

TC PipeLines, LP(TCP)

\$39.01 (As of 03/03/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation:
Outperform

(Since: 03/02/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: F

Summary

Well positioned to take advantage of the nation's natural gas supply growth, TC PipeLines boasts of a stable, recurring and low-risk earnings and cash flow model, with interests in key gas transportation assets. In particular, TC Pipelines' enviable position as a supplier of gas from some of the most important shale basins in the United States provides it with ample growth opportunities. It continues to benefit from its stake in the Northern Border Pipeline, the primary transporter of gas from the low-cost Western Canada Sedimentary Basin. TCP also maintains a healthy distribution coverage ratio, reflecting its ability to continue paying or growing its quarterly payout. Therefore, being incrementally more positive on the partnership – particularly with its yield fairly well protected – the stock is expected to outperform.

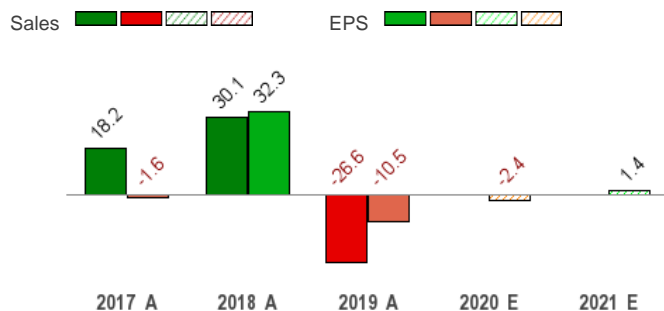
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$44.65 - \$32.09 |
| 20 Day Average Volume (sh) | 391,961 |
| Market Cap | \$2.8 B |
| YTD Price Change | -7.8% |
| Beta | 0.71 |
| Dividend / Div Yld | \$2.60 / 6.7% |
| Industry | Oil and Gas - Production Pipeline - MLB |
| Zacks Industry Rank | Top 40% (102 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 | 1.8% |
| Expected Report Date | 05/13/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 10.4 |
| P/E F1 | 10.7 |
| PEG F1 | 5.3 |
| P/S TTM | 6.9 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|------|------|-------|---------|
| 2021 | | | | | |
| 2020 | | | | | |
| 2019 | 113 A | 93 A | 93 A | 104 A | 403 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | | | | | \$3.70 E |
| 2020 | | | | | \$3.65 E |
| 2019 | \$1.28 A | \$0.75 A | \$0.76 A | \$0.95 A | \$3.74 A |

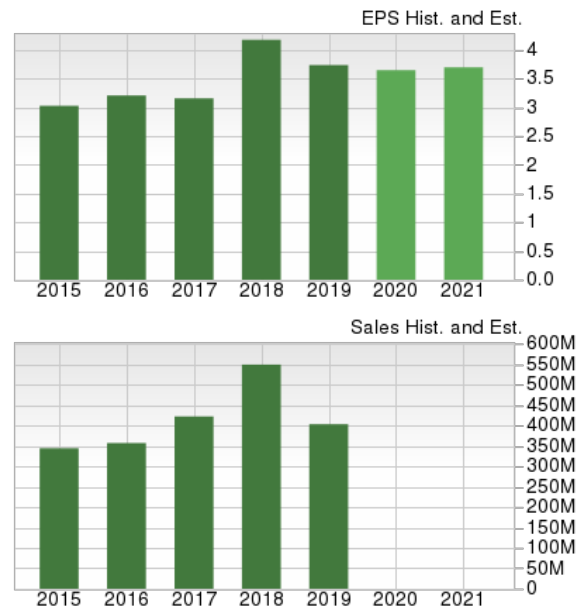
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/03/2020. The reports text is as of 03/04/2020.

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:

- ▲ TC Pipelines' 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. The partnership 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 to the U.S. Midwest.
- ▲ 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.
- ▲ 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 1.6x at the end of 2019, which boosts shareholder's confidence in the partnership's ability to continue paying or enhancing its distributions.
- ▲ 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.

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.
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Last Earnings Report

TC PipeLines Q4 Earnings & Revenues Fall Year-over-Year

TC PipeLines witnessed unpleasant earnings in fourth-quarter 2019. The firm reported earnings of 95 cents a unit, down 10.4% from \$1.06 cents in the year-ago quarter due to higher maintenance capital expenditures along with lower revenues resulting from the termination of the Bison contracts.

Also, quarterly transmission revenues of \$104 million compared unfavorably with \$220 million recorded in fourth-quarter 2018 amid lower rates of many of its pipelines induced by the 2018 FERC actions.

Distribution & Cash Flow

TC PipeLines announced fourth-quarter cash distribution of 65 cents per unit, in line with the year-ago figure. Notably, this marks the 83rd quarterly distribution by the partnership.

The partnership's distributable cash flow decreased to \$76 million in the quarter under review from \$95 million in the year-ago period due to higher system utilization resulting in increased 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 \$14 million generated from equity investment were in line with the prior-year quarter's figure.

Northern Border Pipeline: Equity earnings totaled \$19 million, in line with the prior-year level.

Iroquois: Equity earnings amounted to \$12 million, above the prior-year figure of \$11 million.

Expenses

Operation and maintenance expenses were \$20 million in the quarter, above the year-earlier period's \$19 million. General/administrative expenses totaled \$2 million, unchanged from the year-ago number. Property taxes came in at \$7 million, same as the year-ago level. Depreciation costs declined to \$20 million from \$24 million a year ago. Financial and other charges also decreased to \$20 million from \$22 million in the corresponding period of 2018.

Balance Sheet

As of Dec 31, TC PipeLines' cash and cash equivalents summed \$83 million. The partnership had a long-term debt of \$1,880 million, representing a debt-to-capital ratio of 71.2%.

Quarter Ending 12/2019

| | |
|------------------|--------------|
| Report Date | Feb 20, 2020 |
| Sales Surprise | NA |
| EPS Surprise | 28.81% |
| Quarterly EPS | 0.95 |
| Annual EPS (TTM) | 3.74 |

Valuation

Units of TC PipeLines decreased 7.8% and increased 17.9% year-to-date and over the trailing 12-month period, respectively. Stocks in the Zacks sub industry and the Zacks Oil-Energy sector are down 13.9% and 20.1% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 19.6% and 27.6%, respectively.

The S&P 500 index is down 4.2% in the year-to-date period and up 9.7% in the past year.

The stock is currently trading at 16.46X trailing 12-month EV/EBITDA, which compares to 9.55X for the Zacks sub-industry, 4.38X for the Zacks sector and 10.93X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.36X and as low as 10.8X, with a 5-year median of 18.93X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$45 price target reflects 12.3X 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 | 16.46 | 9.55 | 4.38 | 10.93 |
| | 5-Year High | 26.36 | 18.25 | 10.26 | 12.88 |
| | 5-Year Low | 10.8 | 9.43 | 4.38 | 8.49 |
| | 5-Year Median | 18.93 | 13.45 | 6.52 | 10.79 |
| P/E F12M | Current | 10.66 | 10.01 | 11.98 | 17.66 |
| | 5-Year High | 24.55 | 23.62 | 32.4 | 19.34 |
| | 5-Year Low | 7.35 | 10.01 | 11.27 | 15.18 |
| | 5-Year Median | 16.17 | 15.39 | 18.49 | 17.46 |
| P/S F12M | Current | 6.99 | 0.8 | 0.72 | 3.26 |
| | 5-Year High | 12.85 | 1.62 | 1.45 | 3.43 |
| | 5-Year Low | 4.04 | 0.8 | 0.67 | 2.54 |
| | 5-Year Median | 7.82 | 1.06 | 0.99 | 3.01 |

As of 03/03/2020

Industry Analysis Zacks Industry Rank: Top 40% (102 out of 255)



Top Peers

| | |
|--|--------------|
| NuStar Energy L.P. (NS) | Outperform |
| Crestwood Equity Partners LP (CEQP) | 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 |
| Western Gas Equity Partners, LP (WES) | Neutral |
| Delek Logistics Partners, L.P. (DKL) | Underperform |

| Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb | | | | Industry Peers | | |
|---|----------------|------------|-----------|------------------|-------------|--------------|
| | TCP Outperform | X Industry | S&P 500 | DKL Underperform | PAA Neutral | SMLP Neutral |
| VGM Score | F | - | - | C | B | D |
| Market Cap | 2.78 B | 1.96 B | 22.14 B | 587.99 M | 10.05 B | 168.29 M |
| # of Analysts | 2 | 3 | 13 | 1 | 10 | 3 |
| Dividend Yield | 6.66% | 10.56% | 1.98% | 15.00% | 10.43% | 27.78% |
| Value Score | D | - | - | B | A | A |
| Cash/Price | 0.03 | 0.02 | 0.05 | 0.01 | 0.01 | 0.03 |
| EV/EBITDA | 9.95 | 8.39 | 12.79 | 8.59 | 6.67 | 8.26 |
| PEG Ratio | 5.34 | 4.32 | 1.92 | 3.29 | NA | NA |
| Price/Book (P/B) | 3.66 | 2.04 | 3.00 | NA | 0.92 | 0.19 |
| Price/Cash Flow (P/CF) | 7.73 | 4.83 | 11.97 | 4.47 | 3.77 | 0.88 |
| P/E (F1) | 10.69 | 9.64 | 17.43 | 6.57 | 7.92 | 180.00 |
| Price/Sales (P/S) | 6.90 | 1.26 | 2.48 | 1.01 | 0.30 | 0.38 |
| Earnings Yield | 9.36% | 9.36% | 5.74% | 15.21% | 12.60% | 0.56% |
| Debt/Equity | 2.47 | 1.33 | 0.70 | -5.53 | 0.88 | 1.80 |
| Cash Flow (\$/share) | 5.05 | 2.86 | 6.94 | 5.28 | 3.66 | 2.05 |
| Growth Score | F | - | - | C | C | F |
| Hist. EPS Growth (3-5 yrs) | 8.04% | 7.92% | 10.85% | -0.07% | 13.05% | 0.98% |
| Proj. EPS Growth (F1/F0) | -2.41% | 0.00% | 6.48% | 37.55% | -30.52% | NA |
| Curr. Cash Flow Growth | -24.21% | 10.95% | 6.03% | 6.77% | 27.46% | -39.42% |
| Hist. Cash Flow Growth (3-5 yrs) | 6.81% | 9.55% | 8.52% | 15.59% | 9.72% | 5.48% |
| Current Ratio | 0.92 | 0.96 | 1.23 | 0.96 | 0.92 | 0.26 |
| Debt/Capital | 71.21% | 55.45% | 42.57% | NA | 42.05% | 56.46% |
| Net Margin | 69.23% | 14.59% | 11.57% | 15.18% | 6.45% | -83.38% |
| Return on Equity | 38.05% | 16.14% | 16.66% | -61.17% | 19.20% | 4.97% |
| Sales/Assets | 0.14 | 0.34 | 0.54 | 0.80 | 1.20 | 0.15 |
| Proj. Sales Growth (F1/F0) | 0.00% | 4.00% | 4.07% | 2.35% | 2.82% | -9.08% |
| Momentum Score | F | - | - | D | F | F |
| Daily Price Chg | -0.31% | -2.44% | 3.82% | -2.44% | -3.29% | -9.09% |
| 1 Week Price Chg | -7.66% | -10.77% | -12.06% | -28.01% | -13.70% | -21.01% |
| 4 Week Price Chg | -3.56% | -17.70% | -6.43% | -23.70% | -17.70% | -43.57% |
| 12 Week Price Chg | -0.26% | -19.46% | -5.15% | -26.80% | -23.32% | -45.78% |
| 52 Week Price Chg | 17.82% | -22.74% | 4.77% | -27.61% | -41.73% | -82.09% |
| 20 Day Average Volume | 391,961 | 437,874 | 2,363,047 | 75,325 | 5,376,297 | 437,874 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | -7.95% | 0.00% | -92.86% |
| (F1) EPS Est 4 week change | 1.81% | -0.66% | -0.04% | -7.95% | -4.41% | -92.86% |
| (F1) EPS Est 12 week change | 1.81% | -1.59% | -0.33% | -8.65% | -3.30% | -98.28% |
| (Q1) EPS Est Mthly Chg | NA% | -1.54% | -0.38% | -14.46% | 0.94% | -100.00% |

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 | D |
| Growth Score | F |
| Momentum Score | F |
| VGM Score | F |

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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