

Plains All American(PAA)

\$10.17 (As of 06/02/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/23/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: B

Summary

Plains All American Pipeline will benefit from strong presence in Permian Basin systems and impressive credit profile of its customers. The firm's ongoing investments to expand the existing pipelines in resource-rich regions, and develop new projects on its own and through JVs are expected to boost operations. The firm will take certain actions to preserve liquidity amid the economic distress caused by the virus outbreak. However, units of the firm have underperformed the industry in the past 12 months. Intense competition in the midstream space, and decline in price and demand for hydrocarbons due to the outbreak of COVID-19 has forced drillers to lower production, which in turn reduced demand for midstream services.

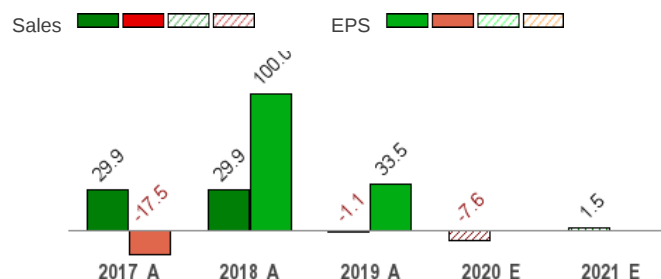
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$25.26 - \$3.00
20 Day Average Volume (sh)	4,674,181
Market Cap	\$7.4 B
YTD Price Change	-44.7%
Beta	2.38
Dividend / Div Yld	\$0.72 / 7.1%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Top 25% (64 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	14.6%
Last Sales Surprise	-6.4%
EPS F1 Est- 4 week change	-13.9%
Expected Report Date	08/04/2020
Earnings ESP	-5.8%
P/E TTM	4.3
P/E F1	7.7
PEG F1	NA
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	7,159 E	7,189 E	7,169 E	7,461 E	31,567 E
2020	8,269 A	7,346 E	7,313 E	7,841 E	31,109 E
2019	8,375 A	8,253 A	7,886 A	9,154 A	33,669 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.30 E	\$0.25 E	\$0.28 E	\$0.30 E	\$1.29 E
2020	\$0.55 A	\$0.28 E	\$0.29 E	\$0.35 E	-\$3.28 E
2019	\$0.69 A	\$0.67 A	\$0.52 A	\$0.63 A	\$2.51 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/02/2020. The reports text is as of 06/03/2020.

Overview

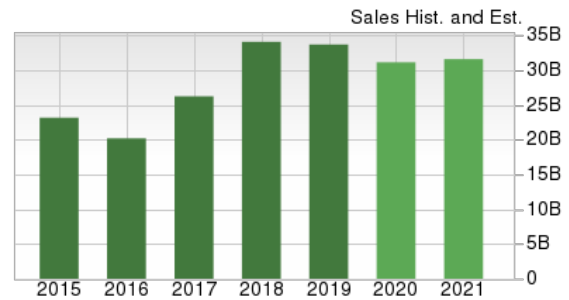
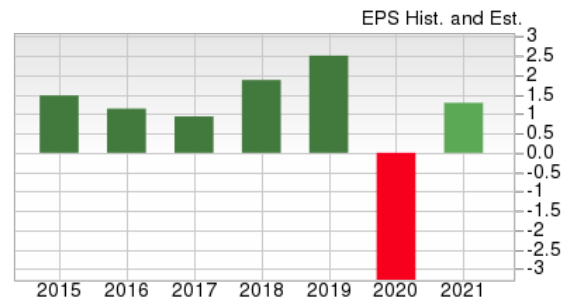
Founded in 1998, Houston, TX-based Plains All American Pipeline, L.P., a master limited partnership (MLP), is involved in the transportation, storage, terminalling and marketing of crude oil, natural gas, natural gas liquids (NGL) and refined products in the U.S. and Canada. The partnership has operations in the Permian Basin, South Texas/Eagle Ford area, Rocky Mountain and Gulf Coast in the U.S., and Manito, South Saskatchewan, Rainbow in Canada.

Plains All American Pipeline operates through three segments - **Transportation, Facilities, and Supply and Logistics.**

Transportation: The segment deals with the transportation of crude oil and NGL through pipelines, gathering systems, trucks and barges. It generates revenues through a mix of tariffs, third-party pipeline capacity agreements and other transportation fees. As of Dec 31, 2018, the transportation segment had 17,965 miles of active crude oil and NGL pipelines, plus gathering systems, as well as 830 trailers (primarily in Canada), 50 transport and storage barges and 20 transport tugs through its interest in Settoon Towing. Revenues during 2019 were \$2,320 million, up 16.6% year over year.

Facilities: The segment provides storage, terminalling and throughput services for crude oil, refined products and LPG as well as LPG fractionation and isomerization services. As of Dec 31, 2018, Plains All American Pipeline had a storage capacity of around 77 million barrels of crude oil and refined products, 32 million barrels of NGL, and 63 billion cubic feet of natural gas storage capacity. In addition, the partnership had eight fractionation plants located throughout Canada and the United States, with a total net processing capacity of nearly 211,000 barrels per day. Revenues in 2019 totaled \$1,171 million, up 0.9% year over year.

Supply and Logistics: Through this segment, the partnership purchases and sells refined products and LPG from producers, refiners and other marketers. Revenues in 2019 came in at \$32,276 million, down 1.7% year over year.



Reasons To Buy:

- ▲ Plains All American Pipeline maintains a systematic capital investment strategy to expand its operations through organic growth initiatives. It currently has some new projects in the resource-rich regions. After spending \$1.34 billion on capital expansion in 2019, the partnership decided to go slow on the ongoing capital project, given unprecedented economic crisis and uncertainty in the energy space. The firm lowered 2020-2021 capital expenditure by 33% or \$750 million to \$1.55 billion from its previous guidance of \$2.3 billion amid unprecedented economic distress caused by COVID-19.
- ▲ Plains All American Pipeline is gradually expanding its operation in the Permian Basin to capitalize on improving demand. The partnership has a 65% equity interest in Cactus II Pipeline, which was placed into service during 2019. Courtesy of new projects, the partnership's Permian tariff volumes touched 5,165 thousand barrels per day during first-quarter 2020, up 21% year over year.

Systematic investments to expand operations, new joint ventures, ample liquidity and strong profile of customers will allow the partnership to ride out this unprecedented crisis.

The partnership expects production from the Permian region to further increase from the current level. To benefit from the rising production, the partnership has decided to start several other projects that will further strengthen its position in the region. The Wink to Webster JV, expansion of the Diamond Pipeline, Saddlehorn JV, Red River JV and Red Oak JV are expected to come online in the 2020-2021 time period. However, due to the outbreak of novel coronavirus and reduced crude oil production resulted in drop in demand for midstream services. The firm will delay and defer spending on few of its JV project above to preserve liquidity.

Plains All American Pipeline announced the formation of W2W Pipeline joint venture with the subsidiaries of ExxonMobil and Lotus Midstream, LLC. W2W Pipeline is working on the construction of a pipeline to transport crude oil from multiple locations in the Permian basin to the Texas Gulf Coast. The pipeline system is expected to transport 1.5 million barrels of crude oil and condensate per day. This pipeline, which is expected to begin operation from the first half of 2021, will have a positive impact on the partnership's operations.

- ▲ Revenues of the firm are generated by the services provided to customers. It is quite important to have a knowledge about the financial standing of customers. In 2019, the firm's top 100 customers accounted for 90% of consolidated revenues. Of the top 100 customers, 85% have an investment grade or secured credit profile. The strong profile of customers, in a way, boosts their ability to meet financial commitments and assures future earnings of the firm.
- ▲ Plains All American Pipeline continues to enjoy a favorable financial position. As of Mar 31, 2020, the partnership had a liquidity of \$2.5 billion, which will be sufficient to meet operating, investing and financing requirements. At the end of first-quarter 2020, debt to capital of the firm was 51.1% compared with 43.3% at the end of fourth-quarter 2019. The increase was primarily due to lower equity in the capital mix at first quarter-end compared with fourth-quarter 2019.

The company's current ratio has been revolving near 1 over the past few years. It came in at 0.91 at the end of first-quarter 2020. The existing liquidity and current ratio indicate that the firm will be able to meet debt obligations in the near future without any difficulties. At a time when every entity is looking forward to preserve liquidity amid uncertainty as a result of the COVID-19 outbreak, the stable current ratio of Plains All American Pipeline is reassuring for investors.

Reasons To Sell:

▼ The partnership currently has various projects in different stages of completion. Plains All American Pipeline requires access to funds to complete the projects on time and within budget. The ongoing decline in interest rates will act in favor of the partnership but any disruption in capital markets served might create difficulties in sourcing funds and delay the completion of capital projects. As a consequence, the partnership might fail to generate the anticipated profitability from its growth projects. Units of Plains All American have declined 56.1% over the past 12 months, wider than the industry's decline of 38.4%.

▼ Hydraulic fracturing is an important and common practice that is widely used for the production of hydrocarbons from unconventional geological formations in the United States. However, hydraulic fracturing has been subject to increased scrutiny due to public concerns that it could result in contamination of drinking water supplies. So, legislation and regulatory initiatives relating to hydraulic fracturing could reduce domestic production of crude oil and natural gas. This in turn might lower the demand for midstream services provided by the partnership.

▼ Plains All American's operations are subject to extensive federal, state and local regulations, managing transportation and processing of materials, protecting the environment and wildlife. Government organizations have already passed several laws to protect the environment and ensure operational safety. While the execution of all of these regulations increases the partnership's operating costs, violating them would pose risks of administrative, civil and criminal penalties.

In addition, the outbreak of COVID-19 is going to have an adverse impact on demand for midstream services as majority of U.S. based E&P companies have lowered capital expenditures and production guidance. The firm on its part had lowered its capital expenditure and slashed its distribution rate by 50%.

▼ Upstream players like Noble Energy Inc. among other is currently entering the midstream business by forming MLPs and upgrading infrastructure. If this trend persists, midstream players will be up against tough competition as they generate revenues from exploration and production companies by providing transportation services.

Stringent government regulations, restriction on hydraulic fracking, outbreak of COVID-19 and increasing competition might be potential growth deterrents for the partnership.

Last Earnings Report

Plains All American Q1 Earnings Beat Estimates, Down Y/Y

Plains All American Pipeline, L.P. reported first-quarter 2020 adjusted earnings of 55 cents per unit, which beat the Zacks Consensus Estimate of 48 cents by 14.6%. However, the bottom line was down 20% from the year-ago quarter's reported figure.

In the quarter under review, the partnership incurred GAAP loss of \$3.98 per unit compared with \$1.20 earnings in the year-ago quarter.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	-6.35%
EPS Surprise	14.58%
Quarterly EPS	0.55
Annual EPS (TTM)	2.37

Total Revenues

Total revenues in the first quarter amounted to \$8,269 million, which missed the Zacks Consensus Estimate of \$8,830 million by 6.35%. Revenues declined 1.2% from \$8,375 million reported in the year-ago quarter.

Segmental Performance

In the **Transportation** segment, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of \$442 million increased 11% from the year-ago quarter's figure, primarily driven by higher volumes in its Permian Basin systems, including the Cactus II pipeline, which came into service in August 2019.

In the **Facilities** segment, adjusted EBITDA amounted to \$210 million. The figure was up 14% from the year-ago quarter's reported figure. The upside was primarily driven by the collection of a deficiency payment on a multi-year contract.

The **Supply and Logistics** segment reported adjusted EBITDA of \$141 million, which fell 49% from the year-ago quarter's figure of \$278 million. The decline was primarily caused by less favorable crude oil differentials and NGL margins.

Highlights of the Release

In the quarter under review, Plains All American's total costs and expenses were \$11,042 million, up 44.1% year over year. The increase was caused by higher purchases and related costs, depreciation and amortization expenses, losses on asset sales and asset impairments as well as goodwill impairment losses. Consequently, the firm's operating income dropped to \$2,773 million from \$714 million in the prior-year quarter.

Interest expenses increased 7% year over year to \$108 million.

Financial Update

As of Mar 31, 2020, current assets were \$3,071 million compared with \$4,612 million in the corresponding period of 2019.

As of Mar 31, 2020, Plains All American had long-term debt of \$9,418 million compared with \$9,187 million in the comparable period of 2019.

As of the same date, its long-term debt-to-total-book capitalization ratio was 49%, up from 41% at the end of 2019.

Guidance

Plains All American now expects 2020 earnings to be \$1.44 per unit. The partnership expects 2020 adjusted EBITDA to be \$2,425 million.

Plains All American expects 2020 expansion capital to be \$1,100 million.

Recent News

Plains All American to Take Actions for Preserving Liquidity - Apr 7, 2020

Plains All American Pipeline L.P. announced that it will take certain actions to preserve liquidity amid the unprecedented economic distress created by the outbreak of novel coronavirus. To lower the spread of this contagious virus, governments across the globe have resorted to different degrees of lockdown, which adversely impacted transportation, manufacturing and commercial activities, in turn lowering the demand for crude oil and its prices.

Valuation

Plains All American units are down 44.7% in the year to date period, and down 56.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil & Energy sector was down 34.1% and 34.1% respectively in the year to date period. Over the past year, the Zacks sub-industry and sector are down 38.4% and 34.8%, respectively.

The S&P 500 index is down 4.4% in the year to date period and up 10% in the past year.

The stock is currently trading at 3.14X of trailing 12-month Cash flow, which compares to 4.32X for the Zacks sub-industry, 3.65X for the Zacks sector and 15.73X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.14X and as low as 0.96X with a 5-year median of 7.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$11 price target reflects 3.40X of our 12-month Cash flow.

The table below shows summary valuation data for PAA

Industry Analysis Zacks Industry Rank: Top 25% (64 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Atmos Energy Corporation (ATO)	Neutral	2
Enterprise Products Partners L.P. (EPD)	Neutral	3
Energy Transfer LP (ET)	Neutral	3
Magellan Midstream Partners, L.P. (MMP)	Neutral	2
Sempra Energy (SRE)	Neutral	2
Williams Companies, Inc. The (WMB)	Neutral	2
NuStar Energy L.P. (NS)	Underperform	4
ONEOK, Inc. (OKE)	Underperform	5

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb				Industry Peers		
	PAA	X Industry	S&P 500	EPD	ET	SRE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	A	-	-	A	A	B
Market Cap	7.40 B	1.60 B	22.11 B	43.02 B	22.35 B	38.12 B
# of Analysts	4	3	14	8	4	4
Dividend Yield	7.08%	10.69%	1.93%	9.04%	14.68%	3.21%
Value Score	A	-	-	B	A	C
Cash/Price	0.02	0.05	0.06	0.05	0.01	0.06
EV/EBITDA	5.91	8.31	12.69	8.68	6.88	13.32
PEG Ratio	NA	0.87	2.98	NA	NA	2.54
Price/Book (P/B)	1.00	1.65	3.07	1.65	0.69	1.92
Price/Cash Flow (P/CF)	2.78	4.04	11.86	6.46	3.10	10.43
P/E (F1)	7.72	9.83	21.79	9.91	16.45	17.86
Price/Sales (P/S)	0.22	1.24	2.29	1.36	0.42	3.48
Earnings Yield	-32.25%	9.09%	4.39%	10.11%	6.02%	5.60%
Debt/Equity	1.32	1.44	0.76	1.07	1.57	1.02
Cash Flow (\$/share)	3.66	2.86	7.01	3.05	2.68	12.50
Growth Score	A	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	20.22%	5.73%	10.87%	15.02%	5.73%	5.80%
Proj. EPS Growth (F1/F0)	-230.68%	-8.25%	-10.74%	-7.61%	-62.87%	7.60%
Curr. Cash Flow Growth	27.46%	10.65%	5.48%	10.65%	41.31%	12.92%
Hist. Cash Flow Growth (3-5 yrs)	9.72%	9.39%	8.55%	10.23%	22.26%	8.55%
Current Ratio	0.91	1.02	1.29	1.12	0.83	0.45
Debt/Capital	50.17%	61.11%	44.75%	51.61%	61.11%	47.74%
Net Margin	-4.90%	14.24%	10.59%	14.75%	3.54%	22.32%
Return on Equity	19.57%	18.47%	16.29%	18.93%	10.30%	11.30%
Sales/Assets	1.24	0.35	0.55	0.52	0.56	0.17
Proj. Sales Growth (F1/F0)	-7.60%	-4.60%	-2.67%	-8.99%	-4.16%	-0.76%
Momentum Score	B	-	-	A	A	D
Daily Price Chg	3.04%	2.11%	0.99%	2.13%	1.22%	0.97%
1 Week Price Chg	-0.51%	0.97%	4.60%	2.25%	-0.49%	2.02%
4 Week Price Chg	23.42%	13.49%	9.15%	14.75%	1.09%	4.91%
12 Week Price Chg	15.31%	8.91%	4.65%	5.81%	8.91%	-0.21%
52 Week Price Chg	-56.13%	-42.57%	-0.30%	-30.36%	-42.57%	-1.41%
20 Day Average Volume	4,674,181	905,893	2,486,038	7,482,472	26,816,650	1,408,714
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.02%	0.06%	1.18%
(F1) EPS Est 4 week change	-13.86%	0.69%	-0.33%	3.18%	-3.44%	1.69%
(F1) EPS Est 12 week change	-19.96%	-14.89%	-16.13%	-9.40%	-16.83%	2.37%
(Q1) EPS Est Mthly Chg	-26.97%	-9.01%	-0.55%	1.41%	0.32%	-4.07%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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