Plains GP Holdings, L.P. (PAGP)

Updated June 19th, 2024, by Yiannis Zourmpanos

Key Metrics

Current Price:	$18.00	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$3.8 B
Fair Value Price:	$13.10	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	07/29/2024[1]
% Fair Value:	137%	**5 Year Valuation Multiple Estimate:**	-6.1%	**Dividend Payment Date:**	08/14/2024[2]
Dividend Yield:	7.1%	**5 Year Price Target**	$16.80	**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 May 3rd, 2024, the company announced results for the first quarter of 2024. Plains GP reported non-GAAP EPS of $0.21, missing the market's estimates by $0.09. The company reported revenues of $11.99 billion for the quarter, down 2.8% year-over-year.

The company had post-tax net income of $266 million on adjusted EBITDA of $718 million. The adjusted free cash flow came in at $262 million, and the annualized joint distribution grew $0.20 to $1.27 per unit. Additionally, the company has acquired an additional 10% interest in Saddlehorn Pipeline Company and a Mid-Con terminal asset for approximately $110 million to deepen its position in the Rockies and Mid-Con.

The company has also achieved an update of its Permian long-haul contracting by incrementally extending the average contract duration to five years through 2028 on Cactus I, Cactus II, and Basin/Sunrise. This is a step change in helping to provide better clarity to the outlook for its long-haul assets. According to CEO Willie Chiang these achievements, combined with disciplined operational and financial performance, should further bolster investor confidence in the company's ability to generate substantial free cash flow and sustain long-term growth.

For the full year 2024, PAGP is on track to meet full-year guidance of $2.625 to $2.725 billion in adjusted EBITDA and set a leverage ratio target between 3.25x and 3.75x.

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	***$1.01***	***$1.29***
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***
Shares[3]	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.

In line with the midpoint of analysts' estimates, we expect the company to post EPS of $1.01 in 2024. Our annual EPS growth forecast is 5.0% over the next five years, leading to our estimated EPS of $1.29 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

[1] Estimated ex-dividend date.
[2] Estimated dividend payment date.
[3] Shares in millions.

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 2.0% 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	***17.8***	***13.0***
Avg. Yld.	2.6%	4.1%	8.2%	6.5%	5.2%	6.5%	8.0%	7.1%	7.9%	7.6%	***7.1%***	***8.4%***

The midstream energy infrastructure operator trades at a forward P/E of 17.8, 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 $1.29 and P/E of 13.0, our target price for the stock stands at $16.8 by 2029.

Safety, Quality, Competitive Advantage, & Recession Resiliency

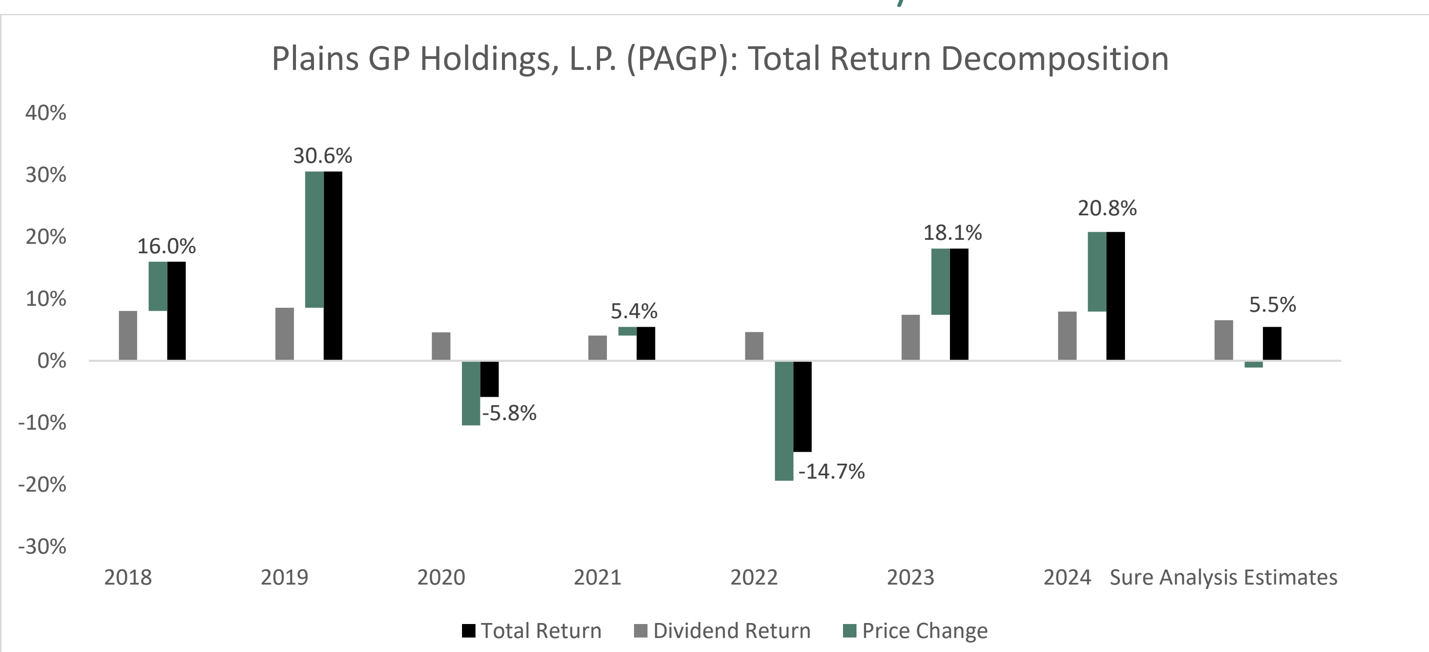
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	159%	172%	248%	-34%	57%	73%	-23%	232%	107%	110%	***126%***	***109%***

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 2024, with approximately $943.3 million in Free Cash Flow (FCF). They increased annualized dividend distribution to $1.27/unit annual dividend in 2024, a 19% increase.

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 5.5% annualized expected total returns for the medium-term, derived from the forecasted earnings-per-share growth of 5.0%, 7.1% dividend yield, and a valuation headwind.

Total Return Breakdown by Year



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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	43,464	23,152	20,182	26,223	34,055	33,669	23,290	42,078	57,342	48,710
Gross Profit	3,578	2,993	2,434	2,719	3,741	3,613	2,203	2,797	3,198	3,130
Gross Margin	8.2%	12.9%	12.1%	10.4%	11.0%	10.7%	9.5%	6.6%	5.6%	6.4%
SG&A Exp.	331	281	282	280	320	302	276	298	330	356
D&A Exp.	386	433	515	519	521	604	656	777	968	1,051
Operating Profit	1,791	1,258	970	1,256	2,158	2,008	851	1,434	1,553	1,349
Op. Margin	4.1%	5.4%	4.8%	4.8%	6.3%	6.0%	3.7%	3.4%	2.7%	2.8%
Net Profit	70	118	94	(731)	334	331	(568)	60	168	198
Net Margin	0.2%	0.5%	0.5%	-2.8%	1.0%	1.0%	-2.4%	0.1%	0.3%	0.4%
Free Cash Flow	56	(732)	(616)	1,472	970	1,319	772	1,655	1,949	2,163
Income Tax	212	182	78	937	302	176	(167)	112	246	189

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	23,923	24,142	26,103	26,753	26,830	29,969	25,951	29,978	29,207	28,600
Cash & Equivalents	404	30	50	40	69	47	25	452	404	453
Acc. Receivable	2,615	1,785	2,279	3,029	2,454	3,614	2,553	4,705	3,907	3,760
Inventories	891	916	1,343	713	640	604	647	783	729	548
Goodwill & Int.	2,810	2,688	2,586	3,410	3,293	3,247	805	1,960	2,145	1,875
Total Liabilities	14,542	14,908	15,396	14,395	13,511	15,484	14,761	15,801	14,569	13,620
Accounts Payable	---	---	---	3,324	2,705	3,687	2,425	4,811	4,045	3,845
Long-Term Debt	10,525	11,931	11,839	9,920	9,209	9,691	10,213	9,220	8,446	7,751
Total Equity	1,657	1,762	1,737	1,695	1,846	2,155	1,464	1,533	1,524	1,548
D/E Ratio	6.35	6.77	6.82	5.85	4.99	4.50	6.98	6.01	5.54	5.00

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	0.3%	0.5%	0.4%	-2.8%	1.2%	1.2%	-2.0%	0.2%	0.6%	0.7%
Return on Equity	5.2%	6.9%	5.4%	-42.6%	18.9%	16.5%	-31.4%	4.0%	11.0%	1.3%
ROIC	0.4%	0.6%	0.5%	-3.5%	1.6%	1.6%	-2.7%	0.3%	0.8%	0.9%
Shares Out.	77.7	83.0	99.0	145.0	159.5	170.0	194.0	194.0	194.0	195.0
Revenue/Share	178.13	278.94	203.86	180.85	120.76	198.05	94.67	216.90	295.58	249.81
FCF/Share	0.23	-8.82	-6.22	10.15	3.44	7.76	3.14	8.53	10.05	11.09

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