



Pembina Pipeline Corp. (PBA)

Updated February 29th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$35	5 Year CAGR Estimate:	3.0%	Market Cap:	\$19.1 B
Fair Value Price:	\$26	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	3/14/24
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.5%	Dividend Payment Date:	3/28/24
Dividend Yield:	5.6%	5 Year Price Target	\$31	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 70 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 \$19.1 billion and operates in three segments: Pipelines, Facilities, and Marketing & New Ventures. In 2023, these segments generated 64%, 21% and 15% 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 (2/22/24) financial results for the fourth quarter of fiscal 2023. Pembina greatly benefited from increased volumes and material hikes of toll fees. As a result, it grew its EBITDA 12% over the prior year's quarter. On the other hand, the company issued lackluster guidance for 2024, expecting essentially flat EBITDA. Accordingly, we expect nearly flat earnings-per-share this year.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$0.92	\$0.77	\$0.73	\$1.43	\$1.76	\$2.00	\$1.68	\$1.72	\$2.42	\$2.21	\$2.20	\$2.55
DPS	\$1.50	\$1.35	\$1.38	\$1.57	\$1.73	\$1.78	\$1.87	\$2.00	\$1.96	\$1.97	\$1.97	\$2.01
Shares¹	328	348	389	432	509	518	550	551	556	551	550	700

During the last decade, although Pembina has greatly increased its share count, it has grown its earnings-per-share at a 10.2% 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 its unreliable business performance, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	48.3	37.4	36.4	23.1	19.2	18.2	15.5	17.8	14.6	14.5	15.9	12.0
Avg. Yld.	3.4%	4.7%	5.2%	4.8%	5.1%	4.9%	7.2%	6.5%	5.5%	6.1%	5.6%	6.6%

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 15.9, 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 and its volatile business performance. If the stock trades at our fair value estimate in five years, it will incur a -5.5% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

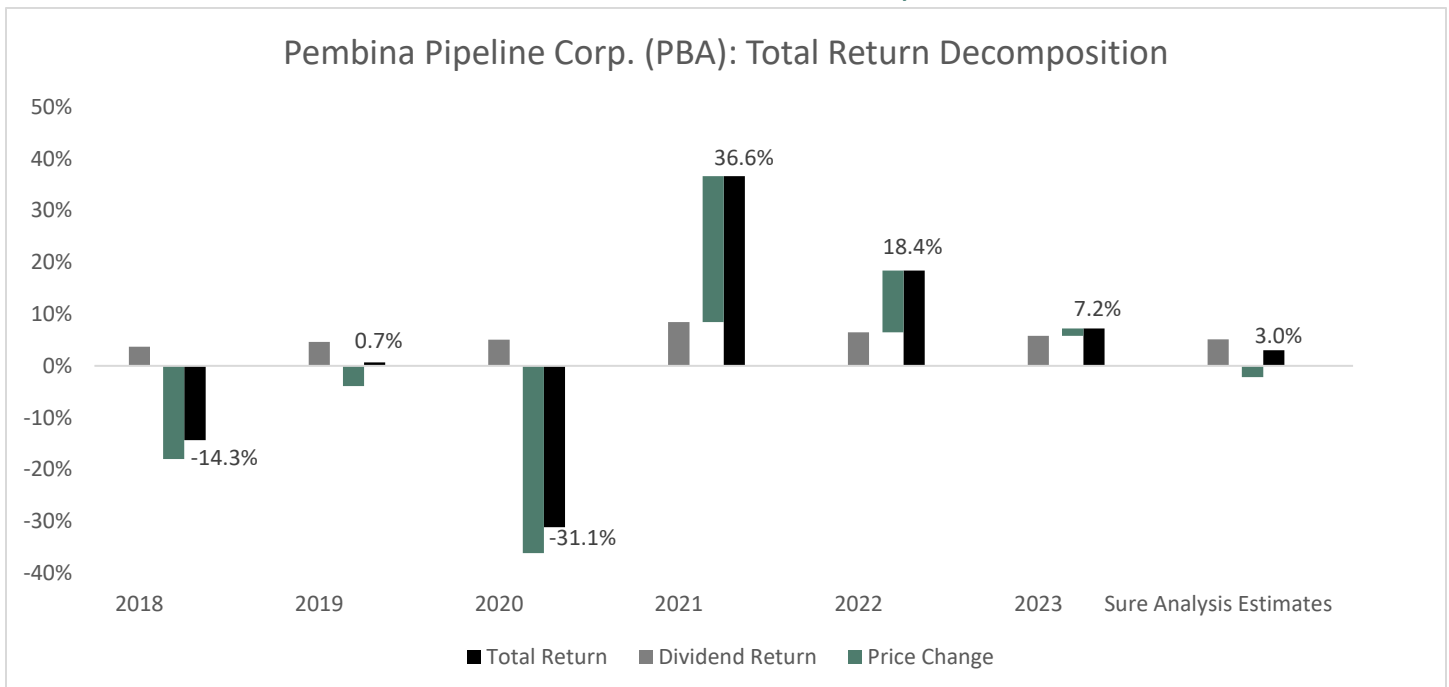
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	162%	176%	188%	110%	98.2%	89.1%	111%	116%	81.0%	88.7%	89.5%	78.8%

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 switched to quarterly dividend payments in 2023. 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 its elevated payout ratio and its material debt load.

Final Thoughts & Recommendation

Pembina has greatly benefited from above average prices of oil and gas, which have resulted from the war in Ukraine. 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 3.0% average annual return over the next five years, as its 3.0% earnings growth and its 5.6% dividend may be partly offset by a -5.5% valuation headwind. The stock receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	5,497	3,632	3,221	4,167	5,672	4,801	4,443	6,881	8,924	6,758
Gross Profit	793	679	757	1,137	1,796	1,840	1,499	2,111	2,400	2,103
Gross Margin	14.4%	18.7%	23.5%	27.3%	31.7%	38.3%	33.7%	30.7%	26.9%	31.1%
SG&A Exp.	141	123	147	182	215	223	184	244	307	313
D&A Exp.	205	206	221	295	322	382	522	577	525	491
Operating Profit	636	537	610	934	1,560	1,606	1,329	2,065	1,995	1,795
Op Margin	11.6%	14.8%	18.9%	22.4%	27.5%	33.4%	29.9%	30.0%	22.4%	26.6%
Net Profit	347	318	352	681	986	1,135	(236)	991	2,284	1,315
Net Margin	6.3%	8.8%	10.9%	16.4%	17.4%	23.7%	-5.3%	14.4%	25.6%	19.5%
Free Cash Flow	(554)	(791)	(504)	(252)	795	668	913	1,589	1,786	1,503

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	9,701	9,297	11,138	20,331	19,685	25,075	24,637	24,671	23,191	24,588
Cash & Equivalents	46	20	26	255	115	99	64	34	69	103
Accounts Receivable	364	331	119	141	444	440	453	588	513	526
Inventories	118	86	134	134	145	96	173	295	198	251
Goodwill & Int. Ass.	2,447	2,034	2,102	3,749	3,237	4,933	4,972	4,892	4,517	4,572
Total Liabilities	4,243	3,948	4,985	9,324	9,032	12,162	12,862	13,406	11,558	12,668
Accounts Payable	382	269	352	370	584	549	340	511	421	418
Long-Term Debt	2,465	2,395	3,079	6,009	5,520	7,772	8,529	8,815	7,810	7,914
Shareholder's Equity	4,700	4,557	5,034	9,031	8,829	10,604	9,418	9,244	9,962	10,262
D/E Ratio	0.45	0.45	0.50	0.55	0.52	0.60	0.73	0.79	0.67	0.66

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.8%	3.3%	3.4%	4.3%	4.9%	5.1%	-0.9%	4.0%	9.5%	5.5%
Return on Equity	7.6%	6.9%	7.3%	9.7%	11.0%	11.7%	-2.4%	10.6%	23.8%	11.2%
ROIC	4.7%	4.1%	4.1%	5.2%	5.9%	6.2%	-1.2%	4.9%	11.6%	6.7%
Shares Out.	328	348	389	432	509	518	550	551	554	551
Revenue/Share	16.76	10.44	8.28	9.65	11.14	9.34	8.08	12.49	16.11	12.65

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

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