Aug 07, 2020

Plains All American(PAA)

$8.05 (As of 08/06/20)

Price Target (6-12 Months): **$9.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/23/18) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:A
	Value: A | Growth: A | Momentum: A	

Summary

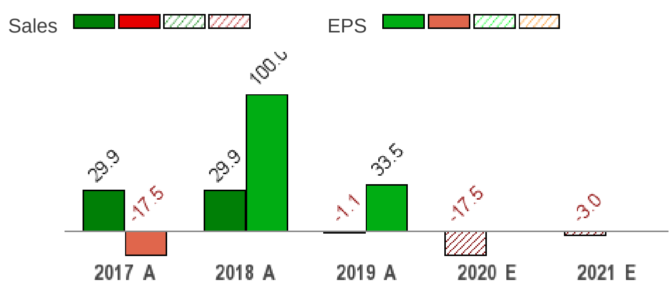
Plains All American's second-quarter earnings and revenues were lower than expected. Its presence in the Permian Basin, fee-based earnings, impressive credit profile of customers and gradual recovery in production volumes will support earnings in the long run. The company's strategy of expanding pipelines in resource-rich regions, developing new projects on its own and through JVs is expected to boost operations. However, units of the firm have underperformed the industry in the past year. To fulfill stringent regulations and implement safety measures for protecting employees, the cost of projects can increase. Intense competition in the midstream space, decline in the price and demand for hydrocarbons due to the novel coronavirus outbreak and the resultant demand for midstream services, as well as stringent regulations are headwinds.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$22.81 - $3.00**
20 Day Average Volume (sh)	**4,428,013**
Market Cap	**$5.9 B**
YTD Price Change	**-56.2%**
Beta	**2.28**
Dividend / Div Yld	**$0.72 / 8.9%**
Industry	**Oil and Gas - Production Pipeline - MLB**
Zacks Industry Rank	**Bottom 31% (173 out of 252)**
Last EPS Surprise	**-10.7%**
Last Sales Surprise	**-54.1%**
EPS F1 Est- 4 week change	**5.1%**
Expected Report Date	**11/03/2020**
Earnings ESP	**10.9%**
P/E TTM	**4.1**
P/E F1	**5.6**
PEG F1	**NA**
P/S TTM	**0.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	5,785 E	5,822 E	5,847 E	5,974 E	26,941 E
2020	8,269 A	3,225 A	6,190 E	6,638 E	27,788 E
2019	8,375 A	8,253 A	7,886 A	9,154 A	33,669 A

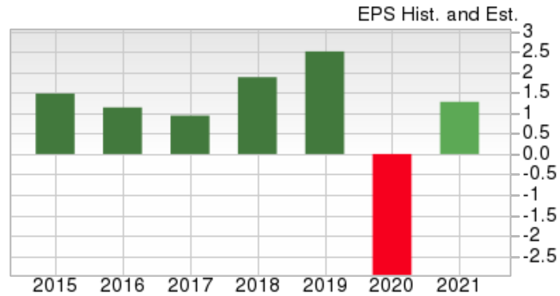
EPS Estimates

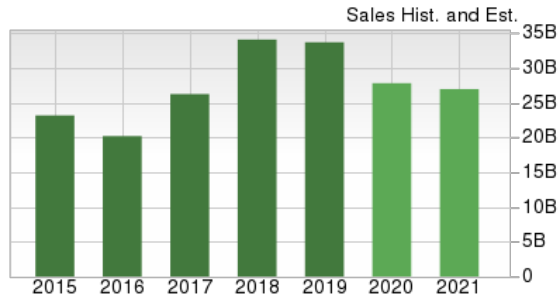
	Q1	Q2	Q3	Q4	Annual*
2021	$0.32 E	$0.26 E	$0.27 E	$0.34 E	$1.28 E
2020	$0.55 A	$0.25 A	$0.30 E	$0.34 E	-$2.96 E
2019	$0.69 A	$0.67 A	$0.52 A	$0.63 A	$2.51 A

*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 08/06/2020. The reports text is as of 08/07/2020.

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: TThe 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:

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

▲ 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 view by another $100 million to $1.45 billion from the previous guidance of $1.55 billion amid unprecedented economic distress caused by the COVID-19 pandemic.

Apart from preserving liquidity, a few of the ongoing capital projects of the firm are scheduled for completion in second-half 2020. Hence, it is cutting capital expenditure of the firm for 2021. The firm is focused on optimizing the capital program, trimming capital expenditure further if necessary. It is currently emphasizing on smaller projects to connect production and improve returns across its system.

▲ 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. Due to a decline in production from producers, the partnership's Permian tariff volumes dropped 9% year over year in the second quarter to 4,161 thousand barrels per day. As the producers have started to gradually resume idled production, volumes are expected to recover. To partnership is poised to benefit from rise in production from the Permian region, with the gradual revival in oil and natural gas demand. JVs such as Wink to Webster, Diamond Pipeline, Saddlehorn and Red River are expected to come online in the 2020-2021 time period. All these projects, when operational, will strengthen the firm's position in the Permian Basin.

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 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.

To preserve liquidity amid this unprecedented economic crisis, the firm is focusing on proper cost management, which is expected to result in cost savings in the range of $50-$100 million. In addition, the firm is also working to sell non-core assets worth $600 million, out of which $440 million is either sold or under definite agreement to be sold. This will aid the firm in making optimum utilization of assets.

▲ Plains All American Pipeline continues to enjoy a favorable financial position. As of Jun 30, 2020, the partnership had a liquidity of $2.9 billion, which will be sufficient to meet operating, investing and financing requirements without accessing capital markets in the near future. At the end of second-quarter 2020, senior notes held by the firm worth $9,067 million rose from $8,939 million at the of fourth-quarter 2019.

The company's current ratio has been revolving near 1 over the past few years. 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 63.7% over the past 12 months, wider than the industry's 43.8% fall.

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

- 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 others, have entered into 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.

Last Earnings Report

Plains All American Q2 Earnings Lag Estimates, Slump Y/Y

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	-54.12%
EPS Surprise	-10.71%
Quarterly EPS	0.25
Annual EPS (TTM)	1.95

Plains All American Pipeline, L.P. reported second-quarter 2020 adjusted earnings of 25 cents per unit, which missed the Zacks Consensus Estimate of 28 cents by 10.7%. The bottom line also plunged 62.7% from the year-ago quarter's figure.

In the quarter under review, the partnership reported GAAP earnings of 13 cents per unit, down 76% from 54 cents earned in the year-ago quarter.

Total Revenues

Total revenues of $3,225 million missed the Zacks Consensus Estimate of $7,029 million by 54.2%. Further, the top line slumped 60.9% from $8,253 million reported a year ago.

Highlights of the Release

In the quarter under review, Plains All American's total costs and expenses were $3,015 million, down 61.4% year over year. This downside was owing to lower purchases and related costs, field operating costs as well as general and administrative expenses. Consequently, the firm's operating income dropped to $210 million from $451 million in the prior-year quarter.

Total adjusted EBTIDA (Non-GAAP) for the quarter was $524 million, down 33.2% from the year-ago quarter.

Interest expenses increased 4.9% year over year to $108 million.

Segmental Performance

In the **Transportation** segment, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of $346 million decreased 15.6% from the year-ago quarter's figure, primarily due tocontracted tariff volumes in multiple regions caused by soft crude oil prices, production shut-ins and tighter regional basis differentials during the quarter.

In the **Facilities** segment, adjusted EBITDA summed $174 million, up 1.2% from the year-ago quarter's reported figure. This uptrend was primarily driven by operational cost savings and an expanded capacity at certain Mid-Continent and Gulf Coast crude oil storage terminals.

The **Supply and Logistics** segment reported adjusted EBITDA of $3 million, which tumbled 98.5% from the year-ago quarter's figure of $200 million. Thisdowntrend was primarily caused by less favorable crude oil differentials in both Permian Basin and Canada.

Financial Update

As of Jun 30, 2020, current assets were $3,161 million compared with $4,612 million at 2019 end.

As of Jun 30, 2020, Plains All American had long-term debt of $9,393 million compared with $9,187 million on Dec 31, 2019.

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

Guidance

Plains All American raised its 2020 earnings expectation to $1.49 per unit, up from its previous estimate of $1.44. The partnership also lifted its 2020 adjusted EBITDA by 3% to $2.5 billion from its prior guidance.

Plains All American trimmed 2020/2021 expansion capital spending projection to $1.45 billion, marking a 6% cut from the prior guided range.

Recent News

On **June 8, 2020**, Plains All American Pipeline L.P. announced that it has issued senior notes to refinance outstanding debt. The firm intends to utilize the net proceeds from the offering to partially repay the principal amount of $600 million or 5.00% senior notes due 2021.

The proceeds, post repayment of the principal amount, will be utilized for general partnership purposes that may include repayment of indebtedness, acquisitions, capital expenditures and additions to working capital.

Valuation

Plains All American units are down 56.2% in the year to date period, and down 64% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil & Energy sector was down 41.4% and 35.3% respectively in the year to date period. Over the past year, the Zacks sub-industry and sector are down 44.7% and 32.5%, respectively.

The S&P 500 index is up 4% in the year to date period period and up 14.3% in the past year.

The stock is currently trading at 2.48X of trailing 12-month Cash flow, which compares to 3.85X for the Zacks sub-industry, 3.59X for the Zacks sector and 19.6X 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 7.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $9 price target reflects 2.78X of our 12-month Cash flow.

The table below shows summary valuation data for PAA

Valuation Multiples - PAA

		Stock	Sub-Industry	Sector	S&P 500
P/Cash Flow	Current	2.48	3.85	3.59	19.6
	5-Year High	30.14	14.65	9.26	22.73
	5-Year Low	0.96	2.57	1.59	11.7
	5-Year Median	7.4	9.08	5.79	16.42
P/S F12M	Current	0.2	0.65	0.72	3.66
	5-Year High	1.06	1.62	1.46	3.66
	5-Year Low	0.07	0.41	0.59	2.53
	5-Year Median	0.49	1.03	0.99	3.04
EV/EBITDA TTM	Current	3.46	7.64	4.06	12.98
	5-Year High	22.49	16.22	10.42	12.98
	5-Year Low	3.05	6.7	3.04	8.24
	5-Year Median	13.5	13.32	6.46	10.89

As of 8/6/2020

Industry Analysis **Zacks Industry Rank:** Bottom 31% (173 out of 252)

Top Peers

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

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb

	PAA	X Industry	S&P 500	EPD	ET	SRE
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	B
Market Cap	5.86 B	1.42 B	23.20 B	39.54 B	17.83 B	37.08 B
# of Analysts	4	3	14	8	4	6
Dividend Yield	8.94%	10.60%	1.78%	9.84%	18.40%	3.26%
Value Score	A	-	-	B	A	C
Cash/Price	0.03	0.05	0.07	0.05	0.01	0.06
EV/EBITDA	5.43	7.62	13.21	8.24	6.46	13.16
PEG Ratio	NA	0.77	2.94	NA	NA	2.37
Price/Book (P/B)	0.79	1.79	3.12	1.52	0.55	1.69
Price/Cash Flow (P/CF)	2.20	4.04	12.27	5.93	2.47	10.26
P/E (F1)	5.59	8.82	21.69	8.82	7.29	17.00
Price/Sales (P/S)	0.21	1.22	2.48	1.35	0.39	3.29
Earnings Yield	-36.77%	9.14%	4.39%	11.33%	13.73%	5.88%
Debt/Equity	1.32	1.57	0.77	1.07	1.57	0.92
Cash Flow ($/share)	3.66	2.86	6.94	3.05	2.68	12.50
Growth Score	A	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	20.22%	5.73%	10.46%	16.11%	5.73%	5.80%
Proj. EPS Growth (F1/F0)	-217.83%	-5.26%	-6.80%	-4.60%	-33.09%	11.26%
Curr. Cash Flow Growth	27.46%	10.65%	5.39%	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	1.33	1.12	0.83	0.80
Debt/Capital	50.17%	61.11%	44.50%	51.61%	61.11%	44.72%
Net Margin	-7.01%	13.61%	10.13%	15.41%	2.90%	38.49%
Return on Equity	16.84%	16.01%	14.39%	18.08%	8.64%	11.47%
Sales/Assets	1.06	0.33	0.51	0.47	0.48	0.17
Proj. Sales Growth (F1/F0)	-17.47%	-8.70%	-1.51%	-12.16%	-8.62%	-1.81%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	1.39%	1.39%	-0.04%	2.84%	-7.27%	0.92%
1 Week Price Chg	-4.50%	-0.21%	0.14%	-2.98%	-1.50%	-0.92%
4 Week Price Chg	-4.17%	9.69%	7.78%	4.87%	4.57%	10.24%
12 Week Price Chg	-1.23%	22.47%	17.48%	5.48%	-4.33%	6.53%
52 Week Price Chg	-64.05%	-43.68%	0.68%	-36.53%	-52.74%	-6.22%
20 Day Average Volume	4,428,013	357,292	2,057,775	7,643,583	21,979,636	1,588,017
(F1) EPS Est 1 week change	-0.49%	0.00%	0.00%	0.37%	0.00%	0.49%
(F1) EPS Est 4 week change	5.11%	1.27%	1.36%	1.74%	0.27%	1.88%
(F1) EPS Est 12 week change	11.63%	4.86%	1.57%	4.86%	-4.43%	4.88%
(Q1) EPS Est Mthly Chg	4.89%	0.00%	0.54%	3.82%	-1.01%	-7.65%

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.

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

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.

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.

Disclosures

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