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

Updated August 6th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	$14.92	**5 Year CAGR Estimate:**	12.5%	**Market Cap:**	$10.4 B
Fair Value Price:	$15.15	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	07/28/23
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.3%	**Dividend Payment Date:**	08/14/23
Dividend Yield:	7.2%	**5 Year Price Target**	$19.33	**Years Of Dividend Growth:**	2
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 4th, 2023, Plains All American reported its Q2 results for the period ending June 30th, 2023. For the quarter, revenues came in at $11.6 billion, down 29% compared to last year.

Adjusted EBITDA from crude oil increased 7% year-over-year primarily due to higher tariff volumes across its asset base, tariff escalations and Canadian market-based opportunities. These items were partially offset by the impact of increased operating expenses, minimum volume commitment deficiency payments received, and lower commodity prices.

Adjusted EBITDA from NGL declined 48% year-over-year, primarily due to lower propane sales volumes, impacted by turnarounds and deferring sales due to market structure, and the absence of weather events that benefited the 2022 period. Thus, adjusted EBITDA totaled $597 million for the quarter, down 3% compared to Q2 2022.

Distributable cash flows (DCF) fell by four cents to $0.53 on a per-unit basis. Unit repurchases over the past year assisted this figure. Management affirmed its full-year 2023 guidance, expecting adjusted EBITDA to be between $2.45 billion and $2.55 billion. Based on this, we expect a DCFU of around $2.33 for the year.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
DCFU[1]	$4.88	$4.26	$ 3.74	$ 1.82	$1.82	$2.46	$2.99	$2.31	$2.05	$2.26	***$2.33***	***$2.97***
DPS	$2.38	$2.61	$2.78	$2.50	$1.70	$1.20	$1.44	$0.90	$0.72	$0.92	***$1.07***	***$1.89***
Units[2]	341	367	394	464	717	726	727	728	716	701	***698***	***670***

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. Beyond 2023, management anticipates targeting annualized common distribution increases of approximately $0.15 per unit each year until reaching

[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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a targeted unit distribution coverage ratio of approximately 160%. Accordingly, we have set our expected distribution growth rate at 12% over the medium term. Unit buybacks should contribute to results during this period.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/DCF	10.5	12.0	9.6	14.8	14.3	9.8	7.7	5.6	5.0	4.7	***6.4***	***6.5***
Avg. Yld.	4.7%	5.1%	7.7%	9.3%	6.5%	5.0%	6.3%	5.5%	7.0%	8.4%	***7.2%***	***9.8%***

Plains All American's valuation multiple has, on average, hovered close to 9.5X its distributable cash flows. In the past few years, and especially during the COVID-19 pandemic, the stock's valuation had been materially compressed. That said, over the past few years, including the challenging period of the COVID-19 pandemic, the stock's valuation experienced significant compression. Fortunately, it has now started to converge towards a more reasonable level, aligning with our fair multiple of 6.5X. The distribution yield of 7.2% is substantial, and we expect it advance further higher following future distribution hikes.

Safety, Quality, Competitive Advantage, & Recession Resiliency

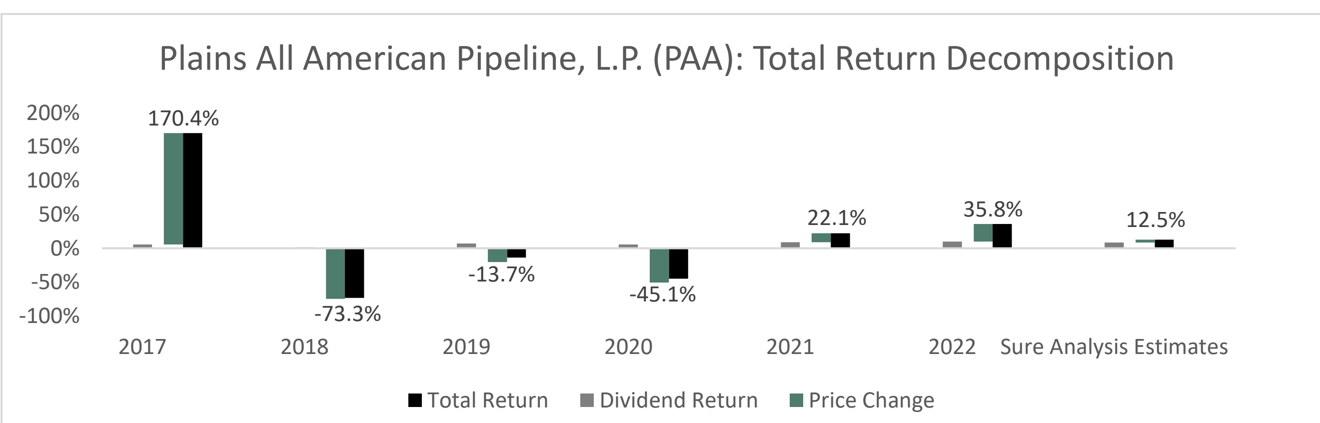
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	49%	61%	74%	137%	93%	49%	48%	39%	35%	41%	***46%***	***63%***

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, the stock has been recovering amid improving financials, and we project further gains ahead. Driven primarily by our growth estimates and the 7.2% yield, we estimate returns of 12.5% per annum over the medium-term. Consequently, shares earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	42,249	43,464	23,152	20,182	26,223	34,055	33,669	23,290	42,080	57,340
Gross Profit	2,097	2,124	1,540	1,253	1,538	2,479	2,313	1,130	1,735	1,886
Gross Margin	5.0%	4.9%	6.7%	6.2%	5.9%	7.3%	6.9%	4.9%	4.1%	3.3%
SG&A Exp.	359	325	278	279	276	316	297	271	292	325
D&A Exp.	365	384	432	514	517	520	601	653	774	965
Operating Profit	1,738	1,799	1,262	974	1,262	2,163	2,016	859	1,443	1,561
Operating Margin	4.1%	4.1%	5.5%	4.8%	4.8%	6.4%	6.0%	3.7%	3.4%	2.7%
Net Profit	1,361	1,384	903	726	856	2,216	2,171	(2,590)	593	1,037
Net Margin	3.2%	3.2%	3.9%	3.6%	3.3%	6.5%	6.4%	-11.1%	1.4%	1.8%
Free Cash Flow	341	72	(721)	(601)	1,475	974	1,323	776	1,660	1,953
Income Tax	99	171	100	25	44	198	66	(19)	73	189

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	20,360	22,198	22,288	24,210	25,351	25,511	28,677	24,497	29,610	27,890
Cash & Equivalents	41	403	27	47	37	66	45	22	449	401
Accounts Receivable	3,638	2,615	1,785	2,279	3,029	2,454	3,614	2,553	4,705	3,907
Inventories	1,065	891	916	1,343	713	640	604	647	783	729
Goodwill & Int. Ass.	2,923	2,810	2,688	2,586	3,410	3,293	3,247	805	1,960	2,145
Total Liabilities	12,657	14,007	14,349	15,394	14,393	13,509	15,482	14,759	15,800	14,570
Accounts Payable	3,983	2,986	2,038	2,588	3,323	2,704	3,686	2,437	4,810	4,044
Long-Term Debt	7,828	9,991	11,374	11,839	9,920	9,209	9,624	10,132	9,161	8,446
Shareholder's Equity	7,644	8,133	7,881	8,759	10,958	12,002	13,062	9,593	9,972	10,060
LTD/E Ratio					(174.0)				0.92	0.84

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	6.9%	6.5%	4.1%	3.1%	3.5%	8.7%	8.0%	-9.7%	2.2%	3.7%
Return on Equity	19.1%	17.5%	11.3%	8.7%	8.7%	19.3%	17.3%	-22.9%	6.1%	10.4%
ROIC	17.2%	15.4%	8.4%	6.2%	7.9%	23.2%	22.9%	-25.9%	5.3%	8.7%
Shares Out.	341	367	394	464	717	726	727	728	716	701
Revenue/Share	123.17	117.79	58.46	43.31	36.52	42.62	42.09	31.99	58.77	81.80
FCF/Share	0.99	0.20	(1.82)	(1.29)	2.05	1.22	1.65	1.07	2.32	2.79

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