

TC PipeLines, LP(TCP)

\$39.92 (As of 01/31/20)

Price Target (6-12 Months): **\$46.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 01/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: C

Momentum: A

Summary

TC PipeLines set to profit from several tailwinds, boasts of a stable, recurring and low-risk earnings and cash flow model, with interests in key gas transportation assets. In particular, the firm's enviable position as a supplier of gas from some of the most important shale basins in the United States – including the Utica and the Marcellus – provides it with ample growth opportunities. TCP also continues to benefit from its stake in the Northern Border Pipeline, the primary transporter of gas from the low-cost Western Canada Sedimentary Basin. As it is, TC PipeLines fare well in the distribution coverage ratio, which is the most important metric for an MLP. Hence, being incrementally positive on the partnership – particularly with its yield fairly well protected, the stock is expected to perform above the broader market.

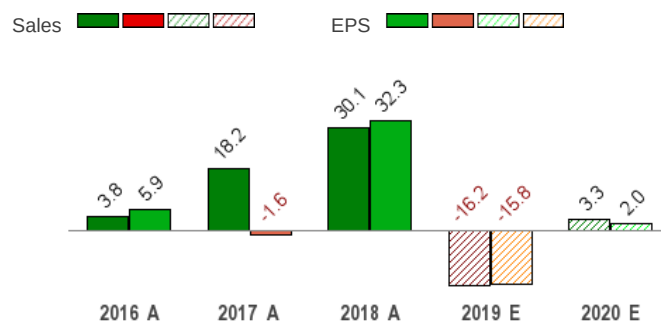
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.65 - \$30.36
20 Day Average Volume (sh)	210,723
Market Cap	\$2.8 B
YTD Price Change	-5.6%
Beta	0.68
Dividend / Div Yld	\$2.60 / 6.5%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Bottom 26% (189 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.8%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	10.4
P/E F1	11.1
PEG F1	5.6
P/S TTM	5.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					475 E
2019	113 A	93 A	93 A		460 E
2018	115 A	111 A	103 A	220 A	549 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$3.59 E
2019	\$1.28 A	\$0.75 A	\$0.76 A	\$0.76 E	\$3.52 E
2018	\$1.32 A	\$1.00 A	\$0.79 A	\$1.06 A	\$4.18 A

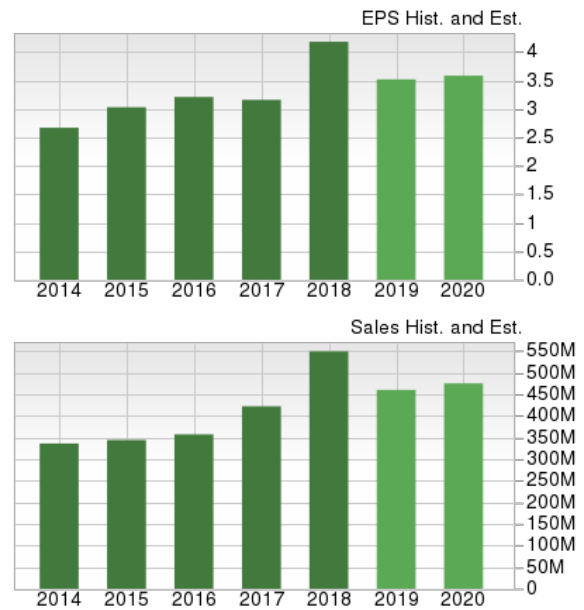
*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/31/2020. The reports text and the analyst-provided sales and EPS estimates are as of 02/03/2020.

Overview

Calgary, Alberta-based TC PipeLines, L.P. is a master limited partnership (MLP), with interests in eight pipeline systems: the Northern Border Pipeline Company (NBPL), Great Lakes Gas Transmission, L.P., the Tuscarora Gas Transmission Company, the North Baja Pipeline, LLC, the Bison Pipeline, LLC, the Gas Transmission Northwest, LLC, the Portland Natural Gas Transmission System and the Iroquois Gas Transmission System.

- **The Northern Border Pipeline Company:** TC PipeLines owns 50% partner interest in the 1,408-mile Northern Border Pipeline.
- **Great Lakes Gas Transmission, L.P.:** TC PipeLines owns 46.45% interest in the 2,115 miles pipeline.
- **The Tuscarora Gas Transmission Company:** TC PipeLines owns the Tuscarora Gas Transmission Company (Tuscarora) - a 305-mile interstate natural gas pipeline system.
- **The North Baja Pipeline, LLC:** TC PipeLines owns the 86-mile North Baja Pipeline, LLC. The system gets natural gas from an interconnection with the El Paso Natural Gas Company pipeline at Ehrenberg, Ariz.
- **Bison Pipeline, LLC:** TC PipeLines owns the Bison Pipeline, a 303-mile gas pipeline, which originates from the Powder River Basin in Wyoming and connects to the Northern Border system in Morton County, North Dakota.
- **Gas Transmission Northwest, LLC:** TC PipeLines has 100% interest in Gas Transmission Northwest, LLC (GTN), which is a 1,377-mile pipeline system that carries natural gas to third-party pipelines and market in Washington, Oregon and California.
- **Iroquois Gas Transmission System:** TC PipeLines completed the acquisition of a 49.3% interest in Iroquois from its parent, TC Energy on Jun 1, 2017. includes a 416-mile interstate pipeline transporting natural gas from the U.S.-Canadian border at Waddington, to Bronx, New York.
- **Portland Natural Gas Transmission System:** TC PipeLines has 61.7% interest in Portland Natural Gas Transmission System (PNGTS) - a 295-mile interstate pipeline.



Reasons To Buy:

- ▲ Natural gas transportation assets of TC PipeLines generate stable, recurring and low-risk earnings and cash flows. Highly contracted nature of its pipeline assets ensures steady returns. TC PipeLines' impressive regionally-diverse portfolio of midstream assets including Northern Border, Great Lakes and PNGTS pipelines, among others, are driving the growth of the firm. TC Pipelines benefits from strong demand for Northern Border Pipeline, which is operating at high levels of throughput and is booked through the end of the decade.
- ▲ What's further encouraging is the fact that the firm is progressing quite well on its brownfield expansions such as Portland Xpress and Westbrook Xpress, which will further boost the earnings and cash flows of the partnership. Other organic growth projects including North Baja and Iroquois and GTN development opportunities are also expected to buoy the firm's prospects, going forward.
- ▲ Considering the partnership's long-term pipeline contracts, strong market position, and continued demand in WCSB and Bakken, TC Pipelines is likely to maintain its growth momentum in the quarters ahead. Pipeline pinch throughout North America creates exciting opportunities for pipeline firms like TC PipeLines that are poised to capture the economic benefit of this trend.
- ▲ TC PipeLines fare well in the solid distribution coverage ratio, which is the most important metric for an MLP. The firm carries a solid distributable ratio of 1.7x at the end of the third-quarter, which boosts shareholder's confidence in the partnership's ability to continue paying or enhancing its distributions.

The natural gas transportation assets of TC PipeLines generate stable, recurring and low-risk earnings and cash flows.

Risks

- As is the case with other MLPs, the actual amount of cash distributed to TC PipeLine unitholders may fluctuate and are directly exposed to the partnership's future operating performance, which is susceptible to movements in margins and throughput volumes. Realized margins and/or volumes could differ significantly from our estimates, thereby affecting TC PipeLines' cash distributions.
 - TC PipeLines' high natural gas exposure raises its sensitivity to gas price fluctuations. In particular, with the commodity's fundamentals still challenging and the market oversupplied, there is considerable risk to the partnership's long-term earnings.
 - Unfavorable regulatory changes by the FERC would impact the partnership's results. This will also contribute toward increasing TC PipeLines' borrowing costs and depressing the market value of its limited partner units.
-

Last Earnings Report

TC PipeLines Posts Better-Than-Expected Earnings in Q3

TC PipeLines delivered better-than-expected earnings in third-quarter 2019. The firm reported earnings of 76 cents a unit, beating the Zacks Consensus Estimate of 59 cents. Continued strong natural gas flows, primarily from the Western Canadian Sedimentary Basin led to this outperformance. However, the bottom line fell from 79 cents per unit in the year-ago quarter due to higher maintenance capital expenditures along with lower contribution from the Great Lakes and Iroquois pipelines.

Also, quarterly transmission revenues of \$93 million compared unfavorably with \$103 million recorded in third-quarter 2018 amid lower rates of many of its pipelines induced by the 2018 FERC actions.

Distribution & Cash Flow

TC PipeLines announced third-quarter cash distribution of 65 cents per unit, in line with third-quarter 2019 and the year-ago figure. Notably, this marks the 82nd quarterly distribution by the partnership.

The partnership's distributable cash flow decreased to \$78 million in the quarter under review from \$83 million in the year-ago period due to higher system utilization resulting in higher maintenance and operating expenses.

In the reported quarter, TC PipeLines distributed \$47 million in cash, flat with the year-ago period.

Pipeline Systems' Performance

Great Lakes: Earnings of \$8 million generated from equity investment were lower than the prior-year quarter's 9 million.

Northern Border Pipeline: Equity earnings totaled \$15 million compared with the prior-year level of \$16 million.

Iroquois: Equity earnings amounted to \$8 million, below the prior-year figure of \$9 million.

Expenses

Operation and maintenance expenses were \$18 million in the quarter, higher than the year-earlier period's \$15 million. General/administrative expenses totaled \$2 million, unchanged from the year-ago number. Property taxes came in at \$6 million, lower than the year-ago level of \$7 million.

Depreciation costs declined to \$19 million from \$25 million a year ago. Financial and other charges also decreased to \$20 million from \$23 million in the corresponding period of 2018.

Balance Sheet

As of Sep 30, TC PipeLines' cash and cash equivalents summed \$90 million. The partnership had a long-term debt of \$1,871 million, representing a debt-to-capital ratio of 72.04%.

Quarter Ending 09/2019

Report Date	Nov 07, 2019
Sales Surprise	NA
EPS Surprise	28.81%
Quarterly EPS	0.76
Annual EPS (TTM)	3.85

Recent News

TC Pipelines Declares Q4 Cash Distribution

On **Jan 21**, TC PipeLines announced fourth-quarter 2019 cash distribution of 65 cents per unit, in line with the prior-quarter figure. Notably, this marks the 83rd consecutive quarterly distribution to be paid by the partnership. The distribution will be paid on Feb 14, 2020 to its unitholders of record as of Jan 31, 2020.

Valuation

Units of TC PipeLines increased 33.4% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are down 6.6% and 13.5%, respectively.

The S&P 500 index is up 20% in the past year.

The stock is currently trading at 13.2X trailing 12-month EV/EBITDA, which compares to 9.72X for the Zacks sub-industry, 4.9X for the Zacks sector and 12.25X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.15X and as low as 10.8X, with a 5-year median of 19.01X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$46 price target reflects 12.83X F12M earnings.

The table below shows summary valuation data for TCP

Valuation Multiples - TCP					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	13.2	9.72	4.9	12.25
	5-Year High	28.15	18.25	10.19	12.86
	5-Year Low	10.8	9.44	4.57	8.48
	5-Year Median	19.01	13.61	6.5	10.7
P/E F12M	Current	11.14	10.92	12.74	18.51
	5-Year High	26.07	23.71	32.43	19.34
	5-Year Low	7.35	10.66	11.29	15.18
	5-Year Median	16.36	15.43	18.64	17.46
P/S F12M	Current	7.14	0.87	0.8	3.43
	5-Year High	12.85	1.62	1.44	3.43
	5-Year Low	4.04	0.8	0.67	2.54
	5-Year Median	7.79	1.06	0.99	3

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (189 out of 255)



Top Peers

NuStar Energy L.P. (NS)	Outperform
Delek Logistics Partners, L.P. (DKL)	Neutral
EQT Midstream Partners, LP (EQM)	Neutral
Magellan Midstream Partners, L.P. (MMP)	Neutral
Plains All American Pipeline, L.P. (PAA)	Neutral
Shell Midstream Partners, L.P. (SHLX)	Neutral
Crestwood Equity Partners LP (CEQP)	Underperform
Western Gas Equity Partners, LP (WES)	Underperform

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb				Industry Peers		
	TCP Outperform	X Industry	S&P 500	DKL Neutral	PAA Neutral	SMLP Neutral
VGM Score	B	-	-	B	B	D
Market Cap	2.85 B	2.46 B	23.55 B	796.28 M	12.12 B	298.24 M
# of Analysts	2	3	13	1	4	3
Dividend Yield	6.51%	8.79%	1.81%	11.01%	8.65%	36.05%
Value Score	C	-	-	B	A	A
Cash/Price	0.03	0.02	0.04	0.01	0.05	0.02
EV/EBITDA	53.81	10.10	13.97	9.96	6.91	8.84
PEG Ratio	5.60	2.95	1.97	4.10	NA	NA
Price/Book (P/B)	3.92	2.21	3.21	NA	1.12	0.34
Price/Cash Flow (P/CF)	5.99	6.53	13.36	6.46	5.79	1.56
P/E (F1)	11.20	10.57	18.42	8.19	9.55	22.79
Price/Sales (P/S)	5.48	1.57	2.60	1.32	0.36	0.64
Earnings Yield	8.99%	8.99%	5.43%	12.20%	10.45%	4.39%
Debt/Equity	2.58	1.49	0.72	-6.00	0.88	1.80
Cash Flow (\$/share)	6.66	2.61	6.92	4.95	2.88	2.05
Growth Score	C	-	-	B	C	F
Hist. EPS Growth (3-5 yrs)	8.74%	7.08%	10.68%	-1.63%	5.74%	14.05%
Proj. EPS Growth (F1/F0)	1.85%	1.85%	7.59%	38.79%	-36.41%	118.83%
Curr. Cash Flow Growth	35.33%	33.78%	10.81%	33.78%	53.00%	-39.42%
Hist. Cash Flow Growth (3-5 yrs)	17.07%	12.00%	8.78%	15.59%	3.31%	5.48%
Current Ratio	0.78	0.99	1.22	1.14	0.96	0.26
Debt/Capital	72.04%	55.26%	42.99%	NA	42.07%	56.46%
Net Margin	-40.46%	14.30%	11.69%	14.60%	8.95%	-0.88%
Return on Equity	40.25%	10.93%	17.33%	-62.69%	21.05%	6.81%
Sales/Assets	0.18	0.34	0.55	0.86	1.22	0.16
Proj. Sales Growth (F1/F0)	%	6.01%	4.12%	0.42%	-1.15%	7.32%
Momentum Score	A	-	-	B	C	F
Daily Price Chg	-3.39%	-1.49%	-1.98%	-0.81%	-2.00%	0.31%
1 Week Price Chg	-4.24%	-5.54%	-1.09%	-2.95%	-6.42%	-9.09%
4 Week Price Chg	-3.34%	-5.42%	-2.11%	-1.36%	-10.87%	2.24%
12 Week Price Chg	-0.37%	-3.86%	2.15%	-1.30%	-9.26%	-31.40%
52 Week Price Chg	25.57%	-8.15%	14.15%	5.83%	-26.88%	-76.01%
20 Day Average Volume	210,723	364,091	1,808,632	32,967	3,800,541	413,794
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.34%	0.00%
(F1) EPS Est 4 week change	0.00%	-0.19%	0.00%	-0.76%	1.33%	-59.62%
(F1) EPS Est 12 week change	0.99%	0.99%	-0.09%	8.64%	-5.39%	-67.94%
(Q1) EPS Est Mthly Chg	NA%	0.29%	0.00%	0.00%	2.45%	-62.50%

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	C
Growth Score	C
Momentum Score	A
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.