



Pembina Pipeline Corp. (PBA)

Updated March 1st, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	3.4%	Market Cap:	\$18.4 B
Fair Value Price:	\$25	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	3/14/23
% Fair Value:	131%	5 Year Valuation Multiple Estimate:	-5.3%	Dividend Payment Date:	3/31/23
Dividend Yield:	5.8%	5 Year Price Target	\$29	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	D	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 67 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 \$18.4 billion and operates in three segments: Pipelines, Facilities, and Marketing & New Ventures. In 2022, these segments generated 76%, 24% and 0% of the company's total pre-tax profit, respectively. All the figures in this report are in U.S. dollars.

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.

In late February, Pembina reported (2/23/23) financial results for the fourth quarter of fiscal 2022. Pembina greatly benefited from increased volumes on the Peace Pipeline system, higher toll fees due to inflation and contribution from recently completed projects. As a result, the company more than doubled its earnings-per-share over the prior year's quarter and posted record earnings in the full year. Nevertheless, due to the steep correction of gas prices and the fading tailwind from the Ukrainian crisis, we expect earnings-per-share to decrease from \$2.42 to about \$2.10 this year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.09	\$0.92	\$0.77	\$0.73	\$1.43	\$1.76	\$2.00	\$1.68	\$1.72	\$2.42	\$2.10	\$2.43
DPS	\$1.60	\$1.50	\$1.35	\$1.38	\$1.57	\$1.73	\$1.78	\$1.87	\$2.00	\$1.96	\$1.93	\$2.00
Shares¹	308	328	348	389	432	509	518	550	551	556	560	700

During the last decade, although Pembina has greatly increased its share count, it has grown its earnings-per-share at a 9.3% 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 high earnings-per-share expected this year, we prefer to be somewhat conservative and thus we expect the company to grow its earnings-per-share by 3.0% per year on average over the next five years.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	36.5	48.3	37.4	36.4	23.1	19.2	18.2	15.5	17.8	14.6	15.7	12.0
Avg. Yld.	4.0%	3.4%	4.7%	5.2%	4.8%	5.1%	4.9%	7.2%	6.5%	5.5%	5.8%	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 15.7, 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 -5.3% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

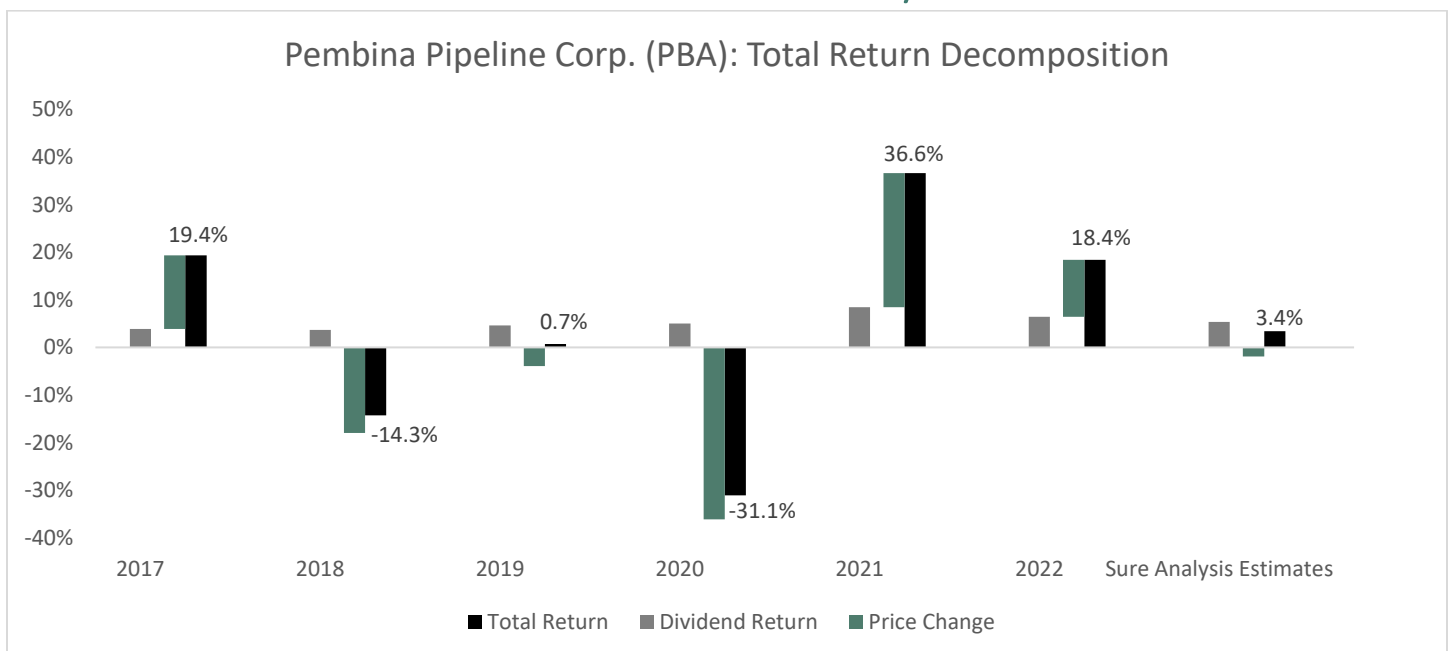
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	147%	162%	176%	188%	110%	98.2%	89.1%	111%	116%	81.0%	91.9%	82.1%

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 9 consecutive years. It also used to pay dividends on a monthly basis but it recently switched to quarterly dividend payments. 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 has greatly benefited from 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 next downturn of the energy sector shows up. We expect the stock to offer a 3.4% average annual return over the next five years, as its 3.0% earnings growth and its 5.8% dividend may be partly offset by a -5.3% valuation headwind. We maintain our sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,861	5,497	3,632	3,221	4,167	5,672	4,801	4,443	6,881	8,924
Gross Profit	770	793	679	757	1,137	1,796	1,840	1,499	2,111	2,400
Gross Margin	15.8%	14.4%	18.7%	23.5%	27.3%	31.7%	38.3%	33.7%	30.7%	26.9%
SG&A Exp.	128	141	123	147	182	215	223	184	244	307
D&A Exp.	166	205	206	221	295	322	382	522	577	525
Operating Profit	641	636	537	610	934	1,560	1,606	1,329	2,065	1,995
Op Margin	13.2%	11.6%	14.8%	18.9%	22.4%	27.5%	33.4%	29.9%	30.0%	22.4%
Net Profit	341	347	318	352	681	986	1,135	(236)	991	2,284
Net Margin	7.0%	6.3%	8.8%	10.9%	16.4%	17.4%	23.7%	-5.3%	14.4%	25.6%
Free Cash Flow	(189)	(554)	(791)	(504)	(252)	795	668	913	1,589	1,786

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	8,586	9,701	9,297	11,138	20,331	19,685	25,075	24,637	24,671	23,191
Cash & Equivalents	48	46	20	26	255	115	99	64	34	69
Accounts Receivable	394	364	331	119	141	444	440	453	588	513
Inventories	149	118	86	134	134	145	96	173	295	198
Goodwill & Int. Ass.	2,408	2,447	2,034	2,102	3,749	3,237	4,933	4,972	4,892	4,517
Total Liabilities	3,729	4,243	3,948	4,985	9,324	9,032	12,162	12,862	13,406	11,558
Accounts Payable	337	382	269	352	370	584	549	340	511	421
Long-Term Debt	2,137	2,465	2,395	3,079	6,009	5,520	7,772	8,529	8,815	7,810
Shareholder's Equity	4,485	4,700	4,557	5,034	9,031	8,829	10,604	9,418	9,244	9,962
D/E Ratio	0.44	0.45	0.45	0.50	0.55	0.52	0.60	0.73	0.79	0.67

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.0%	3.8%	3.3%	3.4%	4.3%	4.9%	5.1%	-0.9%	4.0%	9.5%
Return on Equity	7.8%	7.6%	6.9%	7.3%	9.7%	11.0%	11.7%	-2.4%	10.6%	23.8%
ROIC	4.9%	4.7%	4.1%	4.1%	5.2%	5.9%	6.2%	-1.2%	4.9%	11.6%
Shares Out.	308	328	348	389	432	509	518	550	551	554
Revenue/Share	15.78	16.76	10.44	8.28	9.65	11.14	9.34	8.08	12.49	16.11

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

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