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

Updated February 10th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$11.62	**5 Year CAGR Estimate:**	13.9%	**Market Cap:**	$8.26 B
Fair Value Price:	$13.67	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	04/28/2022[1]
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.3%	**Dividend Payment Date:**	05/13/2022
Dividend Yield:	6.2%	**5 Year Price Target**	$17.45	**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 7 million barrels per day of crude oil and NGL through 18,370 miles of active pipelines and gathering systems. Plains All American generates around $40 billion in annual revenues and is based in Houston, Texas.

On February 9th, 2022, Plains All American reported its Q4 results for the period ending December 31st, 2021. Revenues came in at $12.95 billion, an increase of 117.2% year-over-year. The significant increase compared to last year was driven by global crude oil demand growing 5%, recovering back to near pre-COVID levels. Higher global oil prices were also a positive contributor, as they increased over 50%, with WTI and Brent trading around $90 a barrel. Finally, production in the Permian Basin exceeded the company's previous expectations, ending the year at roughly 5.2 million barrels a day, compared to 4.1 million barrels last year.

Distributable cash flows grew notably, growing 24.4% to $0.56 on a per-unit basis. Plains All American generated approximately $1.65 billion of free cash flow after distributions during FY2021, exceeding management's February forecast by approximately $600 million. Thus was primarily driven by asset sales, continued capital discipline, and further operating and commercial optimization. The company repaid $1 billion of debt, built $450 million of cash on its balance sheet, and repurchased $175 million of common equity, bringing its cumulative repurchases to $228 million since November of 2020. Management now expects to generate FY2022 adjusted EBITDA of $2.2 billion. On the conference call, they mentioned their intention to recommend a $0.15 increase in the annualized distribution while still maintaining the capacity for continued discretionary repurchase activity. Management expects the 2022 coverage ratio will be approximately 250% after the increase. This indirectly implies a DCFU of around $2.17 for the year, which we have embedded in our estimates. Still, note that the distribution increase has yet to be approved.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCFU[2]	$4.76	$4.88	$4.26	$3.74	$1.82	$1.82	$2.46	$2.99	$2.31	$2.06	***$2.17***	***$2.77***
DPS	$2.16	$2.38	$2.61	$2.78	$2.50	$1.70	$1.20	$1.44	$0.90	$0.72	***$0.72***	***$1.16***
Shares[3]	325	341	367	394	464	717	726	727	728	716	***715***	***700***

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

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

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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 last year. We currently expect DCFU growth of 5% in the medium-term, powered by an improving outlook in the energy sector. We also hike our DPS CAGR estimate from 7% to 10% to reflect management's intention to hike the annual distribution rate as well as the adequate room the company features for greater distribution hikes. The company expects to continue allocating 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 due to lower total distributions being paid. Unit repurchases should also assist with DCFU and DPS growth.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/DCF	9.0	10.5	12.0	9.6	14.8	14.3	9.8	7.7	5.6	5.0	***5.4***	***6.3***
Avg. Yld.	5.0%	4.7%	5.1%	7.7%	9.3%	6.5%	5.0%	6.3%	5.5%	7.0%	***6.2%***	***6.6%***

Plains All American's valuation multiple has, on average, hovered close to 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 5.4x FY2022's expected DCFU. Considering that investors' appetite for energy stocks has recently flourished, we believe that PAA's cash flows could reasonably support a higher multiple and that units are undervalued. Strong unit buybacks could also confirm this. Hence, we forecast a valuation expansion to 6.3x DCFU.

Safety, Quality, Competitive Advantage, & Recession Resiliency

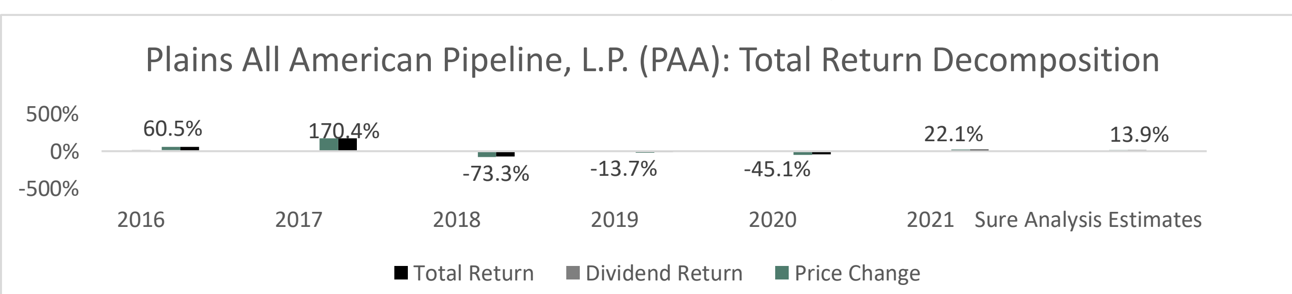
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	45%	49%	61%	74%	137%	93%	49%	48%	39%	35%	***33%***	***42%***

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, especially considering management's intention to grow the annual distribution rate per unit. 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, driven by the possibility for valuation expansion, our growth estimates, and the high yield, we project annualized returns of 13.9%. Consequently, shares earn a buy rating.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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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
LTD/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.