



Plains GP Holdings, L.P. (PAGP)

Updated March 18th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	\$17.00	5 Year CAGR Estimate:	8.5%	Market Cap:	\$3.6 B
Fair Value Price:	\$14.80	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	04/26/2024 ¹
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.8%	Dividend Payment Date:	05/15/2024 ²
Dividend Yield:	7.5%	5 Year Price Target	\$19	Years Of Dividend Growth:	3
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

Overview & Current Events

Plains GP Holdings (PAGP), via its subsidiary Plains All American Pipeline (PAA), manages midstream energy infrastructure across the USA and Canada. Their operations span two sectors: Crude Oil and Natural Gas Liquids (NGLs). They transport these resources through pipelines, gathering systems, and trucks while providing storage, terminalling, throughput, NGL fractionation, isomerization, and natural gas processing services. Their logistics aid producers, refiners, and clients in the energy sector.

On February 9th, 2024, the company announced results for the fourth quarter of 2024. Plains GP reported Q4 non-GAAP EPS of \$0.27, missing the market's estimates by \$0.06. The company reported revenues of \$12.7 billion for the quarter, down 1.9% year-over-year.

For the year ending 2023, PAGP reported a fourth-quarter net income of \$312 million and a total figure of close to \$1.23 billion for the year; the year-end net cash inflows from OA amounted to around \$1.01 billion and \$2.73 billion. The firm beat its expected adjusted EBITDA results, with \$737 million for the quarter and \$2.71 billion for the year; it also generated \$1.60 billion in adjusted free cash flow and came in at 3.1x year-end leverage. Further optimization of the asset portfolio to the strategic sales and acquisitions implementation strategy and allocation of benefit at PAGP showed increased returns to shareholders by PAGP, with the company raising the quarterly distribution by nearly 19% earlier this year.

For the full-year 2024, PAGP guided the \$2.625 to \$2.725 billion bracket in adjusted EBITDA and set a leverage ratio target between 3.25x and 3.75x. Besides, the board has approved a distribution increase, projecting about \$1.65 billion in adjusted free cashflow for 2024. Chairman and CEO Willie Chiang reiterated the company's guidance above for resilient 2023 execution and, for 2024, stressed that the company would remain focused on strong business execution, maintaining capital discipline, and keeping up with returns to unitholders while ensuring that financial flexibility is preserved.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.25	\$1.41	\$0.94	-\$5.04	\$2.11	\$1.96	-\$3.08	\$0.31	\$0.86	\$1.02	\$1.14	\$1.45
DPS	\$1.99	\$2.43	\$2.33	\$1.70	\$1.20	\$1.44	\$0.72	\$0.72	\$0.92	\$1.12	\$1.27	\$1.40
Shares³	244.0	83.0	99.0	145.0	282.0	170.0	246.0	194.0	194.0	195.0	212.0	230.6

Plains GP Holdings evaluates the performance of its crude oil and NGL (natural gas liquids) segments through segment adjusted EBITDA. In the crude oil segment, performance improved in 2023 due to increased volumes on key pipelines, tariff escalations, and favorable market opportunities in Canada. However, higher operating expenses and lower commodity prices partially offset this.

¹ Estimated ex-dividend date.

² Estimated dividend payment date.

³ Shares in millions.

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In line with the midpoint of analysts' estimates, we expect the company to post EPS of \$1.14 in 2024. Our annual EPS growth forecast is 5.0% over the next five years, leading to our estimated EPS of \$1.45 by 2029. Moreover, the company has a record of paying dividends despite operating in a volatile energy sector, as Plains GP has paid increasing dividends for the past 3 years. We do not expect consistency in maintaining dividend growth. However, the long-term trends remain positive, so we estimate a 2% dividend growth rate, suggesting a DPS of \$1.40 by 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	60.5	42.0	30.2	-5.2	10.9	11.2	-2.9	32.5	13.6	14.5	15.0	13.0
Avg. Yld.	2.6%	4.1%	8.2%	6.5%	5.2%	6.5%	8.0%	7.1%	7.9%	7.6%	7.5%	7.4%

The midstream energy infrastructure operator trades at a forward P/E of 15.0, in line with the five-year average P/E of 13.8. Even though the volatility and rise in prices and demand will benefit the company in the near term, we assign a P/E of 13.0 to the stock, which we believe is a fair reflection of its value. Accordingly, with an expected EPS of \$1.45 and P/E of 13.0, our target price for the stock stands at \$19 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

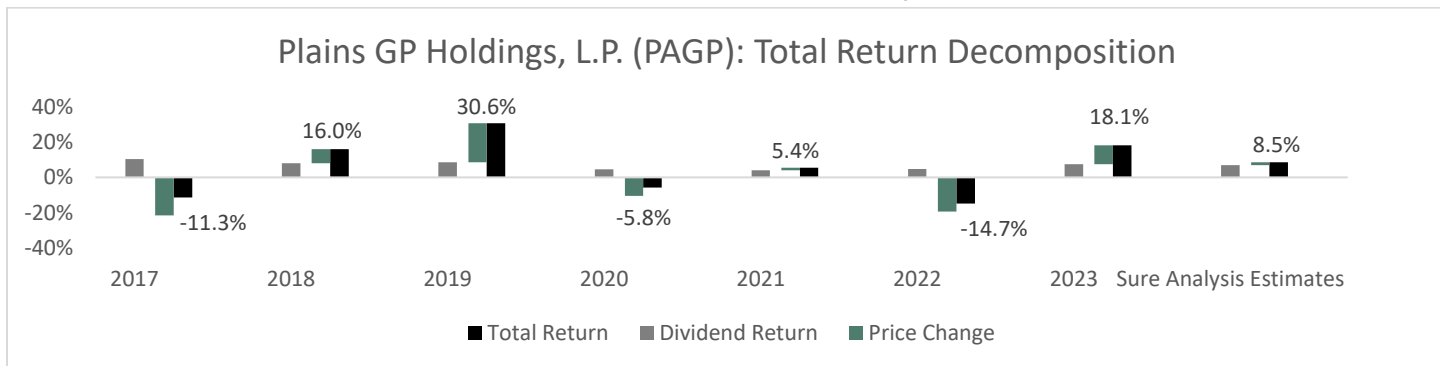
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	159%	172%	248%	-34%	57%	73%	-23%	232%	107%	110%	112%	97%

While the company has paid a volatile dividend to its shareholders, we expect the company to maintain and increase its payout in the future. Plains GP Holdings is focused on prudent capital allocation in 2023, with approximately \$1.6 billion in Free Cash Flow (FCF). Their priorities include reducing net debt by \$0.6 billion and distributing over \$1 billion to Common and Preferred shareholders. They aim for sustainable distribution growth, projecting a \$1.27/unit annual dividend in 2024. The company will self-fund routine capital investments to maintain financial discipline with an annual cash flow of \$300M to \$400M. In 2023, growth capital projects included Permian wellhead and connectivity, W2W projects, NGL optimization, and aligning assets with emerging energy opportunities, ensuring long-term viability.

Final Thoughts & Recommendation

Plains GP Holdings runs a critical crude and NGL infrastructure business, and we believe that increased energy demand and upstream underinvestment will be a positive catalyst for EPS growth. However, Plains GP Holdings' dividend growth prospects could remain low. We maintain our hold rating premised upon 8.5% annualized expected total returns for the medium-term, derived from the forecasted earnings-per-share growth of 5.0%, 7.5% dividend yield, and a small valuation headwind.

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	42,078	57,342
Gross Profit	3,416	3,578	2,993	2,434	2,719	3,741	3,613	2,203	2,797	3,198
Gross Margin	8.1%	8.2%	12.9%	12.1%	10.4%	11.0%	10.7%	9.5%	6.6%	5.6%
SG&A Exp.	360	331	281	282	280	320	302	276	298	330
D&A Exp.	368	386	433	515	519	521	604	656	777	968
Operating Profit	1,734	1,791	1,258	970	1,256	2,158	2,008	851	1,434	1,553
Op. Margin	4.1%	4.1%	5.4%	4.8%	4.8%	6.3%	6.0%	3.7%	3.4%	2.7%
Net Profit	15	70	118	94	(731)	334	331	(568)	60	168
Net Margin	0.0%	0.2%	0.5%	0.5%	-2.8%	1.0%	1.0%	-2.4%	0.1%	0.3%
Free Cash Flow	335	56	(732)	(616)	1,472	970	1,319	772	1,655	1,949
Income Tax	106	212	182	78	937	302	176	(167)	112	246

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	21,453	23,923	24,142	26,103	26,753	26,830	29,969	25,951	29,978	29,207
Cash & Equivalents	43	404	30	50	40	69	47	25	452	404
Acc. Receivable	3,637	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.	2,923	2,810	2,688	2,586	3,410	3,293	3,247	805	1,960	2,145
Total Liabilities	13,174	14,542	14,908	15,396	14,395	13,511	15,484	14,761	15,801	14,569
Accounts Payable	---	---	---	---	3,324	2,705	3,687	2,425	4,811	4,045
Long-Term Debt	8,343	10,525	11,931	11,839	9,920	9,209	9,691	10,213	9,220	8,446
Total Equity	1,035	1,657	1,762	1,737	1,695	1,846	2,155	1,464	1,533	1,524
D/E Ratio	8.06	6.35	6.77	6.82	5.85	4.99	4.50	6.98	6.01	5.54

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.1%	0.3%	0.5%	0.4%	-2.8%	1.2%	1.2%	-2.0%	0.2%	0.6%
Return on Equity	2.9%	5.2%	6.9%	5.4%	-42.6%	18.9%	16.5%	-31.4%	4.0%	11.0%
ROIC	0.1%	0.4%	0.6%	0.5%	-3.5%	1.6%	1.6%	-2.7%	0.3%	0.8%
Shares Out.	49.6	77.7	83.0	99.0	145.0	159.5	170.0	194.0	194.0	194.0
Revenue/Share	852.3	178.13	278.94	203.86	180.85	120.76	198.05	94.67	216.90	295.58
FCF/Share	6.76	0.23	-8.82	-6.22	10.15	3.44	7.76	3.14	8.53	10.05

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

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