



## **Pembina Pipeline Corp.**

### ***Canadian Midstreamer Follows Expansion Spree with Financial Discipline***

Despite continued oil price weakness and a still-tumultuous macro environment, midstream financial results continued to be positive in the third quarter of 2020, with earnings largely meeting or exceeding consensus expectations. Revisions to forward EBITDA estimates for 2020 and 2021 continue to be minor compared with other energy sectors. Only two of the 34 reporting companies have cut their dividend payments, while three have raised their payouts. But this stability in income and outlook contrasts starkly with the weakness in midstream equities this year, with the Alerian Midstream Energy Index down 37% since January and 12% in the last three months. The response of the midstream industry has been to emphasize capital discipline and free cash flow generation that supports current generous dividends to reignite interest in the sector from a generalist investor base that has turned away from energy. After a decade of massive infrastructure build-out to meet rising producer volumes, midstreamers are doing an about-face, instituting a more cautious approach to new investment that's largely based on self-funding and a new, more rigorous return criteria for new projects.

This Spotlight report focuses on Canadian midstream firm Pembina Pipeline Corp., which has adopted among the most conservative responses to the upheaval caused by the Covid-19 pandemic. Founded 75 years ago as operator of an Alberta oil pipeline system, Pembina has adopted an aggressive diversification strategy since 2000, expanding into oil sands pipelines, midstream crude oil infrastructure, natural gas gathering and processing, NGL midstream facilities, natural gas transmission, and condensate transportation. After C\$14 billion in acquisitions over the last four years, Pembina boosted its enterprise value to over C\$35 billion and accomplished its goal of balancing the commodity distribution of its assets at roughly one-third crude oil, one-third natural gas, and one-third NGLs. The benefits of the strategy are partially reflected in its 2020 performance, as Adjusted EBITDA increased 6% to C\$2.4 billion in the first nine months of the year. But results also reflect a strong response to energy market disruptions caused by the Covid-19 pandemic, which include deferral of C\$4.5 billion of its planned C\$5.3 billion in expansion projects, C\$200-C\$500 million in targeted asset sales, and C\$100-C\$150 million in operating cost savings. The positive impact of these moves is reflected in free cash flow generation that supports the generous 9% dividend and significant debt reduction. The cost, however, has been a drastically reduced prospects for EBITDA growth over the next four years because of reduced investment. The key issue for the company, and the midstream industry, will be evaluating the prospects for volume growth and higher prices to properly balance restoration of growth projects with maintaining financial discipline and balance sheet stability.

**East Daley's Conclusions Include:**

- Pembina's total EBITDA is forecast to be virtually flat over the next four years, rising about 1% per year from C\$3.272 billion in 2020 to C\$3.411 billion in 2023.
- Pipeline Division EBITDA, which represents 64% of the company total, will decrease from C\$2.144 billion in 2020 to C\$2.036 billion in 2023 on a significant drop in earnings from its U.S. Rockies Ruby Pipeline.
- Facilities Division EBITDA, which contributed 31% of current total EBITDA, will rise 5% to C\$1.076 billion on recently completed growth projects and acquisitions.
- Marketing and New Ventures Division EBITDA is forecast to nearly double to C\$436 million in 2023 on a recovery in commodity margins.
- The deferred growth project with the largest potential impact is Pembina's joint venture development of an Edmonton PDH/PP Facility that could generate between C\$275-\$375 million in annual run rate EBITDA.
- The timing of expansions to Pembina's natural gas and NGL pipelines and processing infrastructure depend on a resumption of drilling in the Western Canada Sedimentary Basin (WCSB).
- The most significant risk to Pembina's future earnings is a prolonged downturn in commodity prices that depress Marketing Division earnings.

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**1. Spotlight Reports from RBN Energy and East Daley Capital**

**1.1 What is Spotlight?**

Spotlight reports provide a deep dive into the fundamentals that shape the outlook for midstream energy companies. Our goal is to provide a comprehensive, fundamentals-based view of our Spotlight companies based on a bottoms-up analysis of their assets and operations. We tear apart their asset structure to reveal what volumes are flowing, what rates are (and can be) charged, how they are exposed to commodity price risk, how their assets fit together, and what aspects of their operations provide competitive advantages in today’s extremely volatile energy marketplace.

Spotlight is a joint venture of RBN Energy, LLC and East Daley Capital Advisors, Inc. We have joined together with the support of Oil & Gas Financial Analytics, LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. We use publicly available data, combined with the deep experience of our combined teams to get to the answers that can be overlooked in the more high-level assessments that are in the marketplace today. Instead of such a high-level approach, we get into the micro-level detail, integrating fundamentals data, market data and company data in a comprehensive model that provides a clear picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs and fees. No non-public data from the subject company or any other source has been used in the preparation of this report.

**1.2 How Can I Get Spotlight?**

Spotlight is available to RBN Backstage Pass subscribers. Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to [rbnenergy.com/spotlight](http://rbnenergy.com/spotlight).