



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

Updated February 9th, 2024 by Nikolaos Sismanis

Key Metrics

| | | | | | |
|-----------------------------|---------|--|---------|----------------------------------|----------|
| Current Price: | \$15.38 | 5 Year CAGR Estimate: | 14.4% | Market Cap: | \$10.8 B |
| Fair Value Price: | \$16.58 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 01/30/24 |
| % Fair Value: | 93% | 5 Year Valuation Multiple Estimate: | 1.5% | Dividend Payment Date: | 02/14/24 |
| Dividend Yield: | 8.3% | 5 Year Price Target | \$21.15 | Years Of Dividend Growth: | 3 |
| 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 November 3rd, 2023, Plains All American increased its quarterly distribution by 18.7% to \$1.27.

On February 9th, 2024, Plains All American reported its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, revenues came in at \$12.7 billion, down 1.9% compared to last year.

Adjusted EBITDA from crude oil increased by 12% year-over-year, mainly due to higher volumes across the partnership's pipeline systems, contributions from acquisitions, and the benefit of tariff escalation, partially offset by fewer market-based opportunities for its merchant activities.

Adjusted EBITDA from NGL rose 12% year-over-year, primarily due to favorable NGL basis differentials and additional market-based opportunities partially offset by the divestiture of the partnership's interest in the KFS facility and increased field operating costs.

Thus, adjusted EBITDA totaled \$737 million for the quarter, up 12% compared to Q4 2022. Distributable cash flows (DCF) rose by 17%, \$0.68 on a per-unit basis. For the year, DCFU rose to \$2.46. Unit repurchases over the past year assisted this result. Management introduced the partnership's full-year 2024 guidance, expecting adjusted EBITDA to be between \$2.625 billion and \$2.725. Based on this, we expect a DCFU of around \$2.55 for the year.

Growth on a Per-Share Basis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| DCFU¹ | \$4.26 | \$3.74 | \$1.82 | \$1.82 | \$2.46 | \$2.99 | \$2.31 | \$2.05 | \$2.26 | \$2.46 | \$2.55 | \$3.25 |
| DPS | \$2.61 | \$2.78 | \$2.50 | \$1.70 | \$1.20 | \$1.44 | \$0.90 | \$0.72 | \$0.92 | \$1.12 | \$1.27 | \$2.24 |
| Units² | 367 | 394 | 464 | 717 | 726 | 727 | 728 | 716 | 701 | 699 | 699 | 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 five 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 2024, management

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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anticipates targeting annualized common distribution increases of approximately \$0.15 per unit each year until reaching 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 also contribute to results during this period.

Valuation Analysis

| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Now | 2029 |
|------------|------|------|------|------|------|------|------|------|------|------|------|-------|
| Avg. P/DCF | 12.0 | 9.6 | 14.8 | 14.3 | 9.8 | 7.7 | 5.6 | 5.0 | 4.7 | 5.0 | 6.0 | 6.5 |
| Avg. Yld. | 5.1% | 7.7% | 9.3% | 6.5% | 5.0% | 6.3% | 5.5% | 7.0% | 8.4% | 9.0% | 8.3% | 10.6% |

Plains All American's valuation multiple has, on average, hovered just under 9X its distributable cash flows over the past decade. Notably, during the tumultuous period of the COVID-19 pandemic, the stock's valuation experienced a major multiple compression. This theme lasted all the way to last year. Encouragingly, the stock has been gradually converging to a more reasonable level, nearing our fair multiple of 6.5X. The distribution yield of 8.3% is substantial, and we expect it advance further higher following continuous distribution hikes.

Safety, Quality, Competitive Advantage, & Recession Resiliency

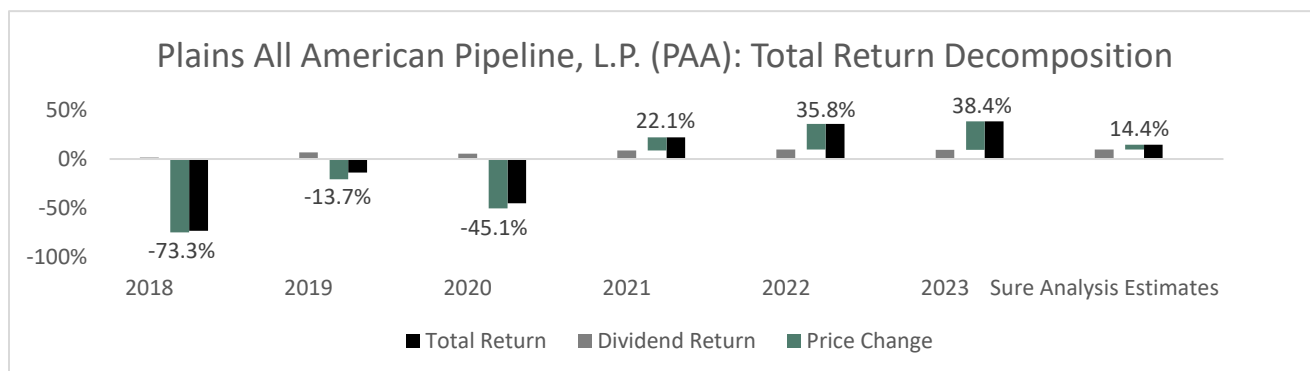
| Year | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 61% | 74% | 137% | 93% | 49% | 48% | 39% | 35% | 41% | 46% | 50% | 69% |

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

In recent years, Plains All American has faced significant challenges, witnessing substantial declines in its stock price from its 2014 peak. However, the partnership has demonstrated a noteworthy recovery attributed to improving financial performance. Considering our optimistic growth projections, the attractive 8.3% yield, and a valuation tailwind, we anticipate a robust annual return potential of 14.4% over the medium term. As a result, we continue to rate the stock a buy.

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.

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