Plains All American Pipeline, L.P. (PAA)

Updated July 5th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$11.5	**5 Year CAGR Estimate:**	12.8%	**Market Cap:**	$8.45B
Fair Value Price:	$13.0	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	07/30/2021
% Fair Value:	89%	**5 Year Valuation Multiple Estimate:**	2.4%	**Dividend Payment Date:**	08/14/2021
Dividend Yield:	6.2%	**5 Year Price Target**	$16.6	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	N/A

Overview & Current Events

Plains All American Pipeline, L.P. is a midstream energy infrastructure provider. The company owns an extensive network of pipeline transportation, terminalling, storage, and gathering assets in key crude oil and natural gas liquids-producing basins at major market hubs in the United States and Canada. On average, it handles more than 6 million barrels per day of crude oil and NGL through 18,370 miles of active pipelines and gathering systems. Plains All American generates around $29 billion in annual revenues and is based in Houston, Texas.

On May 4th, 2021, Plains All American reported its Q1 results for the quarter ended March 31st, 2021. Revenues were $8.38 billion, 1.38% higher year-over-year, recording a relatively stable performance.

Adjusted EBITDA came in at $546 million, 31.3% lower compared to Q1-2020. The company achieved lower power costs, including gains in power hedges and stronger natural gas storage business results. These benefits, however, were offset by impacts of the storm-related downtime across its Texas and Mid-Con pipeline systems, as well as lower realized revenue at certain non-hub crude terminals and Canadian NGL facilities. Hence the lower adjusted EBITDA. Consequently, distributable cash flows also declined, coming in at $0.51 on a per-share basis, 37.8% lower vs. the comparable period last year.

Gradually coming out of the ongoing pandemic, the company remains focused on deleveraging and maximizing its free cash flow. Management now expects FY2021 adjusted EBITDA of around $2.15 million and distributable cash flow per share of around $1.86, which we have embedded in our calculations.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCFU[1]	$ 3.86	$4.76	$4.88	$4.26	$3.74	$1.82	$1.82	$2.46	$2.99	$2.31	***$1.86***	***$2.37***
DPS	$1.99	$2.16	$2.38	$2.61	$2.78	$2.50	$1.70	$1.20	$1.44	$0.72	***$0.72***	***$1.01***
Shares[2]	297	325	341	367	394	464	717	726	727	728	***726***	***720***

Plains All American has a number of minimum volume commitment contracts that support relatively stable revenues in its pipelines (transportation) segment. These contracts have an average remaining term of around 5 years. However, the company's supply and logistics segments' performance is highly correlated with the underlying demand for oil and gas and can hence be highly volatile. Hence, the company's performance, including its DCFU, was greatly impacted following the oil price plunge of 2014-2016. Results have yet to recover, with continuous CAPEX needs and high debt levels pressuring the company's performance. COVID-19's adverse impact on the energy sector further challenged the company's operations, resulting in weaker results and another distribution cut. While PAA's performance has not been the most promising as of lately, considering the company's deleveraging strategy (reducing financial expenses) and recovering demand for liquid hydrocarbons, we expect DCFU growth of 5% in the medium-term. We also forecast a DPS CAGR of around 7% during that period, though distributions may remain constant over the next couple of years as the company focuses on free-cash-flow maximization for a little while.

[1] Distributable Cash Flow per Unit is a more meaningful metric compared to EPS for PAA's business model and capital structure.
[2] Share count is in millions.

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The company expects to allocate around 75% of its free cash flow after distributions towards deleveraging and around 25% in unit buybacks, which will also result in future cash savings (lower distributions to be paid). Unit repurchases should also assist with DCFU and DPS growth. The company has bought back $53 million worth of stock since Nov 2020.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/DCF	7.8	9.0	10.5	12.0	9.6	14.8	14.3	9.8	7.7	5.6	***6.2***	***7.0***
Avg. Yld.	6.6%	5.0%	4.7%	5.1%	7.7%	9.3%	6.5%	5.0%	6.3%	5.5%	***6.2%***	***6.1%***

Plains All American's valuation multiple has, on average, hovered around 10 times its distributable cash flows. Over the past few years, and especially during the COVID-19 pandemic, the stock's valuation has been materially compressed, currently trading at around 6.2X FY2021's DCFU. While investors' appetite for energy stocks remains reduced, we believe that PAA's cash flows could reasonably support a higher multiple and that units are undervalued. Unit buybacks should confirm this. Hence, we forecast a valuation expansion to a humble but fairer multiple of around 7. PAA's yield should remain quite substantial amid the company's MLP structure which favors high distribution levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

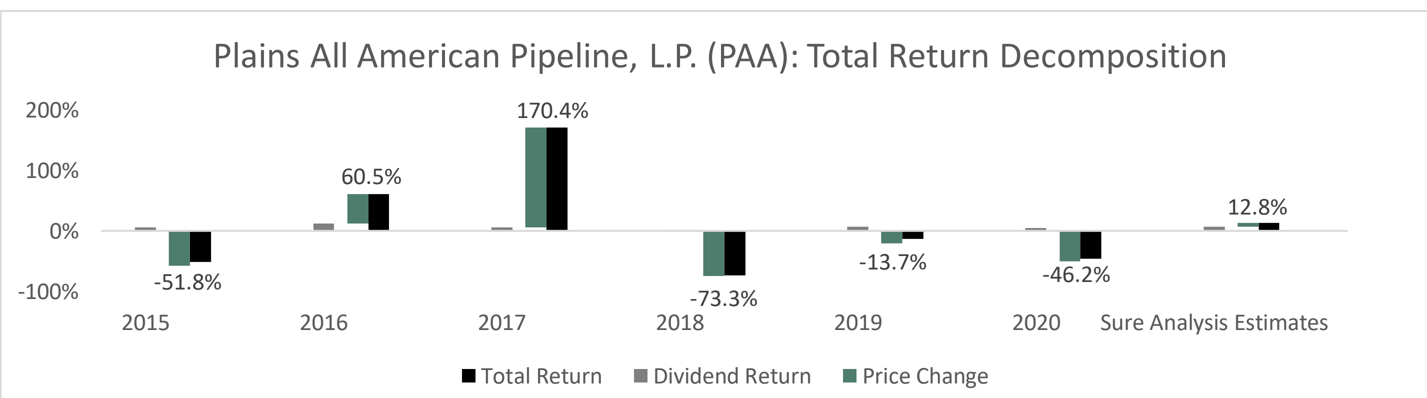
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	52%	45%	49%	61%	74%	137%	93%	49%	48%	31%	***39%***	***43%***

PAA's payout ratio is currently sitting at relatively comfortable levels. Following last year's distribution cut and clear capital allocation strategy, we don't expect another one going forward. That being said, we cannot restfully trust its resiliency either. The company enjoys some qualities and competitive strengths, including a geographically diverse and interconnected asset base that provides operational flexibility, a high-quality customer base that supports sustainable fee-based cash flow generation (Marathon Petroleum, Phillips 66, etc.), and a highly experienced management team. Still, the company is highly susceptible to a potential recession and the overall volatile profile of the energy sector, which could materially affect its performance and financials, as has been the case several times.

Final Thoughts & Recommendation

Over the past few years, Plains All American has produced quite disastrous returns, including massive share price declines since the stock's highs in 2014. However, due to its inexpensive valuation and potential for modest growth rates in the medium term amid the energy sectors' recovery, we project annualized returns of around 12.8% in the medium term. Consequently, shares earn a Buy rating, though with significant risks attached to the potential returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	34,275	37,797	42,249	43,464	23,152	20,182	26,223	34,055	33,669	23,290
Gross Profit	1,592	1,767	2,097	2,124	1,540	1,253	1,538	2,479	2,313	1,130
Gross Margin	4.6%	4.7%	5.0%	4.9%	6.7%	6.2%	5.9%	7.3%	6.9%	4.9%
SG&A Exp.	294	342	359	325	278	279	276	316	297	271
D&A Exp.	249	482	365	384	432	514	517	520	601	653
Operating Profit	1,298	1,425	1,738	1,799	1,262	974	1,262	2,163	2,016	859
Operating Margin	3.8%	3.8%	4.1%	4.1%	5.5%	4.8%	4.8%	6.4%	6.0%	3.7%
Net Profit	966	1,094	1,361	1,384	903	726	856	2,216	2,171	(2,590)
Net Margin	2.8%	2.9%	3.2%	3.2%	3.9%	3.6%	3.3%	6.5%	6.4%	-11.1%
Free Cash Flow	1,730	36	341	72	(721)	(601)	1,475	974	1,323	776
Income Tax	45	54	99	171	100	25	44	198	66	(19)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	15,381	19,235	20,360	22,198	22,288	24,210	25,351	25,511	28,677	24,497
Cash & Equivalents	26	24	41	403	27	47	37	66	45	22
Accounts Receivable	3,190	3,563	3,638	2,615	1,785	2,279	3,029	2,454	3,614	2,553
Inventories	978	1,209	1,065	891	916	1,343	713	640	604	647
Goodwill & Int. Ass.	2,284	3,008	2,923	2,810	2,688	2,586	3,410	3,293	3,247	805
Total Liabilities	9,407	12,089	12,657	14,007	14,349	15,394	14,393	13,509	15,482	14,759
Accounts Payable	3,599	3,822	3,983	2,986	2,038	2,588	3,323	2,704	3,686	2,437
Long-Term Debt	5,199	7,406	7,828	9,991	11,374	11,839	9,920	9,209	9,624	10,132
Shareholder's Equity	5,450	6,637	7,644	8,133	7,881	8,759	10,958	12,002	13,062	9,593
D/E Ratio							(174.0)			

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.6%	6.3%	6.9%	6.5%	4.1%	3.1%	3.5%	8.7%	8.0%	-9.7%
Return on Equity	19.7%	18.1%	19.1%	17.5%	11.3%	8.7%	8.7%	19.3%	17.3%	-22.9%
ROIC	16.2%	16.0%	17.2%	15.4%	8.4%	6.2%	7.9%	23.2%	22.9%	-25.9%
Shares Out.	297	325	341	367	394	464	717	726	727	728
Revenue/Share	114.63	115.23	123.17	117.79	58.46	43.31	36.52	42.62	42.09	31.99
FCF/Share	5.79	0.11	0.99	0.20	(1.82)	(1.29)	2.05	1.22	1.65	1.07

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

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