

# Plains All American Pipeline, L.P.

## Strong 4Q, frac spreads a '24 tailwind, Cactus I re-contracting timeline key

Maintain Rating: NEUTRAL | PO: 17.00 USD | Price: 15.35 USD

### High expectations, Strong Results w/ some '24 tailwinds

PAA reported 4Q adjusted EBITDA of \$737mm which beat cons/BofAe by 9% / 9%. Both segments beat expectations, but the NGL segment was the main driver beating consensus by 35% while the crude segment beat expectations by 3%. PAA provided a '24 EBITDA guidance range of \$2,625mm-\$2,725mm (midpoint: \$2,675mm). Cons/BofAe pre-release were at \$2,682mm/\$2,678mm so provided guidance was in-line with expectations. As we note, PAA's unhedged NGL '24 frac spread is benefiting from rates of 75c-80c now, vs. the ~60c it was likely ~80% hedged at to start the year (currently 90% hedged). We think PAA sees a tailwind of ~\$30mm in the NGL segment vs. the beginning of the year. While PAA capped off a solid '23 with this print, expectations were high as well. We expect an incremental positive catalyst for the stock would be if PAA notes it is close to re-contracting its Cactus I contract roll in '25 earlier in '24. But overall, we maintain our Neutral rating and \$17 PO as PAA posts a robust double digit FCF and leading 3.1x leverage but sees relatively flat EBITDA over the next 3 years and is fairly valued after a strong '23 run.

### Permian growth expectations – All Delaware, Midland flat

PAA released its basin wide '24 exit-to-exit Permian basin crude expectation range of 200-300 Mbpd compared to its 4Q22 release estimate for '23 of 500 Mbpd. Rig count is down to 300-320, with efficiencies partially offsetting lower activity. This is generally consistent with our expectation that Permian crude grows 275 Mbpd in '24. Interestingly, PAA further breaks out Permian expectations noting flat Midland production and all incremental growth from the Delaware. So, all else equal, this could mean slower growth for players with major Midland NGL systems like TRGP and EPD, although both companies sit on Tier I acreage (outperforming the basin) and also have strong Delaware exposure. PAA provided '24 growth capex expectations of \$375mm, consistent with \$325mm in '23, and it includes growth projects like Permian wellhead/CDP connections and debottlenecking and NGL optimization.

### Recent '24 frac spread strength could be a tailwind for '24

PAA notes it is 90% hedged for its C3 frac spread exposure, but more important is how hedged it was going into the year at 60c/gal as '24 fracs have widened out to 75-80c/gal, as propane prices have increased nearly 20c, from an inventory deficit from the winter storms, while AECO gas prices have been weak. Key to the call is understanding when PAA layered on its last set of hedges.

### Progress on Cactus I re-contracting key for earnings call

PAA has noted the possibility of re-contracting rolling '25 contracts on the Cactus I pipeline this year. This would be a material win, especially if rates are at ~\$1.25/bbl with a 3-5 year contract duration. Since '25 Midland-MEH spreads are ~50c/bbl, PAA would indicate Corpus's premium and producers' willingness to sign rates that are more consistent with historical spreads than the forward curve at a point in time.

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#### Equity

**Neel Mitra, CFA**  
Research Analyst  
BofAS  
+1 713 247 6801  
[indraneel.mitra@bofa.com](mailto:indraneel.mitra@bofa.com)

**Lauren LeGros**  
Research Analyst  
BofAS  
+1 713 409 2491  
[lauren.legros@bofa.com](mailto:lauren.legros@bofa.com)

**Paul Armentor, CFA**  
Research Analyst  
BofAS  
[paul.armentor@bofa.com](mailto:paul.armentor@bofa.com)

#### Stock Data

Price	15.35 USD
Price Objective	17.00 USD
Date Established	9-Nov-2023
Investment Opinion	B-2-7
52-Week Range	11.28 USD - 16.36 USD
Mkt Val (mn) / Shares Out (mn)	10,991 USD / 716.0
Free Float	64.6%
Average Daily Value (mn)	48.86 USD
BofA Ticker / Exchange	PAA / NAS
Bloomberg / Reuters	PAA US / PAA.OQ
ROE (2023E)	5.8%
Net Dbt to Eqty (Dec-2022A)	60.4%
ESGMeter™	Medium

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NGL: Natural gas liquids

PAA: Plains All American

CDP: Central delivery point

C3: Propane

AECO: Alberta Energy Company

MEH: Magellan East Houston

TRGP: Targa Resources Corp.

EPD: Enterprise Products Partners LP

Mbpd: Thousand barrels per day

**Exhibit 1: PAA 4Q23 variance table**

NGL segment drives strong EBITDA beat

Earnings Variance (\$mm)	4Q23			% Beat (Miss)		% Change vs. Actual	
	Actual	Consensus	BofA	Consensus	BofA	Q/Q	Y/Y
<b>Segment EBITDA</b>							
Crude Oil	563	546	576	3%	-2%	12%	12%
NGL	169	125	98	35%	73%	104%	104%
Other	5	4	1				
<b>Adjusted EBITDA</b>	<b>737</b>	<b>675</b>	<b>674</b>	9%	9%	26%	26%
Depreciation & Amortization	273	272	260	0%	5%	13%	13%
<b>Operating Income (GAAP)</b>	<b>426</b>	<b>362</b>	<b>392</b>	18%	9%	40%	40%
Equity earnings	92	97	99	-5%	-7%	-12%	-12%
Interest expense	(97)	(95)	(88)	3%	11%	5%	5%
Other	(17)	(92)	0	NM	NM	NM	NM
<b>Earnings before taxes</b>	<b>438</b>	<b>457</b>	<b>403</b>	-4%	9%	39%	39%
Income Taxes	39	29	10	36%	287%	395%	395%
Net income attributable to NCI	(87)	(63)	(71)	38%	23%	90%	90%
Net Income (loss)	312	318	393	-2%	-21%	2%	2%
<b>Limited Partners' Net Income (Clean)</b>	<b>248</b>	<b>234</b>	<b>272</b>	6%	-9%	-4%	-4%
<b>Adjusted Net Income Per LP Unit-Diluted</b>	<b>\$0.35</b>	<b>\$0.37</b>	<b>\$0.39</b>	-6%	-10%	-5%	-5%
Diluted	701	700	698	0%	0%	0%	0%
<b>Implied DCF Available to Common Unitholders</b>	<b>479</b>	<b>434</b>	<b>479</b>	10%	0%	25%	25%
<b>SEGMENT DETAILS</b>							
<b>Crude Oil</b>							
Total crude oil pipe volume (Mbpd)	8,903	8,586	8,419	4%	6%	17%	17%
Crude oil lease gathering purchases (Mbpd)	1,518	1,459	1,455	4%	4%	11%	11%
<b>NGL</b>							
Total NGL fractionation (Mbpd)	127	147	150	-13%	-15%	16%	16%
NGL total sales (Mbpd)	125	124	78	0%	60%		

Source: Bloomberg, Visible Alpha, Company filings, BofA Global Research

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## Price objective basis & risk

### Plains All American Pipeline, L.P. (PAA)

Our price objective (PO) of \$17.00 is derived from our discounted cash flow valuation, which implies an 8.0x 2024E EV/EBITDA multiple. We forecast a ten year outlook, which we believe is the limit of market recognition, and then forecast a terminal decline rate of 0% while using a 8.5% weighted-average cost of capital (WACC).

While PAA appears to be well contracted over the medium-term, we acknowledge the overbuild in the Permian may persist. Upside risks to our price objective are a better-than-expected recovery in oil prices and drilling activity, lower-than-expected headwinds to PAA's pipeline transportation tariffs, higher spread/contango opportunities, further reductions to PAA's capex program, better-than-anticipated cost optimizations and further potential asset sales.

Downside risks to our price objective are prolonged period of crude oversupply and longer-term demand destruction, sustained low crude oil prices and lower drilling activity and bigger-than-expected drop in pipeline tariffs.

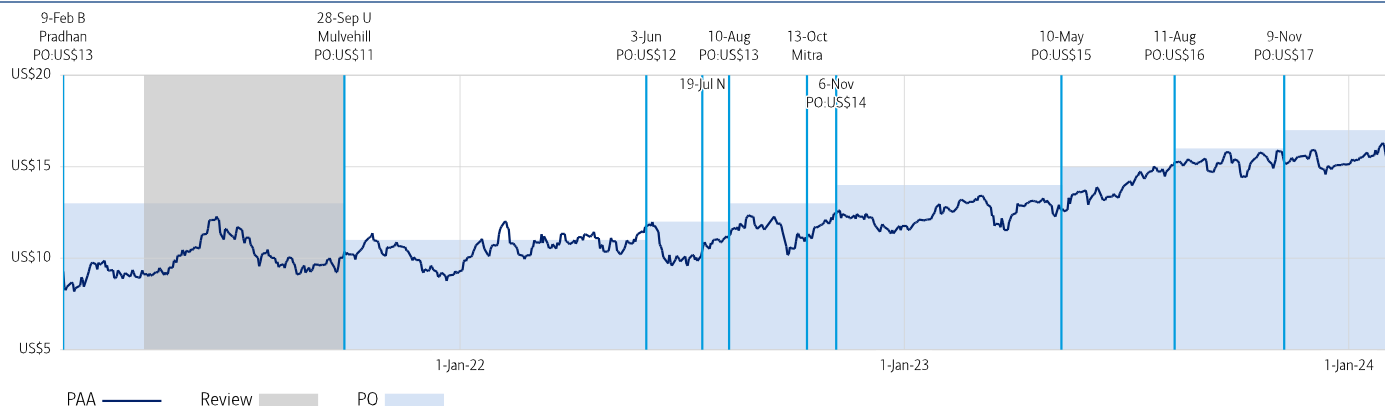
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### Plains AA (PAA) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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