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Jan 23, 2020

Plains All American(PAA)

$18.16 (As of 01/22/20)

Price Target (6-12 Months): **$19.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
(Since: 10/11/18)
Prior Recommendation: Outperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **3-Hold**
Zacks Style Scores: VGM:A
Value: A | Growth: C | Momentum: A

Summary

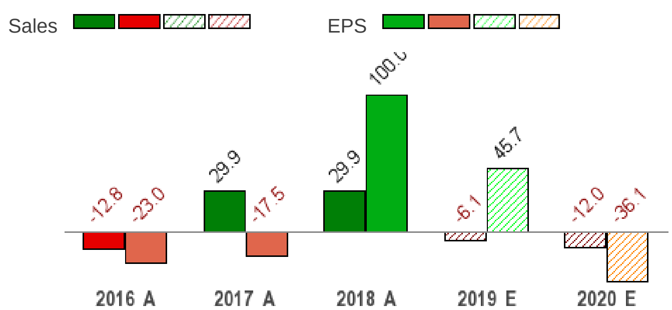
Plains All American Pipeline continues to gain from the ongoing increase in volume in its Permian Basin Systems and is also benefiting from higher fee-based earnings. The firm is modifying the way it manages inventory, which will assist Plains All American to reduce earnings volatility. The partnership's systematic investment to develop new pipeline projects and expansion of existing pipelines in resource-rich regions is expected to drive operations. However, units of the partnership have underperformed its industry in the past three months. Intense competition in the midstream space pose threats to the stock. Stringent transportation regulations and any initiative by the authorities to control hydraulic fracturing may reduce domestic production of crude oil and natural gas.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$25.27 - $16.77**
20 Day Average Volume (sh)	**3,521,957**
Market Cap	**$13.2 B**
YTD Price Change	**-1.3%**
Beta	**1.02**
Dividend / Div Yld	**$1.44 / 7.9%**
Industry	**Oil and Gas - Production Pipeline - MLB**
Zacks Industry Rank	**Top 34% (87 out of 255)**
Last EPS Surprise	**33.3%**
Last Sales Surprise	**0.1%**
EPS F1 Est- 4 week change	**1.7%**
Expected Report Date	**02/04/2020**
Earnings ESP	**11.6%**
P/E TTM	**6.8**
P/E F1	**10.4**
PEG F1	**NA**
P/S TTM	**0.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	8,217 E	7,856 E	7,769 E	7,757 E	28,115 E
2019	8,375 A	8,253 A	7,886 A	8,095 E	31,966 E
2018	8,398 A	8,080 A	8,792 A	8,786 A	34,055 A

EPS Estimates

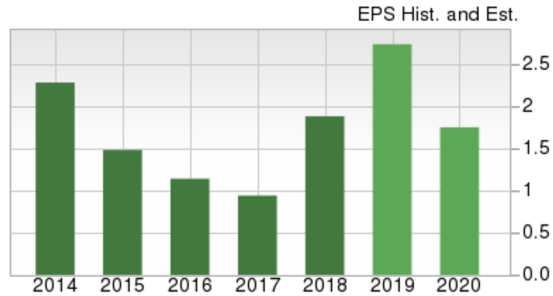
	Q1	Q2	Q3	Q4	Annual*
2020	$0.47 E	$0.42 E	$0.41 E	$0.48 E	$1.75 E
2019	$0.69 A	$0.67 A	$0.52 A	$0.49 E	$2.74 E
2018	$0.36 A	$0.38 A	$0.43 A	$0.80 A	$1.88 A

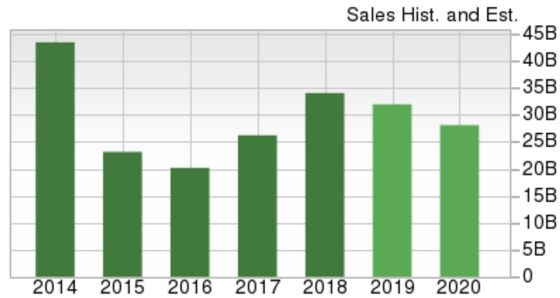
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/22/2020. The reports text is as of 01/23/2020.

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 2018 were $648 million, up 5.9% 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 2018 totaled $588 million, up 5.9% 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 2018 came in at $32,819 million, up 30.9% year over year.

Reasons To Buy:

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.

▲ Plains All American Pipeline continues to enjoy a favorable financial position. As of Sep 30, 2019, the partnership had a liquidity of $3.5 billion. A stable financial position allows Plains All American Pipeline to offer distributions at regular intervals.

The partnership is committed to lower its debt level and has reduced long-term debt from $11.8 billion at 2016-end to $9.1 billion at the end of third-quarter 2019. Proper management of long-term debt has led to a decline in year-over-year interest expenses by 4.9% in the first nine months of 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 $1.9 billion on capital expansion in 2018, the partnership now anticipates 2019 capital budget to be $1.35 billion. A major portion of the planned capital expenditure will be allocated to new pipeline projects and for expansion of the existing pipeline projects.

The partnership expects adjusted EBITDA from fee-based earnings to touch $2,375 million in 2019, up 7% from 2018 levels. Adjusted EBITDA from fee-based earnings is expected to grow further in 2020, courtesy of contribution from highly contracted projects that are coming in service from late 2020 through 2021 and will provide clear visibility of fee-based earnings growth.

▲ 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 4,852 thousand barrels per day during third-quarter 2019.

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, Diamond/Capline JV, Saddlehorn JV, Red River JV and Red Oak JV are expected to come online in the 2020-2021 time period. These new JV projects will further increase the firm's capability to transport more crude oil from the Permian region to the Texas Gulf Coast.

▲ 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.

During the third quarter, three entities joined as partners in the W2W Pipeline project. As a consequence, the partnership's interest in the pipeline has decreased to 16% from the initial level of 20%.

Reasons To Sell:

Stringent government regulations, restriction on hydraulic fracking, interest rates 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 4.4% over the past three months, against industry's gain of 0.3%.

- 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.

- Upstream players like Occidental Petroleum Corporation and Noble Energy Inc. are 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 Q3 Earnings Beat, Sales Down Y/Y

Quarter Ending	09/2019
Report Date	Nov 05, 2019
Sales Surprise	0.07%
EPS Surprise	33.33%
Quarterly EPS	0.52
Annual EPS (TTM)	2.68

Plains All American Pipeline, L.P. reported third-quarter 2019 adjusted earnings of 52 cents per unit, beating the Zacks Consensus Estimate of 39 cents by 33.33%. Moreover, the bottom line improved 20.9% from the year-ago quarter on increased Permian Basin Systems volumes.

In the quarter under review, the partnership reported GAAP earnings of 55 cents per unit, down from the year-ago figure of 87 cents.

Total Revenues

Total revenues in the third quarter amounted to $7,886 million, surpassing the Zacks Consensus Estimate of $7,880 million by 0.1%. However, revenues declined 10.3% from $8,792 million a year ago.

Segmental Performance

In the **Transportation** segment, adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) of $462 million increased 19% from the year-ago quarter, courtesy of expanded volumes in Permian Basin systems along with the start-up of Sunrise II and Cactus II pipeline systems in fourth-quarter 2018 and third quarter of 2019, respectively. Performance in the central region pipelines also contributed to the strong performance.

In the **Facilities** segment, adjusted EBITDA of $173 million remained flat with the year-ago reported figure.

The **Supply and Logistics** segment reported adjusted EBITDA of $92 million, which increased 23% from the year-ago $75 million. The improvement was backed by favourable crude oil differentials in the Permian Basin, partially offset by lower NGL margins.

Highlights of the Release

In the quarter under review, Plains All American's total costs and expenses were $7,394 million, down 10.9% year over year. The contraction was due to lower purchases and related costs as well as a decline in field operating costs.

Interest expenses declined 1.8% year over year to $108 million.

Its operating income dropped marginally to $492 million from $493 million in the prior-year quarter.

Financial Update

As of Sep 30, 2019, current assets were $4,676 million compared with $3,533 million on Dec 31, 2018.

As of Sep 30, 2019, Plains All American had long-term debt of $9,173 million compared with $9,143 million as on Dec 31, 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 2019 earnings of $2.35 per unit, up from previous expectation of $2.25. The partnership now expects 2019 adjusted EBITDA of $3,075 million, up from $2,975 million expected earlier.

Plains All American lowered its 2019 expansion capital guidance to $1,350 million.

Recent News

Plains All American & Valero to Develop Byhalia Connection - Dec 11, 2019

Per a media release, Plains All American Pipeline L.P. has entered into an agreement with Valero Energy to develop Byhalia Connection, a crude oil pipeline that is likely to run 45 miles from Memphis to Marshall County, MS. This will connect the Diamond Pipeline and the Capline Pipeline.

The reason behind joining the two pipelines is to increase the efficiency of both. Also, it will enable the pipelines to cater to rising demand for transporting crude oil by producers in the region. Construction of this proposed pipeline is likely to start from the second half of 2020, after receiving necessary approvals, and commercial operation will commence from mid-2021.

Valuation

Plains All American units are down 26.8% in the last six months period, and down 22% over the trailing 12-month period. Stocks in the Zacks sub-industry was down 12.4% and the Zacks Oil & Energy sector was down 6.5% in the last six months period. Over the past year, the Zacks sub-industry and sector are down 5.2% and 8%, respectively.

The S&P 500 index is up 10.7% in the last six months period and up 25% in the past year.

The stock is currently trading at 4.7X of trailing 12-month Cash flow, which compares to 6.53X for the Zacks sub-industry, 4.6X for the Zacks sector and 23.31X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.14X and as low as 3.83X with a 5-year median of 8.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $19 price target reflects 4.92X 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	4.7	6.53	4.6	23.31
	5-Year High	30.14	17.05	9.07	23.31
	5-Year Low	3.83	5.99	4.29	11.78
	5-Year Median	8.1	9.99	5.87	16.26
P/S F12M	Current	0.47	0.93	0.86	3.56
	5-Year High	1.06	1.62	1.44	3.56
	5-Year Low	0.25	0.8	0.67	2.54
	5-Year Median	0.5	1.05	0.99	3
EV/EBITDA TTM	Current	9.19	10.01	5.03	12.38
	5-Year High	22.49	18.25	10.19	12.86
	5-Year Low	8.75	9.44	4.56	8.48
	5-Year Median	14.13	13.61	6.5	10.67

As of 1/22/2020

Industry Analysis **Zacks Industry Rank:** Top 34% (87 out of 255)

Top Peers

Atmos Energy Corporation **(ATO)**	Neutral
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	A	-	-	C	A	D
Market Cap	13.22 B	2.59 B	24.65 B	60.66 B	33.39 B	44.41 B
# of Analysts	4	3	13	5	7	4
Dividend Yield	7.93%	8.22%	1.77%	6.39%	9.60%	2.46%
Value Score	A	-	-	C	A	C
Cash/Price	0.05	0.02	0.04	0.02	0.01	0.00
EV/EBITDA	7.24	10.15	13.98	11.84	9.00	19.19
PEG Ratio	NA	3.19	2.05	3.19	NA	2.83
Price/Book (P/B)	1.22	2.38	3.38	2.38	1.04	2.43
Price/Cash Flow (P/CF)	6.31	6.61	13.60	10.03	6.67	13.57
P/E (F1)	10.30	11.47	19.07	12.74	9.09	22.28
Price/Sales (P/S)	0.40	1.63	2.69	1.79	0.62	4.00
Earnings Yield	9.64%	8.28%	5.24%	7.83%	11.01%	4.49%
Debt/Equity	0.88	1.49	0.72	1.00	1.49	1.15
Cash Flow ($/share)	2.88	2.61	6.94	2.76	1.90	11.61
Growth Score	C	-	-	B	A	D
Hist. EPS Growth (3-5 yrs)	5.74%	7.08%	10.60%	10.74%	11.68%	3.77%
Proj. EPS Growth (F1/F0)	-36.01%	1.85%	7.53%	2.57%	4.06%	14.71%
Curr. Cash Flow Growth	53.00%	33.78%	13.90%	34.22%	-0.02%	11.20%
Hist. Cash Flow Growth (3-5 yrs)	3.31%	12.00%	9.00%	9.38%	14.15%	7.97%
Current Ratio	0.96	0.99	1.22	0.91	1.00	0.39
Debt/Capital	42.07%	55.26%	42.99%	50.11%	59.79%	50.53%
Net Margin	8.95%	14.34%	11.21%	14.07%	5.94%	23.55%
Return on Equity	21.05%	10.93%	17.16%	19.59%	10.93%	10.12%
Sales/Assets	1.22	0.34	0.55	0.58	0.60	0.18
Proj. Sales Growth (F1/F0)	-12.05%	4.33%	4.08%	4.66%	6.89%	1.27%
Momentum Score	A	-	-	F	A	B
Daily Price Chg	-2.31%	-1.37%	-0.04%	-1.42%	-2.83%	-0.26%
1 Week Price Chg	2.43%	2.27%	2.29%	1.09%	2.19%	4.97%
4 Week Price Chg	-3.81%	1.03%	2.05%	-2.22%	-2.75%	4.58%
12 Week Price Chg	-0.27%	0.99%	6.92%	5.08%	2.91%	11.30%
52 Week Price Chg	-22.23%	0.56%	21.50%	1.84%	-9.47%	39.54%
20 Day Average Volume	3,521,957	351,331	1,518,423	4,339,163	13,778,765	1,030,589
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.31%	1.21%	0.21%
(F1) EPS Est 4 week change	1.68%	-0.27%	0.00%	-1.39%	-1.23%	0.42%
(F1) EPS Est 12 week change	-5.06%	0.65%	-0.23%	-2.93%	-3.62%	3.82%
(Q1) EPS Est Mthly Chg	2.45%	0.00%	0.00%	-2.48%	1.45%	35.52%

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	C
Momentum Score	A
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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