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Apr 17, 2020

TC PipeLines, LP(TCP)

$32.13 (As of 04/16/20)

Price Target (6-12 Months): **$35.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 03/31/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: D | Growth: F | Momentum: D	**3-Hold** VGM:F

Summary

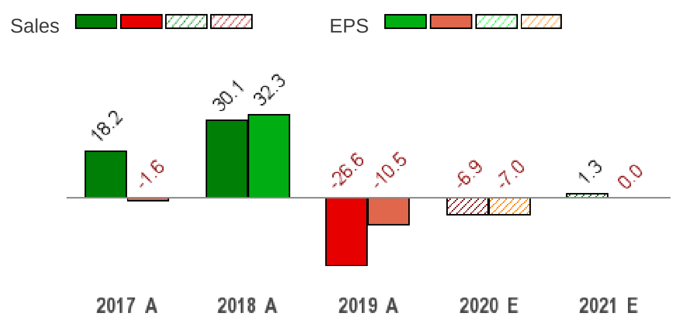
Well positioned to take advantage of the nation's natural gas supply growth, TC PipeLines boasts of a stable, recurring and low-risk earnings and cash flow model, with interests in key gas transportation assets. In particular, TC Pipelines' enviable position as a supplier of gas from some of the most 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. However, TC PipeLines' high natural gas exposure raises its sensitivity to gas price fluctuations. 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. Hence, the stock warrants a cautious stance at the moment.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$44.65 - $18.00**
20 Day Average Volume (sh)	**794,141**
Market Cap	**$2.3 B**
YTD Price Change	**-24.0%**
Beta	**0.97**
Dividend / Div Yld	**$2.60 / 8.1%**
Industry	**Oil and Gas - Production Pipeline - MLB**
Zacks Industry Rank	**Bottom 26% (187 out of 253)**
Last EPS Surprise	**28.8%**
Last Sales Surprise	**NA**
EPS F1 Est- 4 week change	**-4.7%**
Expected Report Date	**05/13/2020**
Earnings ESP	**0.0%**
P/E TTM	**8.6**
P/E F1	**9.2**
PEG F1	**4.6**
P/S TTM	**5.7**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021					380 E
2020					375 E
2019	113 A	93 A	93 A	104 A	403 A

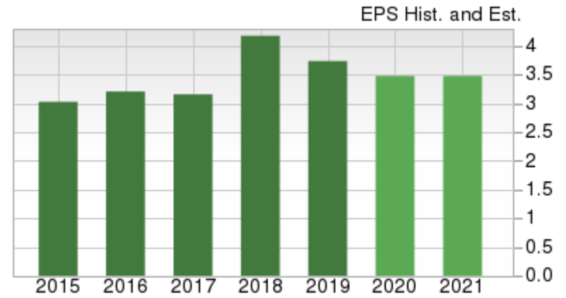
EPS Estimates

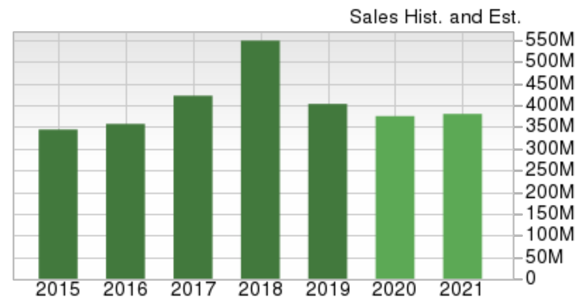
	Q1	Q2	Q3	Q4	Annual*
2021					$3.48 E
2020					$3.48 E
2019	$1.28 A	$0.75 A	$0.76 A	$0.95 A	$3.74 A

*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 04/16/2020. The reports text is as of 04/17/2020.

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:

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

- 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.

Reasons To Sell:

> High leverage of TC PipeLines limits its growth and restricts its financial freedom.

- The FERC regulatory changes will significantly impact TC Pipelines. With the partnership no longer having the advantage to add income tax allowance to its cost-of-service fees, the tariff rates will fall for certain pipelines. In fact, it expects a material decrease of around $30 million annually, starting this year. The change in income tax policies will result in rate reduction and in turn impact cash flow. This will also contribute toward increasing TC PipeLines' borrowing costs and depressing the market value of its limited partner units.
- 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.
- Under the revised FERC ruling, the dropdown of assets by its parent company TransCanada Corporation no longer remains a viable funding lever for the Canadian energy infrastructure giant. As such, TC Pipelines has to only rely on the organic expansion on its existing systems.In regard to the unfavorable FERC ruling, TC Pipelines slashed its payout last year, discouraging investors' sentiments.
- The partnership's leverage ratio stands high at around 71.2% which can negatively impact the credit metrics of TC Pipelines. The figure is higher than 56.28% collective debt to capitalization of the industry it belongs to. It can limit the partnership's growth and restrict its financial freedom.
- The re-contracting risk over Bison Pipeline is causing a lot of uncertainty. The present contract is set to expire in 2021 and apprehensions over the partnership's ability to replace cash flow is negatively affecting multiples and holding down price.

Last Earnings Report

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**

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%.

Valuation

Units of TC PipeLines decreased 24% and 8.2% 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 50% and 42.7% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 54.4% and 48.3%, respectively.

The S&P 500 index is down 13.6% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 14.99X trailing 12-month EV/EBITDA, which compares to 7.41X for the Zacks sub-industry, 3.68X for the Zacks sector and 10.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.99X and as low as 10.75X, with a 5-year median of 18.83X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $35 price target reflects 9.93X 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	14.99	7.41	3.68	10.17
	5-Year High	26.99	18.25	10.37	12.87
	5-Year Low	10.75	6.65	3.05	8.27
	5-Year Median	18.83	13.45	6.5	10.78
P/E F12M	Current	9.12	6.44	NA	18.65
	5-Year High	24.55	23.62	32.31	19.34
	5-Year Low	5.28	5.3	NA	15.19
	5-Year Median	16.02	14.79	18.39	17.45
P/S F12M	Current	5.78	0.47	0.61	3.09
	5-Year High	12.85	1.62	1.45	3.44
	5-Year Low	4.04	0.41	0.58	2.54
	5-Year Median	7.79	1.05	0.99	3.01

As of 04/16/2020

Industry Analysis **Zacks Industry Rank:** Bottom 26% (187 out of 253)

Top Peers

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

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

Industry Peers

	TCP Neutral	X Industry	S&P 500	DKL Underperform	PAA Neutral	SMLP Neutral
VGM Score	F	-	-	A	B	D
Market Cap	2.29 B	1.02 B	19.06 B	226.55 M	4.61 B	71.43 M
# of Analysts	2	3	14	1	9	3
Dividend Yield	8.09%	21.44%	2.26%	38.94%	22.75%	65.53%
Value Score	D	-	-	A	A	A
Cash/Price	0.04	0.03	0.06	0.02	0.02	0.45
EV/EBITDA	8.89	6.20	11.49	5.87	5.01	11.31
PEG Ratio	4.58	3.90	2.09	NA	NA	NA
Price/Book (P/B)	3.01	0.94	2.55	NA	0.42	0.15
Price/Cash Flow (P/CF)	6.36	1.93	10.06	1.69	1.73	0.49
P/E (F1)	9.17	5.84	17.56	3.21	3.97	NA
Price/Sales (P/S)	5.69	0.54	1.94	0.39	0.14	0.16
Earnings Yield	10.83%	14.75%	5.57%	31.13%	25.12%	-18.42%
Debt/Equity	2.47	1.33	0.70	-5.53	0.88	3.13
Cash Flow ($/share)	5.05	2.86	7.01	5.39	3.66	1.55
Growth Score	F	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	8.04%	7.92%	10.92%	-0.07%	13.05%	0.98%
Proj. EPS Growth (F1/F0)	-6.95%	-4.66%	-3.36%	8.43%	-36.48%	NA
Curr. Cash Flow Growth	-24.21%	10.65%	5.93%	6.77%	27.46%	-5.83%
Hist. Cash Flow Growth (3-5 yrs)	6.81%	9.39%	8.55%	9.06%	9.72%	1.92%
Current Ratio	0.92	1.02	1.24	0.96	0.92	1.66
Debt/Capital	71.21%	55.45%	42.78%	NA	42.05%	66.24%
Net Margin	69.23%	14.59%	11.64%	15.18%	6.45%	-83.38%
Return on Equity	38.05%	16.14%	16.74%	-61.17%	19.20%	5.56%
Sales/Assets	0.14	0.34	0.54	0.80	1.20	0.16
Proj. Sales Growth (F1/F0)	0.00%	-1.62%	-0.14%	-3.15%	-3.96%	-12.08%
Momentum Score	D	-	-	D	D	F
Daily Price Chg	1.52%	-2.78%	-0.20%	-4.01%	-2.31%	-2.49%
1 Week Price Chg	0.60%	9.94%	16.01%	9.94%	9.83%	42.02%
4 Week Price Chg	21.61%	24.52%	14.56%	24.52%	38.21%	16.49%
12 Week Price Chg	-24.81%	-64.39%	-22.94%	-71.68%	-65.12%	-76.45%
52 Week Price Chg	-8.20%	-63.57%	-15.02%	-72.16%	-73.61%	-91.70%
20 Day Average Volume	794,141	794,141	3,220,598	196,481	10,601,270	583,399
(F1) EPS Est 1 week change	-1.69%	0.00%	0.00%	-9.87%	0.00%	0.00%
(F1) EPS Est 4 week change	-4.66%	-8.73%	-7.09%	-9.87%	0.77%	-133.33%
(F1) EPS Est 12 week change	-2.93%	-10.24%	-9.32%	-27.44%	-8.89%	-140.39%
(Q1) EPS Est Mthly Chg	NA%	-3.47%	-10.68%	0.00%	-1.04%	-83.33%

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	D
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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