

TC PipeLines, LP(TCP)

\$33.18 (As of 06/24/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/31/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: B

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.

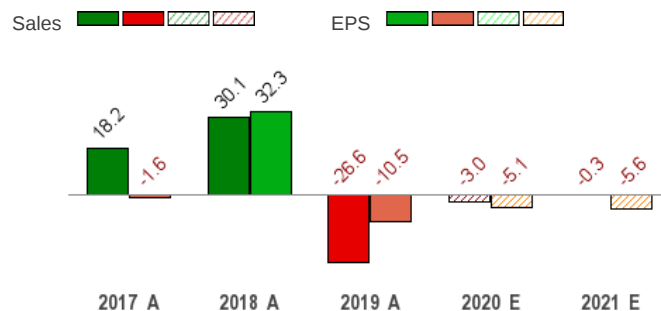
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.65 - \$18.00
20 Day Average Volume (sh)	535,805
Market Cap	\$2.4 B
YTD Price Change	-21.6%
Beta	1.12
Dividend / Div Yld	\$2.60 / 7.8%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Top 9% (22 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	28.8%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	1.4%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	9.0
P/E F1	9.4
PEG F1	4.7
P/S TTM	6.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					390 E
2020	101 A	94 E	94 E	102 E	391 E
2019	113 A	93 A	93 A	104 A	403 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.35 E
2020	\$1.21 A	\$0.76 E	\$0.77 E	\$0.87 E	\$3.55 E
2019	\$1.28 A	\$0.75 A	\$0.76 A	\$0.95 A	\$3.74 A

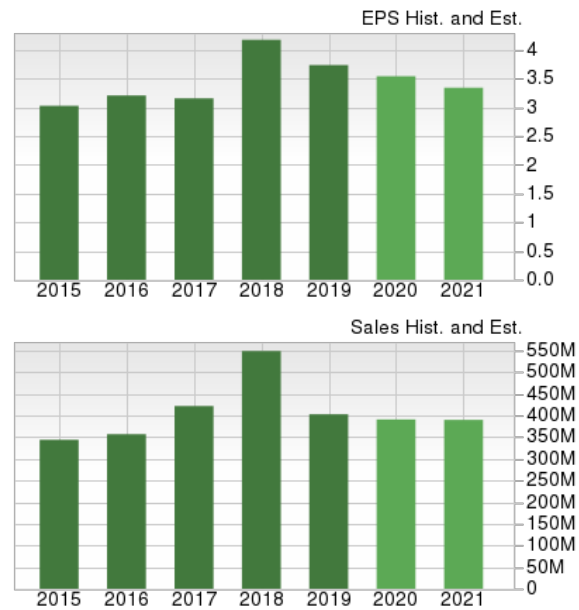
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/24/2020. The reports text is as of 06/25/2020.

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 1.9x 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.

Reasons To Sell:

- ▼ 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 72.1% which can negatively impact the credit metrics of TC Pipelines. The figure is higher than 57.9% 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.

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

Last Earnings Report

TC PipeLines' Earnings and Revenues Decline Y/Y in Q1

TC PipeLines witnessed disappointing earnings in first-quarter 2020. The firm reported earnings of \$1.21 a unit, down 5.46% from \$1.28 in the year-ago quarter due to a drop in PNGTS' net income, mainly resulting from lower revenues.

Also, quarterly transmission revenues of \$101 million compared unfavorably with \$113 million recorded in first-quarter 2019.

Distribution & Cash Flow

TC PipeLines announced first-quarter cash distribution of 65 cents per unit, in line with the year-ago figure. Notably, this marks the 84th quarterly distribution by the partnership.

The firm's distributable cash flow (DCF) decreased to \$88 million in the quarter under review from \$116 million in the year-ago period due to reduced net cash flow from operations at the company's consolidated subsidiaries, thanks to soft revenues. However, the coverage ratio for the first quarter came in at impressive 1.9 times. A coverage ratio in excess of 1 implies that the partnership is generating more than enough cash in the given period to cover its distribution.

In the reported quarter, TC PipeLines distributed \$55 million in cash, lower than the year-ago level.

Pipeline Systems' Performance

Great Lakes: Earnings of \$20 million generated from equity investment matched the prior-year quarter's figure.

Northern Border Pipeline: Equity earnings totaled \$22 million, marginally higher than the prior-year level.

Iroquois: Equity earnings amounted to \$13 million, flat with the prior-year figure.

Expenses

Operation and maintenance expenses were \$16 million in the quarter, unchanged from the year-ago number. General/administrative expenses summed \$1 million, slightly lower than the year-ago number. Property taxes declined to \$6 million from \$7million a year ago. Depreciation costs came in at \$20 million, same as the year-ago level. Financial and other charges also fell to \$19 million from \$22 million in the corresponding period of 2019.

Balance Sheet

As of Mar 31, TC PipeLines' cash and cash equivalents were worth \$134 million. The partnership had a long-term debt of \$1.9 billion, representing total debt to total capital of 70.8%.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	NA
EPS Surprise	28.81%
Quarterly EPS	1.21
Annual EPS (TTM)	3.67

Valuation

Units of TC PipeLines decreased 21.5% and 12.5% 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 36.1% and 34.3% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 40.9% and 37.6%, respectively.

The S&P 500 index is down 2.7% in the year-to-date period and up 7.6% in the past year.

The stock is currently trading at 15.6X trailing 12-month EV/EBITDA, which compares to 7.98X for the Zacks sub-industry, 4.1X for the Zacks sector and 11.61X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.74X and as low as 10.75X, with a 5-year median of 18.32X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$35 price target reflects 10.15X 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	15.6	7.98	4.1	11.61
	5-Year High	24.74	17.09	10.45	12.85
	5-Year Low	10.75	6.7	3.03	8.25
	5-Year Median	18.32	13.37	6.5	10.83
P/E F12M	Current	9.62	8.79	57.1	22.46
	5-Year High	21.11	22.25	71.1	22.46
	5-Year Low	5.28	5.55	11.27	15.23
	5-Year Median	15.66	14.73	18.52	17.49
P/S F12M	Current	6.06	0.66	0.76	3.51
	5-Year High	10.86	1.62	1.46	3.51
	5-Year Low	4.04	0.41	0.58	2.53
	5-Year Median	7.67	1.04	0.99	3.02

As of 06/24/2020

Industry Analysis Zacks Industry Rank: Top 9% (22 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Delek Logistics Partners, L.P. (DKL)	Outperform	1
Oasis Midstream Partners LP (OMP)	Outperform	1
Crestwood Equity Partners LP (CEQP)	Neutral	3
Magellan Midstream Partners, L.P. (MMP)	Neutral	3
Plains All American Pipeline, L.P. (PAA)	Neutral	3
Shell Midstream Partners, L.P. (SHLX)	Neutral	3
Western Gas Equity Partners, LP (WES)	Neutral	3
NuStar Energy L.P. (NS)	Underperform	4

Industry Comparison Industry: Oil And Gas - Production Pipeline - MLb				Industry Peers		
	TCP	X Industry	S&P 500	DKL	PAA	SMLP
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	1	3	2
VGM Score	C	-	-	A	A	A
Market Cap	2.37 B	1.45 B	21.05 B	720.90 M	6.31 B	97.39 M
# of Analysts	2	3	14	1	4	2
Dividend Yield	7.84%	10.43%	1.99%	14.83%	8.30%	0.00%
Value Score	B	-	-	B	A	A
Cash/Price	0.06	0.05	0.07	0.01	0.02	0.61
EV/EBITDA	8.95	7.77	12.43	9.22	5.57	11.40
PEG Ratio	4.67	0.80	2.85	NA	NA	NA
Price/Book (P/B)	3.04	1.52	2.87	NA	0.85	0.21
Price/Cash Flow (P/CF)	6.57	3.96	11.32	4.46	2.37	0.67
P/E (F1)	9.35	9.00	20.46	7.77	6.59	NA
Price/Sales (P/S)	6.05	1.15	2.19	1.21	0.19	0.23
Earnings Yield	10.70%	9.76%	4.57%	12.87%	-37.83%	-14.56%
Debt/Equity	2.42	1.44	0.77	-21.22	1.32	3.26
Cash Flow (\$/share)	5.05	2.86	7.01	5.39	3.66	1.55
Growth Score	D	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	6.96%	5.73%	10.84%	2.04%	20.22%	-11.07%
Proj. EPS Growth (F1/F0)	-5.21%	-6.87%	-10.79%	18.39%	-230.68%	NA
Curr. Cash Flow Growth	-24.21%	10.65%	5.46%	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	1.02	1.02	1.29	1.00	0.91	2.03
Debt/Capital	70.78%	61.11%	45.14%	NA	50.17%	67.22%
Net Margin	70.08%	14.24%	10.53%	16.27%	-4.90%	-78.56%
Return on Equity	36.72%	18.47%	16.06%	-80.26%	19.57%	6.45%
Sales/Assets	0.14	0.35	0.55	0.74	1.24	0.15
Proj. Sales Growth (F1/F0)	-2.98%	-4.69%	-2.70%	10.93%	-7.60%	-12.05%
Momentum Score	B	-	-	B	D	D
Daily Price Chg	-2.30%	-5.08%	-3.07%	-5.99%	-6.17%	-9.65%
1 Week Price Chg	4.22%	1.65%	0.92%	-1.61%	-3.80%	-13.29%
4 Week Price Chg	-5.20%	-5.20%	-3.03%	-2.99%	-13.56%	10.75%
12 Week Price Chg	18.97%	70.00%	22.03%	188.93%	70.00%	85.85%
52 Week Price Chg	-12.50%	-47.14%	-8.53%	-23.78%	-64.00%	-85.05%
20 Day Average Volume	535,805	948,096	2,805,937	139,685	6,229,913	948,096
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.43%	0.00%	0.00%	0.00%	-0.15%	0.00%
(F1) EPS Est 12 week change	0.14%	-7.74%	-12.33%	-1.59%	-16.44%	-74.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	1.11%	0.00%

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	B
Growth Score	D
Momentum Score	B
VGM Score	C

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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