



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

Updated August 5th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$10.96	5 Year CAGR Estimate:	14.9%	Market Cap:	\$7.70 B
Fair Value Price:	\$12.64	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	07/28/22
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.9%	Dividend Payment Date:	08/12/22
Dividend Yield:	7.9%	5 Year Price Target	\$16.14	Years Of Dividend Growth:	1
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

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 August 3rd, 2022, Plains All American reported its Q2 results for the period ending June 30th, 2022. Revenues came in at \$16.4 billion, an increase of 65.6% year-over-year. The significant increase compared to last year was driven by global crude oil demand growing back to near pre-pandemic levels. Higher global oil prices were also a positive contributor, as they nearly doubled year-over-year, with WTI and Brent trading just under \$100 a barrel. Finally, increased production in the Permian Basin significantly boosted results, ending the quarter at roughly 7.4 million barrels a day, compared to 6.0 million barrels in the prior-year period.

Distributable cash flows (DCF) grew 9.6% to \$0.57 on a per-unit basis. During the quarter, the company repurchased \$49 million worth of units, which also contributed to the per-share growth of DCF. This brought its cumulative repurchases to around \$300 million since November of 2020. Following better than expected results, management increased its full-year 2022 adjusted EBITDA guidance by \$100 million to plus or minus \$2.375 billion. Management's targeted distribution coverage of 250% indirectly implies a DCFU of around \$2.18. We have used this figure in our estimates.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCFU¹	\$4.76	\$4.88	\$4.26	\$3.74	\$1.82	\$1.82	\$2.46	\$2.99	\$2.31	\$2.06	\$2.18	\$2.78
DPS	\$2.16	\$2.38	\$2.61	\$2.78	\$2.50	\$1.70	\$1.20	\$1.44	\$0.90	\$0.72	\$0.87	\$1.40
Units²	325	341	367	394	464	717	726	727	728	716	702	680

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 last year. We currently expect DCFU growth of 5% in the medium-term, powered by an improving outlook in the energy sector. We also retain our DPS CAGR estimate at 10% to reflect management's most recent distribution hike as well as the adequate room the company features for further distribution hikes. The company expects to continue allocating around 75% of its free cash flow after

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.

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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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	5.0	5.8
Avg. Yld.	5.0%	4.7%	5.1%	7.7%	9.3%	6.5%	5.0%	6.3%	5.5%	7.0%	7.9%	8.7%

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 5.0x FY2022's expected DCFU. Considering that investors' appetite for energy stocks has recently flourished, we believe that PAA's financials 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 5.8x DCFU.

Safety, Quality, Competitive Advantage, & Recession Resiliency

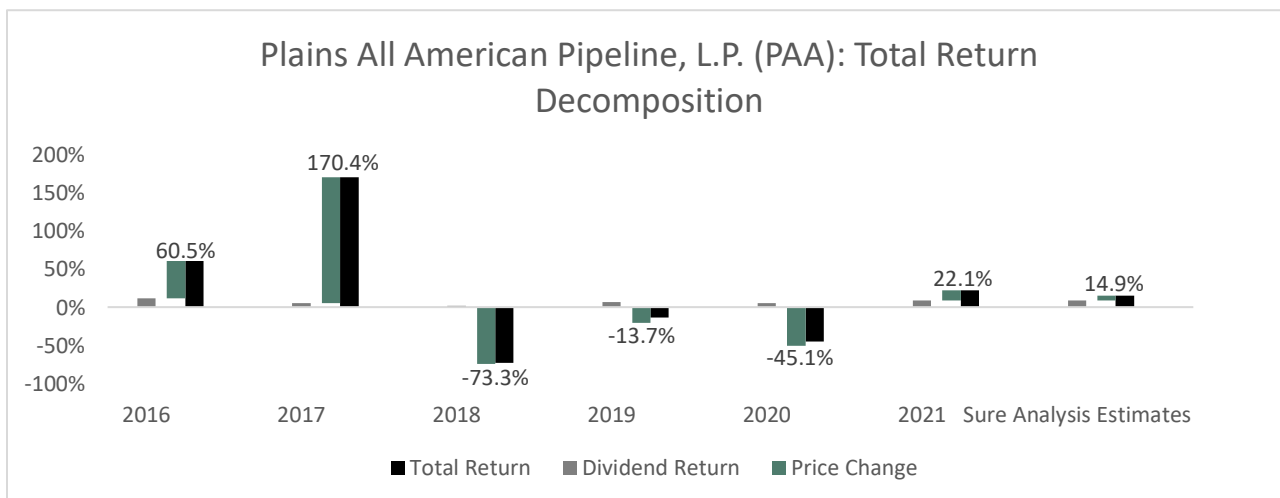
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	45%	49%	61%	74%	137%	93%	49%	48%	39%	35%	40%	50%

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 14.9%. Consequently, shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	37,797	42,249	43,464	23,152	20,182	26,223	34,055	33,669	23,290	42,080
Gross Profit	1,767	2,097	2,124	1,540	1,253	1,538	2,479	2,313	1,130	1,735
Gross Margin	4.7%	5.0%	4.9%	6.7%	6.2%	5.9%	7.3%	6.9%	4.9%	4.1%
SG&A Exp.	342	359	325	278	279	276	316	297	271	292
D&A Exp.	482	365	384	432	514	517	520	601	653	774
Operating Profit	1,425	1,738	1,799	1,262	974	1,262	2,163	2,016	859	1,443
Operating Margin	3.8%	4.1%	4.1%	5.5%	4.8%	4.8%	6.4%	6.0%	3.7%	34.3%
Net Profit	1,094	1,361	1,384	903	726	856	2,216	2,171	(2,590)	593
Net Margin	2.9%	3.2%	3.2%	3.9%	3.6%	3.3%	6.5%	6.4%	-11.1%	1.4%
Free Cash Flow	36	341	72	(721)	(601)	1,475	974	1,323	776	1,660
Income Tax	54	99	171	100	25	44	198	66	(19)	73

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	19,235	20,360	22,198	22,288	24,210	25,351	25,511	28,677	24,497	29,610
Cash & Equivalents	24	41	403	27	47	37	66	45	22	449
Accounts Receivable	3,563	3,638	2,615	1,785	2,279	3,029	2,454	3,614	2,553	4,705
Inventories	1,209	1,065	891	916	1,343	713	640	604	647	783
Goodwill & Int. Ass.	3,008	2,923	2,810	2,688	2,586	3,410	3,293	3,247	805	1,960
Total Liabilities	12,089	12,657	14,007	14,349	15,394	14,393	13,509	15,482	14,759	15,800
Accounts Payable	3,822	3,983	2,986	2,038	2,588	3,323	2,704	3,686	2,437	4,810
Long-Term Debt	7,406	7,828	9,991	11,374	11,839	9,920	9,209	9,624	10,132	9,161
Shareholder's Equity	6,637	7,644	8,133	7,881	8,759	10,958	12,002	13,062	9,593	9,972
LTD/E Ratio						(174.0)				0.92

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.3%	6.9%	6.5%	4.1%	3.1%	3.5%	8.7%	8.0%	-9.7%	2.2%
Return on Equity	18.1%	19.1%	17.5%	11.3%	8.7%	8.7%	19.3%	17.3%	-22.9%	6.1%
ROIC	16.0%	17.2%	15.4%	8.4%	6.2%	7.9%	23.2%	22.9%	-25.9%	5.3%
Shares Out.	325	341	367	394	464	717	726	727	728	716
Revenue/Share	115.23	123.17	117.79	58.46	43.31	36.52	42.62	42.09	31.99	58.77
FCF/Share	0.11	0.99	0.20	(1.82)	(1.29)	2.05	1.22	1.65	1.07	2.32

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

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