406
Accounts Payable	303	337	382	269	352	370	584	549	340	511
Long-Term Debt	2,568	2,137	2,465	2,395	3,079	6,009	5,520	7,772	8,529	8,815
Shareholder's Equity	4,292	4,485	4,700	4,557	5,034	9,031	8,829	10,604	9,418	9,244
D/E Ratio	0.60	0.44	0.45	0.45	0.50	0.55	0.52	0.60	0.73	0.79

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.9%	4.0%	3.8%	3.3%	3.4%	4.3%	4.9%	5.1%	-0.9%	4.0%
Return on Equity	8.6%	7.8%	7.6%	6.9%	7.3%	9.7%	11.0%	11.7%	-2.4%	10.6%
ROIC	4.8%	4.9%	4.7%	4.1%	4.1%	5.2%	5.9%	6.2%	-1.2%	4.9%
Shares Out.	259	308	328	348	389	432	509	518	550	551
Revenue/Share	13.21	15.78	16.76	10.44	8.28	9.65	11.14	9.34	8.08	12.49

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

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