Pembina Pipeline Corporation

Energy
TSX: PPL
Market Outperform | Buy

March 31, 2025

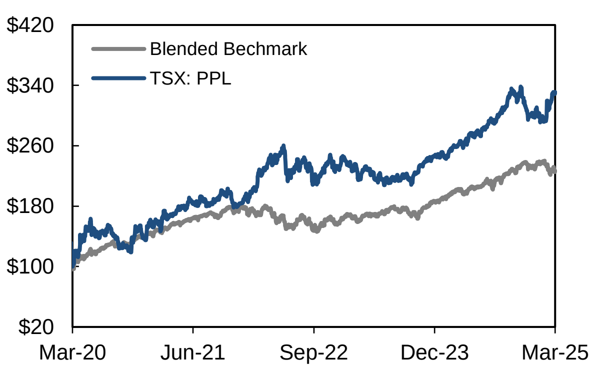
Lukas Fairley, Portfolio Manager
Dylan Westlake, Investment Analyst

Return on Investment	
Current Share Price	$56.96
Target Price	$63.00
Dividend Yield	4.51%
Implied Return	15%
Conviction Rating	2

Market Profile	
52-Week Range	$46.71 - $60.72
Market Capitalization ($mm)	$33,071
Net Debt ($mm)	$10,499
Enterprise Value ($mm)	$43,570
Beta (5-Year Monthly)	1.02

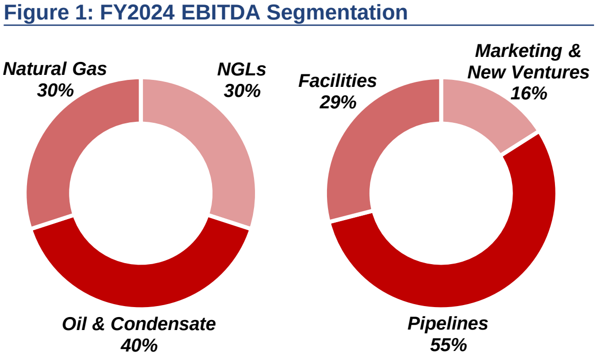
Metrics	2024A	2025E	2026E
Revenue (US$mm)	$7,384	$8,196	$9,098
EBITDA (US$mm)	$3,374	$4,425	$4,568
EPS	$3.00	$3.11	$3.24
EV/EBITDA	12.9x	9.8x	9.5x

Historical Trading Performance (Indexed to $100)



Source: Bloomberg

Figure 1: FY2024 EBITDA Segmentation



Total Adjusted EBITDA: ~$4.4B

Source: Company Filings

Business Description

Pembina Pipeline Corporation (TSX: PPL) is a hydrocarbon transportation company operating across the Western Canadian Sedimentary Basin (WCSB). The Company's three primary segments include: (1) Pipelines, (2) Facilities, and (3) Marketing & New Ventures.

Pipelines: PPL's Pipelines segment includes conventional, oil sands, and transmission pipelines with a total transportation capacity of 2.9 mmboe/d. Pembina Peace is the Company's main conventional asset, transporting NGLs, crude oil, and condensate from northwestern Alberta to key market hubs in Edmonton and Fort Saskatchewan. PPL's primary oil sands and heavy assets include the Syncrude, Horizon, and Nipisi pipelines. The Company's core transmission assets include the Alliance Pipeline, a long-haul system delivering gas from the WCSB to PADD II markets, and the Cochin Pipeline, which transports condensate to Alberta to support bitumen transportation in the oil sands.

Facilities: PPL's Facilities segment includes infrastructure for gathering and processing (G&P), storage, fractionation, and export facilities for condensate, NGLs, and natural gas. The Company's G&P activities are conducted through Pembina Gas Infrastructure (PGI), a 60/40 joint venture with KKR & Co. (NYSE: KKR), with ~5 bcf/d of total processing capacity. PPL's primary NGL asset is the Redwater Complex, which includes two ~73 mboe/d ethane-plus fractionators, a ~55 mboe/d propane-plus fractionator, and ~12 mmboe/d of cavern storage.

Marketing & New Ventures: PPL's Marketing & New Ventures segment comprises commodity marketing, storage optimization, transportation capacity management, and the development of large-scale projects that enhance the Company's value chain and global market access. Key initiatives within the segment include Cedar LNG, a floating LNG facility with 3.3 mtpa export capacity, and the Alberta Carbon Grid, a carbon transportation and sequestration joint venture with TC Energy (TSX: TRP).

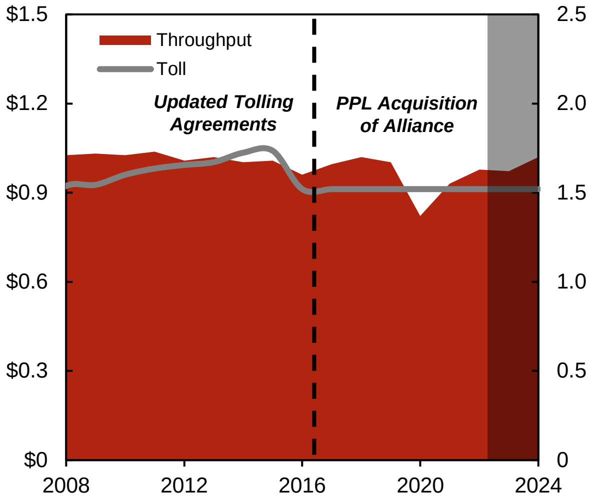
Alliance and Aux Sable Acquisition

On December 13, 2023, PPL acquired a 50% interest in the Alliance Pipeline and a 42.7% interest in Aux Sable, increasing its ownership in the respective assets to 100% and 85.4%, with The Williams Companies (NYSE: WMB) retaining the remaining interest in Aux Sable at that time. In 2024, PPL acquired the remaining ownership interest in Aux Sable from WMB, bringing its ownership to 100%. The initial transaction was completed at a 9.0x EBITDA multiple and is expected to generate over $100mm in annual synergies, driven by increased marketing activity, continued growth in Bakken production, and operational efficiencies realized through consolidated ownership of the assets.

Industry Overview

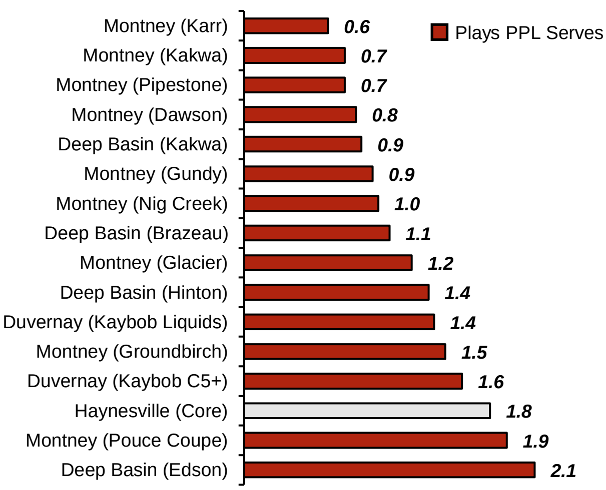
The Canadian midstream industry is structured as an oligopoly, with few companies operating due to high capital requirements and tight regulatory oversight. PPL is the third largest midstream company by market capitalization in Canada, ranking behind Enbridge (TSX: ENB) and TRP. Additionally, PPL competes with (cont.)

Figure 2: LHS Alliance Toll ($/Mcf) vs RHS Volume (Bcf/d)



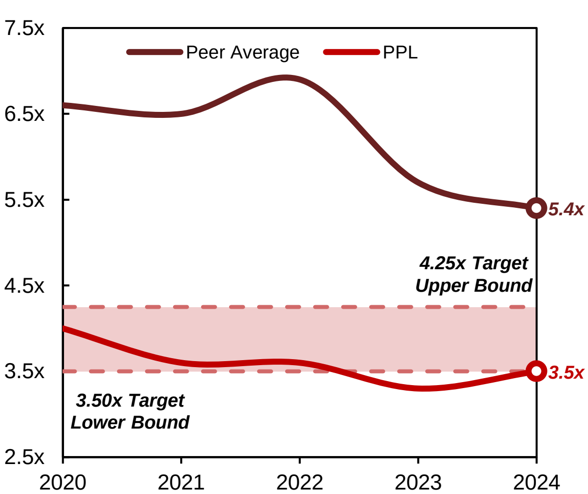
Source: Canada Energy Regulator, Company Filings

Figure 3: Payback Period (yrs) in NA Gas Plays



Source: Company Filings

Figure 4: Net Debt/EBITDA vs Peer Average



Source: Company Filings

other Canadian midstream companies, including AltaGas (TSX: ALA), Keyera (TSX: KEY), and South Bow (TSX: SOBO), as well as U.S. players such as Kinder Morgan (NYSE: KMI), ONEOK (NYSE: OKE), Targa Resources (NYSE: TRGP) and WMB. Canadian incumbents offer high distributable cash payout ratios and can steadily grow dividends due to highly contracted, high single-digit growth assets. Pipeline egress in the WCSB has been severely constrained for the past decade, however, the recent completion of the Trans Mountain Expansion (TMX) pipeline has significantly increased both oil sands production and export capacity. The primary export points for crude oil include TMX, the Enbridge Mainline, and the Keystone pipeline. TMX is owned and operated by the Trans Mountain Corporation, an entity owned by the Canadian government, while the Enbridge mainline and the Keystone pipeline are owned and operated by ENB and SOBO, respectively. Increased production capacity in the oil sands has led to heightened demand for condensate and butane for diluent, spurring increased investment in the Montney and Duvernay plays, which yield NGLs, condensate, and light oils. As export capacity increases, the WCS differential to WTI is expected to tighten. The Canadian NGL midstream industry involves the production, storage, fractionation, and transportation of NGLs and purity products. NGL egress to Eastern markets has historically been dominated by TRP, utilizing its Canadian Mainline to transport product from the WCSB to Eastern pipeline networks and demand centres.

Competition among midstream operators across each value chain is predicated on transportation costs, access to supply as determined by terminal or tie-in location, service reliability, contract carrier alternatives, and end-market access. Commodity marketers are responsible for procuring contracts and securing additional supply as needed and bid on volumes on an ad-hoc or annual basis, depending on the commodity. Wells and batteries that are pipeline-connected to an existing feeder system operate through long-term contracts, while unconnected volumes are trucked into the most cost-effective terminal and are generally contracted on a month-to-month basis. Midstream contracts are generally structured in three separate forms:

(1) Firm Contracts: Midstream operators focus on securing base volumes on each asset. A fee-for-service toll is implemented and includes operating cost flow through to customers. Under firm contracts, midstream operators are paid a minimum agreed-upon revenue for volume commitment, known as take-or-pay.

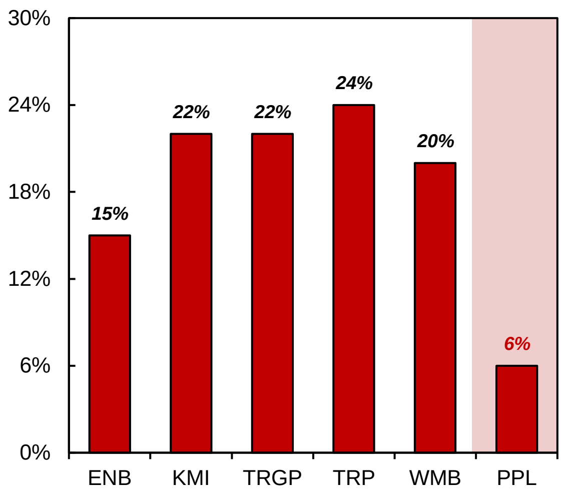
(2) Cost-of-Service Contracts: Midstream operators pass through operating costs to customers while recovering a pre-specified return on equity. Operators are obligated to hold a fixed capacity for a customer, which must pay their share of the rate base and operating costs, regardless of actual use.

(3) Non-Firm Contracts: Unsecured capacity, usually on a month-to-month agreement on an interruptible basis. An operator can adjust tolls, cost recovery, and capital expenditures based on actual volumes received. Customers nominate volumes monthly to the operator's scheduling team.

Mandate Fit

Quality Management: Scott Burrows has served as President and CEO of PPL since 2022, following a seven-year tenure as the Company's CFO. Burrows has played an instrumental role in new project development, sanctioning ~$880mm in new initiatives and securing ~$1B in contracted revenue through new agreements and extensions. Additionally, Burrows has established a strong (cont.)

Figure 5: Sustaining Capex as a % of EBITDA vs Peers



Source: Street Research

Figure 6: Project Pipeline

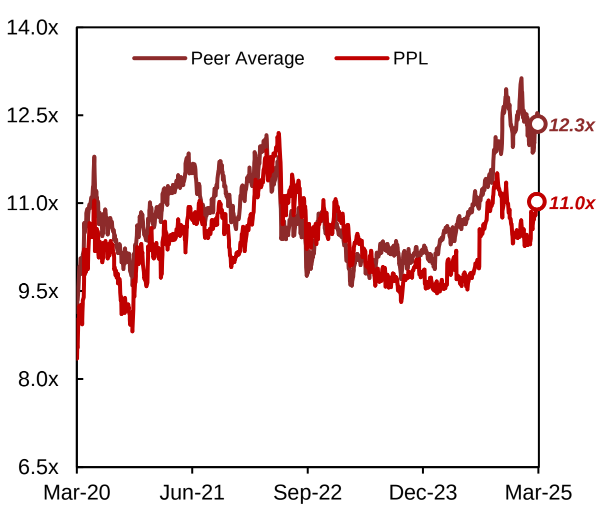
Asset	Investment *($mm)*	ISD
RFS IV	~$525	H1 2026
Wapiti Expansion	~$140	H1 2026
K3 Cogeneration	~$70 *(net)*	H1 2026
Cedar LNG	~$2,750 *(net)*	H2 2028
Alberta Carbon Grid *(Industrial Heartland)*	n/a	Pre-FID
RFS III De-ethanizer	~$300	n/a

- - - Under Construction

- - - Under Development

Source: Company Filings

Figure 7: NTM EV/EBITDA vs C-Corp Peer Average



Source: Bloomberg

track record of project execution, delivering over ~$6B in projects on time and within budget. In FY2024, compensation for the CEO and NEOs consisted of ~89% and ~80% at-risk pay, respectively.

Competitive Advantage: PPL holds a significant supply advantage over its North American midstream peers, benefiting from access to some of the most economic regions in the WCSB. This advantage is evident in the Company's dominant presence in high-return, quick-payback oil and gas plays, including the Montney's Kakwa, Karr, and Pipestone, the Duvernay's Kaybob, and the Clearwater. As an early mover, PPL has reinforced its moat in these regions by proactively expanding infrastructure through strategic brownfield investments. For instance, the Company's ~$430mm Phase VIII Peace Pipeline expansion added ~235 mboe/d of incremental upstream capacity between Gordondale and La Glace, enhancing segregated NGL transport and connectivity to Edmonton for key NEBC Montney producers. As a result, PPL has improved operational efficiency, asset utilization, and scalability, increasing its ROIC by ~110bps over the last three years to ~10%. Additionally, the Company's strong supply base has secured long-term customer commitments, providing a strategic advantage in capturing future hydrocarbon growth and egress opportunities.

Strong Balance Sheet: PPL maintains a strong balance sheet with a Net Debt/EBITDA ratio of 3.5x, well below the peer average of 5.4x. The Company's balance sheet strategy is guided by four key principles: (1) maintaining an ~80% fee-based contribution to EBITDA, (2) keeping fee-based distributable cash flow payout below 100%, (3) ensuring ~75% exposure to investment-grade counterparties, and (4) maintaining its investment-grade credit rating. Additionally, PPL's debt maturity profile is well-managed, with ~93% of debt at fixed rates and an average maturity of ~13 years.

Growing Free Cash Flow: Over the past five years, PPL has grown EBITDA at a ~6% CAGR. The Company's low-risk business model, underpinned by long-term, predominantly take-or-pay contracts, provides PPL with predictable and stable FCF. Relative to its diversified C-Corp peers, the Company exhibits superior capital efficiency, with sustaining capex comprising ~6% of EBITDA versus the peer average of ~18%. As a result, PPL retains more capital for growth initiatives and maintains greater financial flexibility to adapt to market conditions or pursue strategic opportunities. Moving forward, PPL aims to unlock additional growth through the execution of ~$4B of projects currently under construction, including RFS IV, K3 Cogen, and Cedar LNG. Additionally, volume growth and utilization improvements across PPL's asset base driven by West Coast egress and the integration of the Alliance Pipeline are expected to drive continued FCF growth for the Company.

Investment Thesis and Valuation

PPL was valued at $63 using a five-year DCF with a WACC of 7.1%. The terminal value was determined using a 50/50 blend of (1) the Gordon Growth method, using a terminal growth rate of 1.0%, and (2) an EV/EBITDA exit multiple of 12.0x.

The CPMT favours PPL's growth trajectory relative to its peers, underpinned by the Company's scale, integrated asset base, and operational efficiency. This advantage is reinforced by strategic infrastructure investments, long-term fee-based contracts, and disciplined capital allocation. Additionally, PGI's G&P capabilities enhance value chain control, supporting stronger margins and a differentiated offering. Moreover, these factors position PPL with a resilient, capital-efficient, and scalable business model poised to capture long-term tailwinds across the WCSB.