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Apr 15, 2020

Plains All American(PAA)

$6.75 (As of 04/14/20)

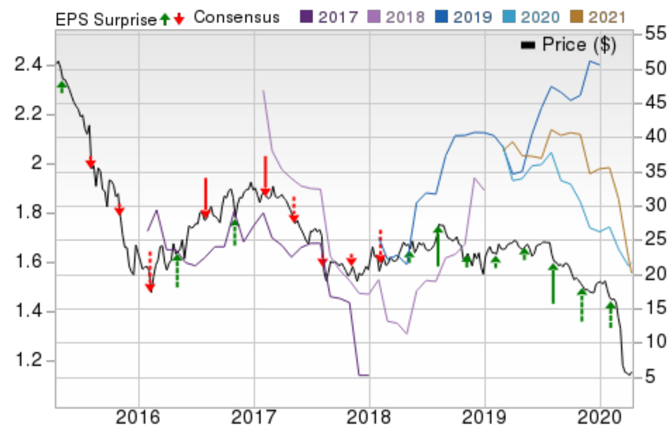
Price Target (6-12 Months): **$7.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 10/11/18) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:B
	Value: A | Growth: D | Momentum: D	

Summary

Plains All American Pipeline benefited from higher volumes on Permian Basin systems and fee-based earnings. The firm is modifying the way it manages the inventory, which will assist it to reduce earnings volatility. The partnership's systematic investment to expand the existing pipelines in resource-rich regions, and develop new pipeline projects on its own and through JVs are expected to boost operations. However, units of the firm have underperformed the industry in the past three months. Intense competition in the midstream space poses a threat to the stock. Decline in commodity price due to the outbreak of COVID-19 has forced drillers to lower production, which in turn reduced demand for midstream services. The firm will take certain actions to preserve liquidity amid the economic distress caused by the virus outbreak.

Price, Consensus & Surprise



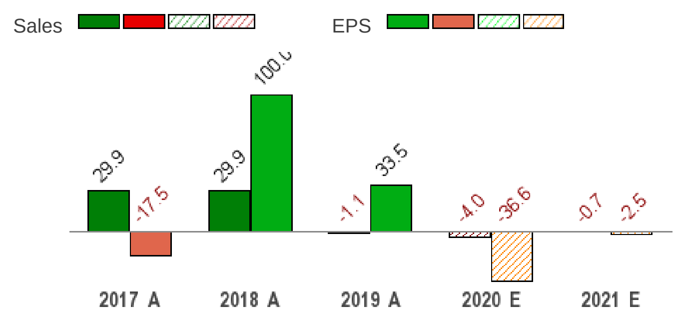
Data Overview

52 Week High-Low	**$25.26 - $3.00**
20 Day Average Volume (sh)	**11,466,040**
Market Cap	**$4.9 B**
YTD Price Change	**-63.3%**
Beta	**1.80**
Dividend / Div Yld	**$0.72 / 21.3%**
Industry	**Oil and Gas - Production Pipeline - MLB**
Zacks Industry Rank	**Bottom 26% (186 out of 253)**

Last EPS Surprise	**28.6%**
Last Sales Surprise	**10.0%**
EPS F1 Est- 4 week change	**0.2%**
Expected Report Date	**05/05/2020**
Earnings ESP	**-0.4%**

P/E TTM	**2.7**
P/E F1	**4.3**
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	7,141 E	7,169 E	7,216 E	7,234 E	32,124 E
2020	8,842 E	7,491 E	7,435 E	7,537 E	32,336 E
2019	8,375 A	8,253 A	7,886 A	9,154 A	33,669 A

EPS Estimates

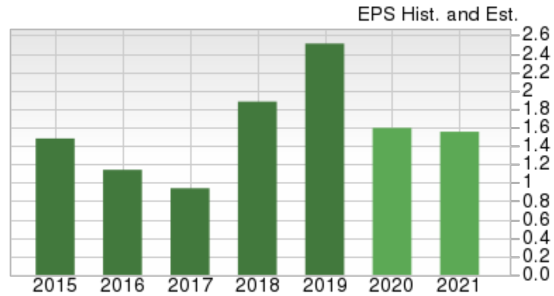
	Q1	Q2	Q3	Q4	Annual*
2021	$0.36 E	$0.35 E	$0.36 E	$0.40 E	$1.55 E
2020	$0.47 E	$0.36 E	$0.35 E	$0.42 E	$1.59 E
2019	$0.69 A	$0.67 A	$0.52 A	$0.63 A	$2.51 A

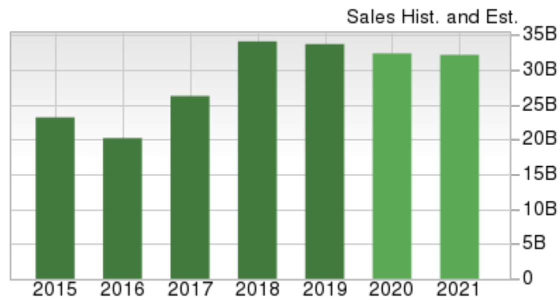
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/14/2020. The reports text is as of 04/15/2020.

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:

▲ Plains All American Pipeline continues to enjoy a favorable financial position. As of Dec 31, 2019, the partnership had a liquidity of $2.5 billion. A stable financial position allows Plains All American Pipeline to offer distributions at regular intervals.

Systematic investments to expand existing operations, increasing fee-based earnings and new joint ventures will allow the partnership to gain from increasing fossil fuel production.

The partnership is committed to lower debt level. It has reduced long-term debt from $11.8 billion at 2016-end to $9.2 billion at the end of 2019. Proper management of long-term debt led to a decline in year-over-year interest expenses by 1.4% in 2019. The partnership aims to further lower its debt from the current level through divestiture proceeds and higher earnings from the fee-based business. The partnership has taken steps to refinance debt, which will further lower its interest burden over the long run.

▲ The partnership 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 nearly $1.34 billion on capital expansion in 2019, the partnership now anticipates 2020 capital budget to be $1.4 billion. However, Plain All American decided to lower 2020-2021 capital expenditure by 33% or $750 million to $1.55 billion from its previous guidance of $2.3 billion due to unprecedented economic distress caused by COVID-19.

▲ Plains All American Pipeline is 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 the third quarter. Courtesy of the new projects, the partnership's Permian tariff volumes touched 5,052 thousand barrels per day during fourth-quarter 2019, up 24.3% year over year.

The partnership expects production from the Permian region to further increase from the current level. Production from the Permian Basin for 2020 is expected within 300-400 thousand barrels per day, indicating an improvement from 2019 levels. To capitalize and 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 midtsream 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.

The firm continues to optimize its asset portfolio through acquisitions, JVs and non-core assets sales. The firm sold more than $3 billion of non-core assets during the 2016-2019 time period and plans to sell assets worth more than $600 million in 2020. The firm made a deal with Felix Midstream to acquire midstream assets worth $300 million.

Reasons To Sell:

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

- 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 63.5% over the past three months, wider than its industry's decline of 48.7%.

- 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.

Last Earnings Report

Plains All American Q4 Earnings & Sales Beat Estimates

Quarter Ending	12/2019
Report Date	**Feb 04, 2020**
Sales Surprise	**10.02%**
EPS Surprise	**28.57%**
Quarterly EPS	**0.63**
Annual EPS (TTM)	**2.51**

Plains All American Pipeline, L.P. reported fourth-quarter 2019 adjusted earnings of 63 cents per unit, beating the Zacks Consensus Estimate of 49 cents by 28.6%. However, the bottom line was down 21% from the year-ago quarter.

In the quarter under review, the partnership reported GAAP earnings of 35 cents per unit, down from the year-ago figure of $1.38 by 75%.

Total Revenues

Total revenues in the fourth quarter amounted to $9,154 million, surpassing the Zacks Consensus Estimate of $8,321 million by 10%. Revenues also improved 4.2% from $8,786 million reported in the year-ago quarter.

Segmental Performance

In the **Transportation** segment, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of $451 million increased 6% from the year-ago quarter, 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 of $176 million was down 3% from the year-ago reported figure. The decline was due to lower activity in some of its rail terminals.

The **Supply and Logistics** segment reported adjusted EBITDA of $232 million, which decreased 32% from the year-ago figure of $342 million. The decline was primarily due to less favorable crude oil differentials in the Permian Basin, partially offset by higher NGL margins.

Highlights of the Release

In the quarter under review, Plains All American's total costs and expenses were $8,823 million, up 18.1% year over year. The increase was due to higher purchases and related costs, marginally offset by lower general and administrative expenses. As a consequence, the firm's operating income dropped to $331 million from $1,315 million in the prior-year quarter.

Interest expenses increased 9.6% year over year to $114 million.

The firm continues to make changes in the asset portfolio through non-core asset sales, strategic joint ventures and acquisitions. The company expects to sell $600 million non-core assets in 2020 and fund its capital program without issuing fresh equity.

Financial Update

As of Dec 31, 2019, current assets were $4,612 million compared with $3,533 million in the corresponding period of 2018.

As of Dec 31, 2019, Plains All American had long-term debt of $9,187 million compared with $9,143 million in the comparable period of 2018.

As of the same date, its long-term debt-to-total-book capitalization ratio was 41%, down from 43% at the end of 2018.

Guidance

Plains All American now expects 2020 earnings to be $1.66 per unit. The partnership expects 2020 adjusted EBITDA to be $2,575 million.

Plains All American expects 2020 expansion capital to be $1,400 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 62.5% in the year to date period, and down 70.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil & Energy sector was down 46.4% and 39.9% respectively in the year to date period. Over the past year, the Zacks sub-industry and sector are down 49.1% and 44%, respectively.

The S&P 500 index is down 13.9% in the year to date period period and 3.6% in the past year.

The stock is currently trading at 1.97X of trailing 12-month Cash flow, which compares to 3.61X for the Zacks sub-industry, 2.27X for the Zacks sector and 14.74X 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 7.75X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $7 price target reflects 2.04X 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	1.97	3.61	2.27	14.74
	5-Year High	30.14	17.05	9.14	22.67
	5-Year Low	0.96	2.57	1.58	11.67
	5-Year Median	7.75	9.5	5.87	16.38
P/S F12M	Current	0.14	0.5	0.65	3.16
	5-Year High	1.06	1.62	1.45	3.44
	5-Year Low	0.07	0.41	0.58	2.54
	5-Year Median	0.5	1.05	0.99	3.01
EV/EBITDA TTM	Current	6.96	7.55	3.76	10.4
	5-Year High	22.49	18.25	10.37	12.87
	5-Year Low	5.94	6.65	3.05	8.27
	5-Year Median	13.84	13.45	6.5	10.78

As of 4/14/2020

Industry Analysis **Zacks Industry Rank:** Bottom 26% (186 out of 253)

Top Peers

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

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

Industry Peers

	PAA Neutral	X Industry	S&P 500	EPD Neutral	ET Neutral	SRE Neutral
VGM Score	B	-	-	B	A	D
Market Cap	4.91 B	1.04 B	19.79 B	36.12 B	16.52 B	37.41 B
# of Analysts	9	3	14	9	9	5
Dividend Yield	21.33%	19.87%	2.16%	10.79%	19.87%	3.27%
Value Score	A	-	-	B	A	D
Cash/Price	0.02	0.03	0.06	0.01	0.02	0.00
EV/EBITDA	5.10	6.32	11.74	7.74	6.32	13.77
PEG Ratio	NA	4.33	2.15	NA	NA	2.65
Price/Book (P/B)	0.45	1.01	2.65	1.40	0.48	1.85
Price/Cash Flow (P/CF)	1.84	2.10	10.40	5.41	2.29	10.24
P/E (F1)	4.03	6.25	17.72	8.04	4.84	18.01
Price/Sales (P/S)	0.15	0.62	2.06	1.10	0.30	3.45
Earnings Yield	23.56%	15.15%	5.46%	12.42%	20.68%	5.55%
Debt/Equity	0.88	1.33	0.70	0.99	1.51	1.06
Cash Flow ($/share)	3.66	2.86	7.01	3.05	2.68	12.50
Growth Score	D	-	-	B	A	F
Hist. EPS Growth (3-5 yrs)	13.05%	7.92%	10.92%	13.09%	8.79%	3.89%
Proj. EPS Growth (F1/F0)	-36.48%	-3.01%	-2.65%	-4.60%	-6.78%	4.75%
Curr. Cash Flow Growth	27.46%	10.65%	5.93%	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	0.92	1.02	1.24	0.86	1.02	0.36
Debt/Capital	42.05%	55.45%	42.36%	49.82%	60.12%	48.80%
Net Margin	6.45%	14.59%	11.64%	14.00%	6.62%	19.97%
Return on Equity	19.20%	16.14%	16.74%	18.88%	11.85%	9.65%
Sales/Assets	1.20	0.34	0.54	0.55	0.58	0.17
Proj. Sales Growth (F1/F0)	-3.96%	-1.57%	0.00%	0.35%	7.45%	1.19%
Momentum Score	D	-	-	D	D	B
Daily Price Chg	6.64%	3.07%	2.56%	-1.37%	3.02%	0.75%
1 Week Price Chg	9.83%	9.94%	16.01%	13.51%	6.22%	25.17%
4 Week Price Chg	39.46%	26.92%	11.39%	26.92%	16.95%	30.04%
12 Week Price Chg	-63.69%	-61.46%	-19.33%	-41.30%	-53.06%	-19.01%
52 Week Price Chg	-72.22%	-61.02%	-11.64%	-43.55%	-60.00%	0.52%
20 Day Average Volume	11,466,040	824,203	3,452,738	14,349,454	46,812,168	2,350,001
(F1) EPS Est 1 week change	-1.31%	0.00%	0.00%	-1.96%	-0.47%	0.00%
(F1) EPS Est 4 week change	0.20%	-5.14%	-6.42%	-5.14%	-3.55%	-0.34%
(F1) EPS Est 12 week change	-8.89%	-8.89%	-8.69%	-5.96%	-8.28%	0.63%
(Q1) EPS Est Mthly Chg	-4.03%	-3.99%	-11.08%	-6.50%	-3.95%	-0.52%

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	D
Momentum Score	D
VGM Score	B

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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