



Plains All American

Plains Targets Long-Term Growth from Key Permian Infrastructure

The last seven years since the heady days of \$100 oil in mid-2014 have been turbulent for oil and gas companies, including the midstream entities that collect and transport these commodities to market. Tasked with funding a massive infrastructure build-out to support surging production from the Shale Revolution, midstreamers have been buffeted by volatile commodity prices, waves of E&P bankruptcies, rapidly shifting investor sentiment, and, finally, a global pandemic. Perhaps no company has had a more challenging road than Plains All American Pipeline (NYSE: PAA), a major crude oil transportation and storage master limited partnership. After its unit price and market cap peaked at \$60.00/unit and \$22 billion, respectively, in September 2014, the company endured two distribution cuts in 2016-2017 as it struggled with rising debt from its organic growth program and acquisitions. After a short-lived recovery and modest distribution boost in early 2019, volumes and cash flows plunged after the onset of the pandemic and PAA's unit price and market cap dipped to as low as \$4/unit and \$4 billion, respectively. The company slashed its quarterly payout rate by 50% to \$0.18, just one-quarter of the early 2016 high, and cut capital investment by 47%. Operating cash flow and EBITDA fell 40% and 21%, respectively, in 2020, and EBITDA is forecast to decline another 16% in 2021.

However, Plains' grim recent past belies the company's reputation as an aggressive competitor with good assets and a strong marketing presence and may not be a preview of its future. Indeed, in-depth analysis from East Daley Capital reveals that the company may be among the most well-positioned of U.S. midstream firms to benefit from the significant recovery in commodity prices and E&P activity. Plains' major capital investment program, which reached a recent high of \$1.85 billion in 2018, is winding down to just \$200-\$300 million in annual expenditures going forward. The company is forecasting \$1.35 billion in 2021 free cash flow, including \$900 million in asset sale proceeds, 75% of which will be allocated to reducing leverage and 25% to share buybacks. Distribution coverage in the second quarter of 2021 was a very strong 2.57x, double the target coverage rate of most of its competitors. More importantly, the company's investment program has resulted in an infrastructure portfolio heavily weighted towards gathering systems, intra-basin pipelines, and long-haul pipelines serving the Permian Basin, the premier U.S. crude oil resource play. And — here's the clincher — Plains' recently announced joint venture with Oryx Midstream has the potential to propel PAA to new heights.

There are still critical questions to answer, however. How much EBITDA growth can Plains generate from the post-pandemic rebound in Permian E&P activity? How can it funnel

additional volumes into its system without major debt-boosting acquisitions and capital outlays? Will the performance of its non-Permian assets support or erode EBITDA and cash flow growth?

East Daley's exhaustive analysis of Plains All American Pipeline provides detailed forecasts, including the following conclusions:

- Plains All American Pipeline EBITDA will increase 24% from \$2.165 billion in 2021 to \$2.676 billion in 2024, with 76% of the gain coming from the Transportation segment. That segment's EBITDA will increase by 32% to \$2.047 billion in 2024.
- EBITDA from the Permian gathering, intra-basin, and long-haul pipeline segments will grow by 42% by 2024 on higher volumes from higher production growth.
- Permian growth will be supported by modest recovery on the company's other U.S. and Canadian transportation assets from 2020 lows.
- Facilities segment EBITDA will decline 6% to \$563 million in 2024, 21% of the company total, after the \$850 million sale of Plains' natural gas storage assets in 2021.
- Income from the company's marketing arm, the Supply & Logistics segment, will bottom at \$12 million in 2021 and recover modestly to \$75 million in 2024.
- The company's leverage ratio is expected to decline from 4.1x at year-end 2021 to just above its 3.0x target by year-end 2024.
- The recently announced JV with private company Oryx Midstream will create a Permian gathering juggernaut that is likely to boost volumes on Plains' intra-basin and long-haul pipelines and generate additional EBITDA growth beginning in 2022.

This Spotlight Report from RBN Energy and East Daley Capital is available for individual purchase or as part of RBN's Backstage Pass premium content service at rbnenergy.com.

For more information on individual or group subscriptions, send an email to info@rbnenergy.com or call 888-613-8874.

The *Table of Contents* for "Spotlight: Plains All American – Plains Targets Long-Term Growth from Key Permian Infrastructure" is included on the following page.

RBN Energy and East Daley Capital

SPOTLIGHT LIVE SESSION

Spotlight: Plains All American

Join us on **Thursday, September 16th @ 10:30am CT**
for a webinar on Plains All American!

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Table of Contents

1. Spotlight Reports from RBN Energy and East Daley Capital	- 3 -
1.1 What is Spotlight?	- 3 -
1.2 How Can I Get Spotlight?	- 3 -
2. Plains All American Overview	- 3 -
2.1 How It Got Here: Plains All American Strategic Milestones	- 4 -
3. Plains All American: Company Strategy and Challenges	- 6 -
3.1 Plains All American Financial Performance	- 8 -
4. Plains All American Transportation Segment	- 9 -
4.1 Key Takeaways	- 9 -
4.2 Overview of Transportation Segment	- 10 -
4.3 Asset Overview and EBITDA Analysis for Permian Transportation Assets	- 10 -
4.3.1 Permian Gathering Systems	- 11 -
4.3.2 Intra-Basin Pipelines	- 13 -
4.3.3 Long-Haul Pipelines	- 16 -
4.3.4 Oryx Midstream	- 21 -
4.4 EBITDA Analysis for Other U.S. Transportation Assets	- 22 -
4.5 EBITDA Analysis for Canadian Transportation Assets	- 23 -
5. Plains All American Facilities Segment	- 24 -
5.1 Key Takeaways	- 24 -
5.2 Overview of the Facilities Segment	- 24 -
5.3 EBITDA Analysis for the Crude Oil & Refined Product Storage Assets	- 25 -
5.4 EBITDA Analysis for Natural Gas and NGL Storage and Processing Assets	- 25 -
6. Plains All American Supply & Logistics Segment	- 26 -
6.1 Key Takeaways	- 26 -
6.2 Overview and EBITDA Analysis of Supply and Logistics Segment	- 26 -
9. Plains All American Conclusion & Financial Outlook	- 27 -

1. Spotlight Reports from RBN Energy and East Daley Capital

1.1 *What is Spotlight?*

Spotlight reports provide a deep dive into the fundamentals that shape the outlook for midstream energy companies. Our goal is to provide a comprehensive, fundamentals-based view of our Spotlight companies built on a bottoms-up analysis of their assets and operations. We tear apart their asset structure to reveal what volumes are flowing, what rates are (and can be) charged, how they are exposed to commodity price risk, how their assets fit together, and what aspects of their operations provide competitive advantages in today's extremely volatile energy marketplace.

Spotlight is a joint venture of RBN Energy and East Daley Capital. With the support of Oil & Gas Financial Analytics LLC, we provide a comprehensive, detailed insight into the companies we select for our analysis. Our combined teams leverage deep experience to analyze publicly available data to get to the answers that can be overlooked in the more generalized assessments that are more common in the marketplace today. Instead of such a high-level approach, we get into the micro-level detail, integrating fundamentals analysis, market information, and company data in a comprehensive model that provides a clear picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs and fees. No non-public data from the subject company or any other source has been used in the preparation of this report.

1.2 *How Can I Get Spotlight?*

Spotlight reports are available to RBN [Backstage Pass subscribers](#). Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to rbnenergy.com/spotlight.