



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

Updated November 15th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$17.14	5 Year CAGR Estimate:	13.2%	Market Cap:	\$12.1 B
Fair Value Price:	\$17.85	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	01/30/25 ¹
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date:	02/14/25
Dividend Yield:	7.4%	5 Year Price Target	\$22.78	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 8nd, 2024, Plains All American reported its Q3 results for the period ending September 30th, 2024. For the quarter, revenues came in at \$12.7 billion, up 5.6% compared to last year.

Adjusted EBITDA from crude oil increased by 4% year-over-year, primarily due to higher tariff volumes on the company's pipelines, tariff escalations and contributions from acquisitions. These items were partially offset by fewer market based opportunities.

Adjusted EBITDA from NGL declined 26% year-over-year results primarily due to lower weighted average frac spreads in the third quarter of 2024.

Thus, adjusted EBITDA totaled \$805 million for the quarter, up 3% compared to Q2 2023. Distributable cash flows (DCF) fell by one cent to \$0.61 on a per-unit basis. Management left the partnership's full-year 2024 guidance for adjusted EBITDA unchanged, projecting it to be between \$2.725 billion and \$2.775 billion, but indicated that they expect the result to be toward the higher end of the range. We continue to 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
DCFU²	\$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
Units³	367	394	464	717	726	727	728	716	701	699	702	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 anticipates targeting annualized common distribution increases of approximately \$0.15 per unit each year until reaching

¹ Estimated dates based on past dividend dates.

² Distributable Cash Flow per Unit is a more meaningful metric compared to EPS for PAA's business model and capital structure.

³ Unit 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 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	6.7	7.0
Avg. Yld.	5.1%	7.7%	9.3%	6.5%	5.0%	6.3%	5.5%	7.0%	8.4%	9.0%	7.4%	9.8%

Plains All American's valuation multiple has, on average, hovered just under 9 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 now 7X. The distribution yield of 7.4% is notable, and we expect it to advance further higher following continuous distribution hikes.

Safety, Quality, Competitive Advantage, & Recession Resiliency

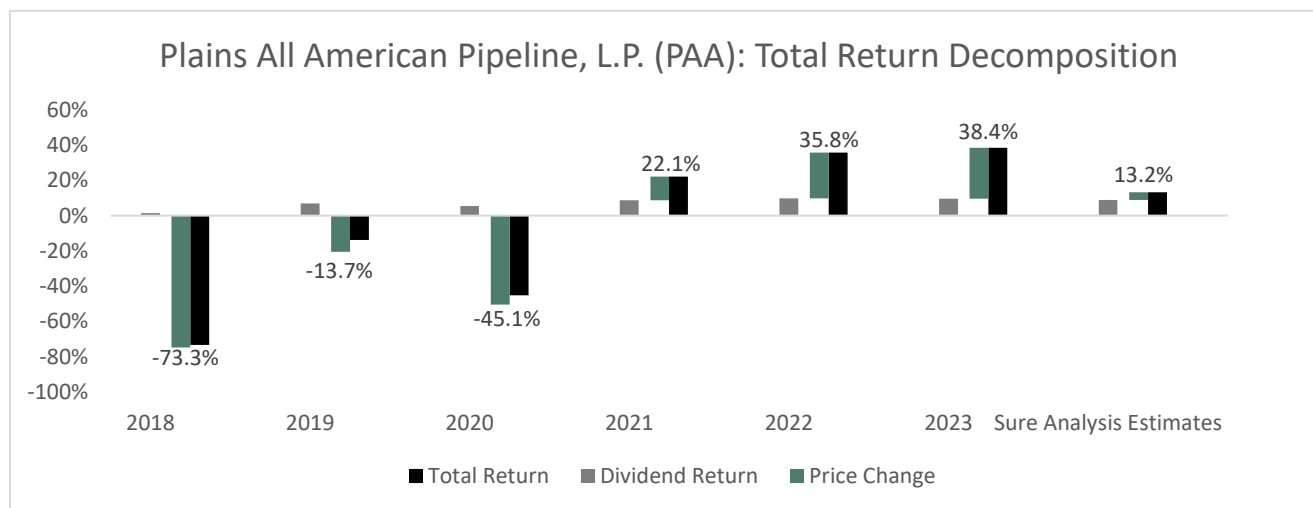
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	61%	74%	137%	93%	49%	48%	39%	35%	41%	46%	50%	69%

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, recording substantial declines in its stock price from its 2024 peak. Nevertheless, the partnership has demonstrated a noteworthy recovery attributed to improving financial performance. Based on our growth projections, the 7.4% yield, and the possibility of a soft valuation tailwind, we expect an annual return potential of 13.2% over the medium term. As a result, we continue to rate the stock as a buy.

Total Return Breakdown by Year



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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	42,080	57,340	48,710
Gross Profit	2,124	1,540	1,253	1,538	2,479	2,313	1,130	1,735	1,886	1,708
Gross Margin	4.9%	6.7%	6.2%	5.9%	7.3%	6.9%	4.9%	4.1%	3.3%	3.5%
SG&A Exp.	325	278	279	276	316	297	271	292	325	350
D&A Exp.	384	432	514	517	520	601	653	774	965	1,048
Operating Profit	1,799	1,262	974	1,262	2,163	2,016	859	1,443	1,561	1,358
Operating Margin	4.1%	5.5%	4.8%	4.8%	6.4%	6.0%	3.7%	3.4%	2.7%	27.9%
Net Profit	1,384	903	726	856	2,216	2,171	(2,590)	593	1,037	1,230
Net Margin	3.2%	3.9%	3.6%	3.3%	6.5%	6.4%	-11.1%	1.4%	1.8%	2.5%
Free Cash Flow	72	(721)	(601)	1,475	974	1,323	776	1,660	1,953	2,168
Income Tax	171	100	25	44	198	66	(19)	73	189	121

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	22,198	22,288	24,210	25,351	25,511	28,677	24,497	29,610	27,890	27,360
Cash & Equivalents	403	27	47	37	66	45	22	449	401	450
Accounts 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. Ass.	2,810	2,688	2,586	3,410	3,293	3,247	805	1,960	2,145	1,875
Total Liabilities	14,007	14,349	15,394	14,393	13,509	15,482	14,759	15,800	14,570	13,620
Accounts Payable	2,986	2,038	2,588	3,323	2,704	3,686	2,437	4,810	4,044	3,844
Long-Term Debt	9,991	11,374	11,839	9,920	9,209	9,624	10,132	9,161	8,446	7,751
Shareholder's Equity	8,133	7,881	8,759	10,958	12,002	13,062	9,593	9,972	10,060	10,420
LTD/E Ratio	1.09	1.44	1.35	0.91	0.77	0.74	0.95	0.92	0.84	0.74

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.5%	4.1%	3.1%	3.5%	8.7%	8.0%	-9.7%	2.2%	3.7%	4.5%
Return on Equity	17.5%	11.3%	8.7%	8.7%	19.3%	17.3%	-22.9%	6.1%	10.4%	9.1%
ROIC	15.4%	8.4%	6.2%	7.9%	23.2%	22.9%	-25.9%	5.3%	8.7%	10.8%
Shares Out.	367	394	464	717	726	727	728	716	701	699
Revenue/Share	117.79	58.46	43.31	36.52	42.62	42.09	31.99	58.77	81.80	69.69
FCF/Share	0.20	(1.82)	(1.29)	2.05	1.22	1.65	1.07	2.32	2.79	3.10

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

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