



Plains All American (PAA)



- Plains All American Pipeline EBITDA has been flat in 2015-17 as solid growth in its fee-based crude oil Transportation and Facilities segments have been offset by plunging returns from its Supply & Logistics unit. An expanding portfolio of Permian gathering and takeaway pipelines, especially in the Delaware Basin, will drive a 39% increase in annual Transportation segment EBITDA by 2021.
- NGL Storage is the primary engine for EBITDA growth in the Facilities segment, increasing from \$667 million (31% of corporate total) to \$725 million in 2017 (36% of total) and \$741 million in 2021 (38% of total).
- The Supply and Logistics segment EBITDA has plunged from \$853 million in 2013 to an estimated \$66 million in 2017 because of severe margin erosion.
- Plains recently announced a 45% distribution cut and will base future distributions solely on results of its fee-based Transportation and Facility segments, applying proceeds from the volatile Supply and Logistics segment to reducing debt and funding growth projects.
- The company will apply retained cash (\$1.1 billion over 6 quarters) and asset sale proceeds to reduce total debt and fund its expansion program.

1. Introduction

Despite its size, crude oil-focused master limited partnership Plains All American Pipeline's (NYSE: PAA) distribution coverage fell below 100% in 2015 and 2016 as prices plunged, which led the company to add debt and issue equity to raise cash. Twice over the last year, the company has dramatically changed its corporate structure and distribution process to free capital to fund organic growth, reduce debt, and strengthen distribution coverage. First, in mid-2016, PAA underwent a major restructuring that included eliminating the incentive distribution rights (IDRs) payable to its general partner that had been draining \$620 million per year. The process resulted in a 21% reduction in the distribution to limited partners as the company set a minimum annual distribution coverage target of 115%. However, plunging profits from its Supply & Logistics segment has eroded its coverage to 99% in 2017 to date, triggering another comprehensive review of how PAA calculates its distribution. In late August 2017, the company announced a 45% reduction in the annual distribution — from \$2.20/unit to \$1.20/unit — and said it would base future distributions only on the results from its fee-based Transportation and Facilities segments. Any profits from Supply & Logistics will be allocated to reducing debt and funding growth projects. In this Spotlight Report, we provide detailed analysis of the likely future performance of all three segments of this major crude oil-focused midstream MLP.

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.

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2. Spotlight Reports from RBN Energy and East Daley Capital

Spotlight reports provide deep dives into the fundamentals that shape the outlook for midstream energy companies. In each of these reports, we shine a spotlight on a midstream energy firm, usually one operating within an MLP structure. Our goal is to provide a comprehensive, fundamentals-based view of our Spotlight companies based on a bottom-up analysis of their assets and operations. Spotlight is a joint venture of RBN Energy LLC and East Daley Capital Advisors Inc. We have joined together with the support of Oil & Gas Financial Analytics LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. 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. Spotlight is 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.