

TC PipeLines, LP (NYSE: TCP)

Pitched on November 18, 2020

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Company Overview

TC PipeLines, LP (NYSE: TCP)

Business Description

- TC PipeLines acquires, owns and participates in the management of energy infrastructure businesses in North America.
- TC Energy (formally TransCanada) has a 25% stake and control as a general partner
- TC PipeLines owns or has interest in 8 federally regulated U.S. interstate natural gas pipelines, owning ~25% of North American natural gas
- TC PipeLines business model relies on long-term transportation contracts with natural gas suppliers and distributors for pipeline usage

Key Financial Data

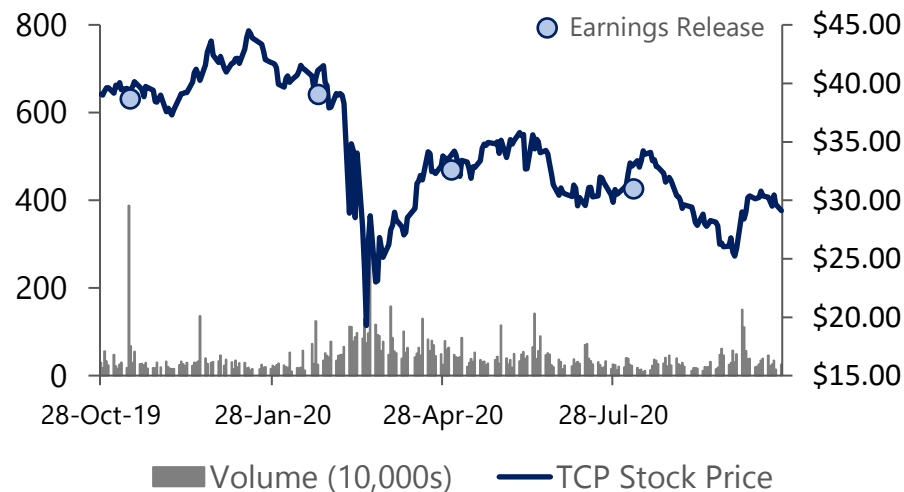
Stock Price	\$29.11
EV	\$4,077 million
52 Week Low	\$18.00
52 Week High	\$44.65
Debt/Equity	0.94
F'20 Revenue	\$562 million
F'20 Net Income	\$278 million

Management Team



Name	Russell Girling	Stanley Chapman	Donald Marchand	François Poirier
Position	CEO	President, TC Energy	CFO	COO
Years Exp.	26	9	26	31
Previous Roles	COO, CFO, President	CCO, Exec. Columbia Pipelines	VP Finance & Treasury	Corp. Strategy, IB

Price Volume Chart

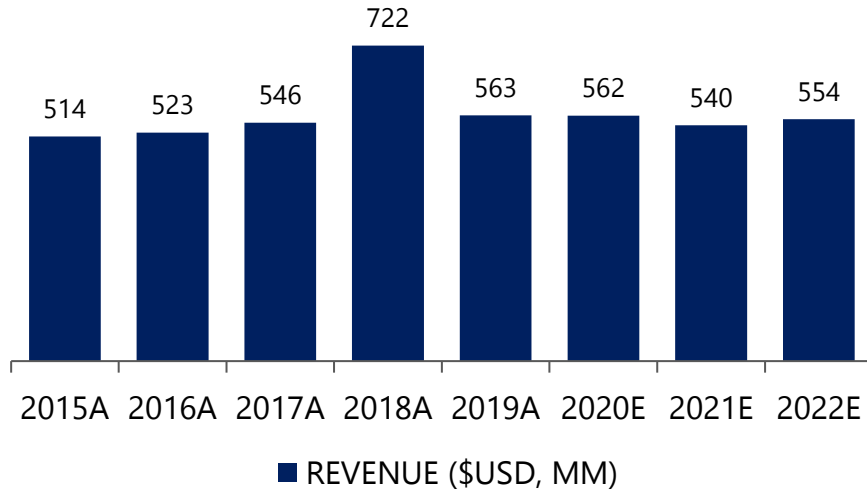


Company Overview

Operating Performance

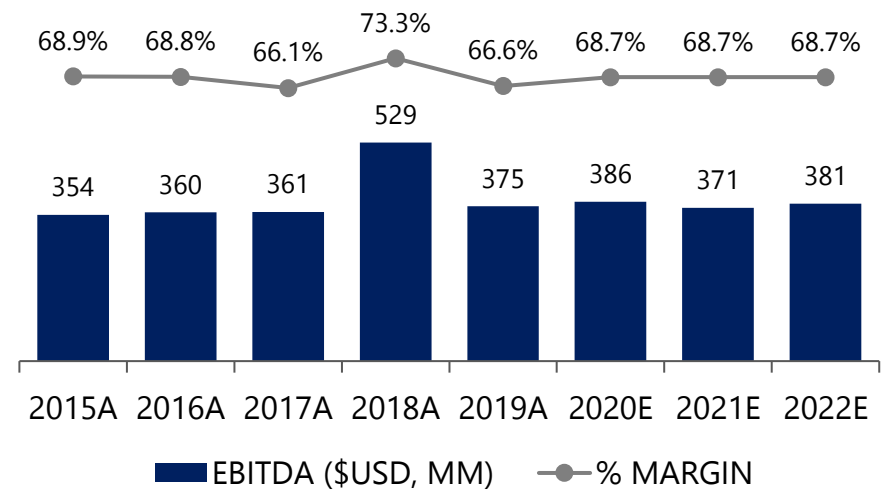
Revenue Growth

1.8% CAGR

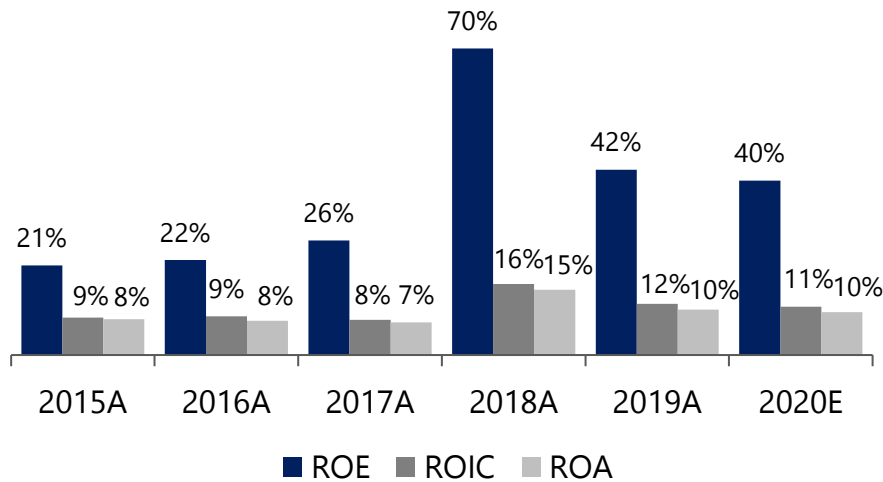


Adjusted EBITDA Growth

1.1% CAGR

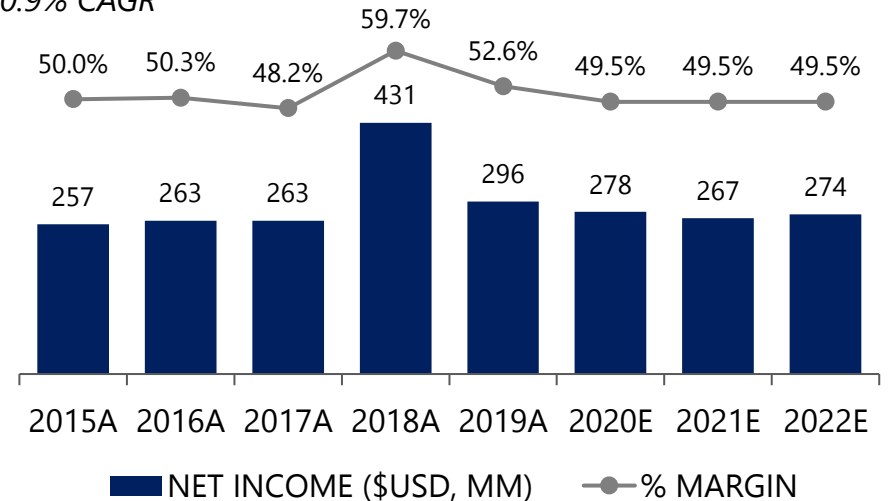


Profitability Metrics



Adjusted Net Income Metrics

0.9% CAGR



Company Overview

Pipeline Business Model

Pipeline Segment of Oil & Gas Industry Supply Chain

Production & Processing

- Exploration and drilling
- Gas production and processing

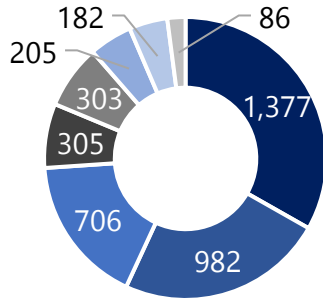
Transmission & Storage

- Storage in production tanks
- Transportation via pipelines

Distribution

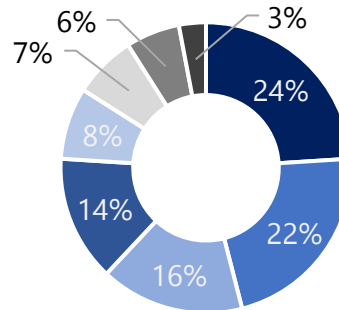
- Refining for final use
- Sales, marketing, and distribution

Length of Owned Pipelines.¹
Miles Owned, 2019



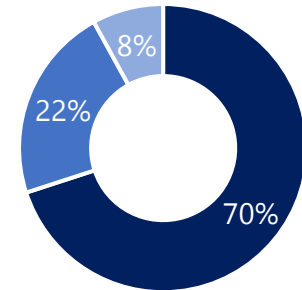
- GTN
- Great Lakes
- Northern Border
- Tuscarora
- Bison
- Iroquois
- PNGTS
- North Baja

Distributable Cash Flows by Pipeline, % of Total Cash Flows



- GTN
- Northern Border
- Iroquois
- PNGTS
- Bison
- Great Lakes
- North Baja
- Tuscarora

Transportation Customers by Credit Quality.² % of total



- Investment Grade
- Unrated
- Non-Investment Grade

(1) GTN, North Baja, Bison, and Tuscarora are wholly owned | Northern Border & PNGTS are >=50% owned | Great Lakes & Iroquois are <50%
 (2) Most revenue is held in long-term contracts ex. GTN's revenue is underpinned by 30-year fixed rate contracts

Pipeline Segment of Oil & Gas Industry Supply Chain

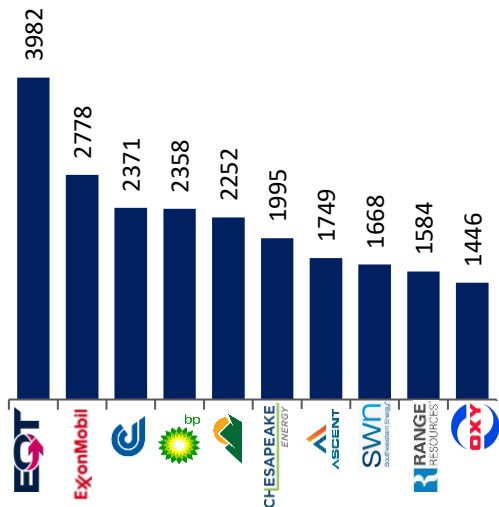
Production & Processing

How money is moved

- Natural Gas companies pay based on a rate fee to have gas transported through contracts ⁽¹⁾
- Contracts look at the service fees for maintenance and capacity allowance during periods of high volume
- Higher prices result in larger volumes of gas transported by suppliers ⁽²⁾.

Major Natural Gas Producers

Million Cubic Feet per Day



Transmission & Storage

What services are provided

- The pipeline industry manages natural gas distribution systems that transport gas to end users ⁽²⁾
- Pipeline systems actively market their available capacity and work closely with customers, to offer attractive services and competitive rates.

Competitors

Firm	State	Annual Rev
Atmos Energy Corp.	Texas	\$3.0B
NiSource Inc.	Indiana	\$5.5B
Pacific Gas and Electric	San Francisco	\$16.8B
Sempra Energy	San Diego	\$11.0B

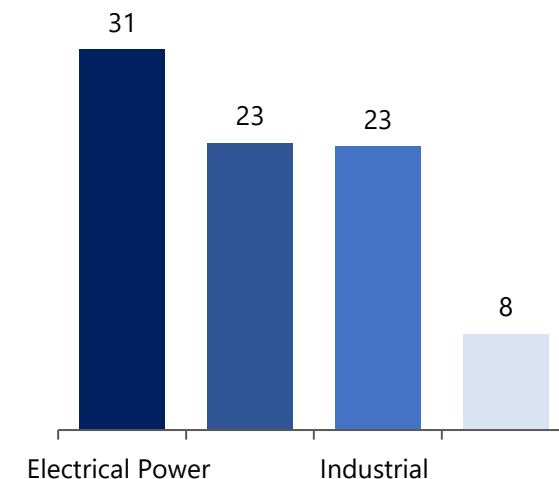
Distribution

How money is moved

- Consumers pay a large sum and contracts to ensure that the natural gas is reachable ⁽⁴⁾
- These contracts look at the service fees for maintenance and look at capacity allowed during periods of high volume
- Lower prices result in larger volumes of gas transported by Consumers ⁽²⁾.

Uses for Natural Gas

Billion Cubic Feet per Day



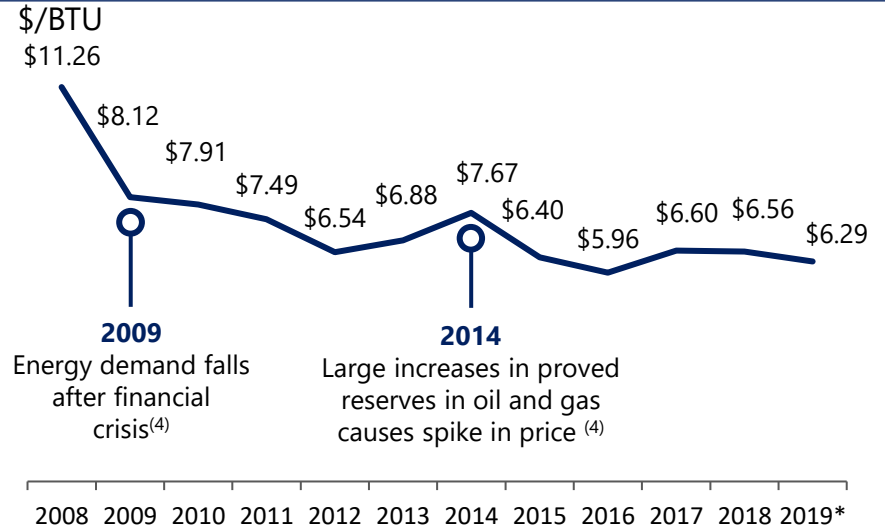
Industry Overview

Natural Gas Industry

Industry Trends

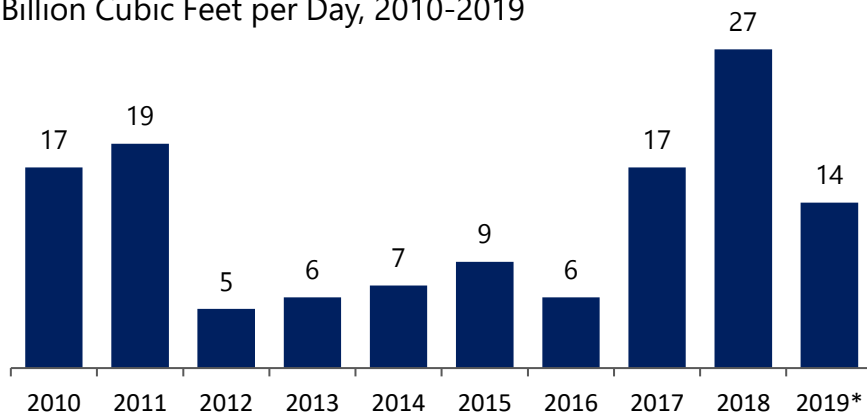
- In the past 5 years, the average interstate movement of natural gas has been 65,000 billion cubic feet ⁽¹⁾
- Natural Gas is the fastest growing and second most consumed source of energy amongst coal, nuclear, and petroleum ⁽¹⁾
- Deregulation in Natural Gases have allowed for
 - Independent suppliers to win the right to sell Natural gas on the open market along with utility companies
 - Government to reform laws that dictate energy price through the Natural Gas Policy Act (NGPA)
 - Utility companies to open pipelines to transport natural gas to end users⁽²⁾

Natural Gas Prices



Capacity Additions of Natural Gas Pipelines in the US

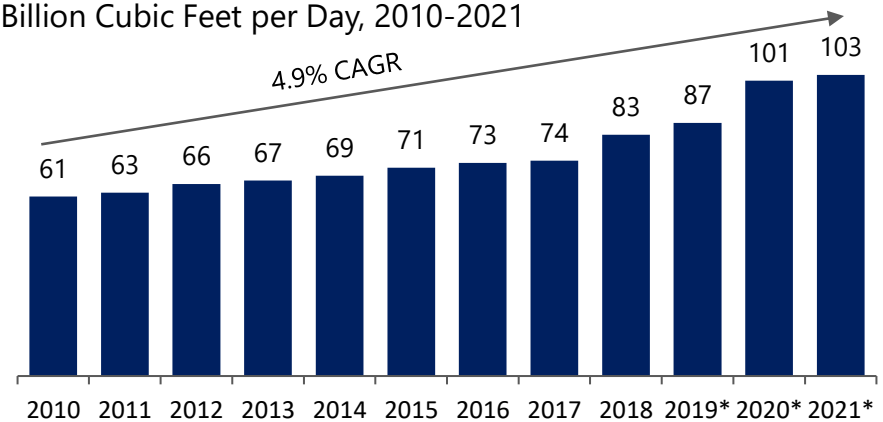
Billion Cubic Feet per Day, 2010-2019



After several years of robust growth. Limited capacity additions concentrated in the northeast, focus on removing bottlenecks for fast-growing Marcellus shale gas production ⁽⁴⁾

Natural Gas Demand in the US

Billion Cubic Feet per Day, 2010-2021



Future growth driven by environment shift from more harmful non-renewables to natural gas.

Strong Recurring Revenue stemming from efficient scale

TC PipeLines operates in an industry with efficient scale. Cost of capital and long-term contracts create barriers to entry.

TC PipeLines boasts long-term contracts with investment grade creditors:

- Over 90% of EBITDA is contracted
- Contracts are long-term (up to 30 years) and creditworthy

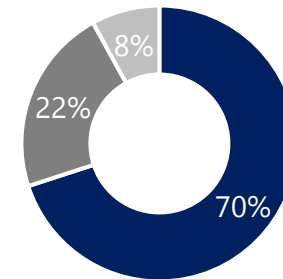
Long-Term contracts additionally form cost-advantage due to economies of scale:

- Low variable costs drives significantly high margins
- Net Income margin of 50%, EBITDA margin of 68%

This leaves TC Pipelines with high levels of cash to fund new projects:

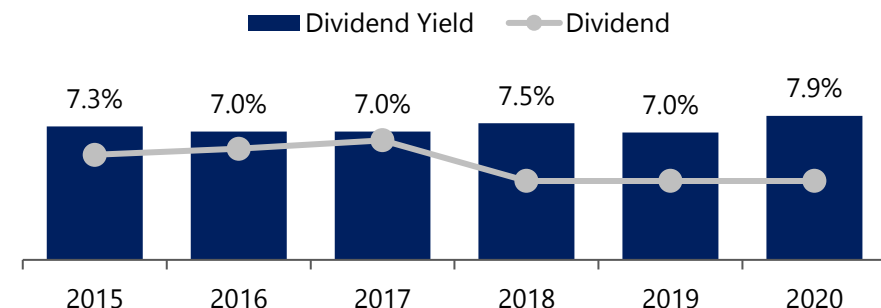
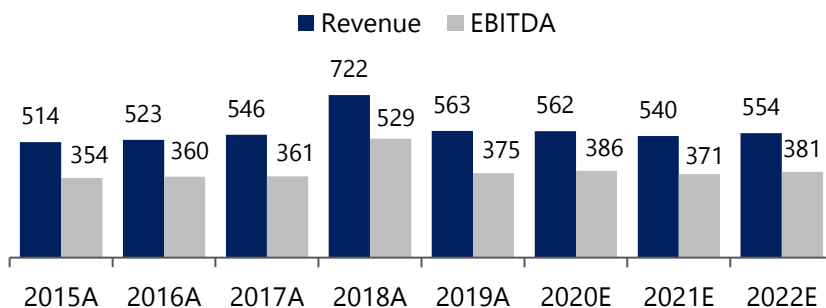
- This means TCP achieves accretive deals due to use of cash funding
- TCP' has an 8.8% dividend yield

Transportation Customers by Credit Quality, % of total



- Investment Grade
- Unrated
- Non-Investment Grade

Contracts allow TC Pipelines to increase economies of scale and return value to shareholders



Intellectual Properties



Proactive Detection Software and Plasma Welding Pipelines

- The Plasma Welding Process helps to add coating of protection to the pipeline walls and leave increments of filling to place the detection software
- Leakages are the biggest and most detrimental issues with pipelines which can cost millions in reparation and environmental fines



Tube Flow Turbulator

- The turbulator enhances operations of dirt collectors to maintain stable flow rate and remove of waste to improve utilization of pipelines

TC PipeLines efficient use of Patents towards ESG helps position itself to gain market share going forwards



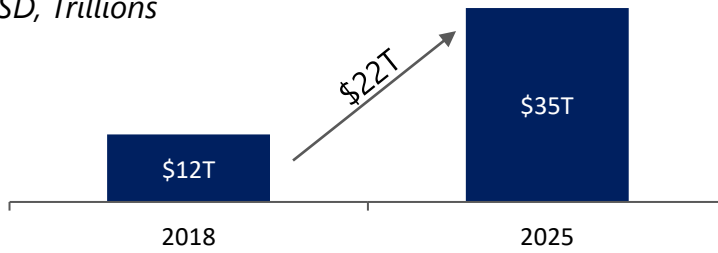
Proactive Detection Software and Plasma Welding Pipelines

- Biogas (Natural Gas): mixture of gases produced by the breakdown of organic matter
- 4.2-4.4 million standard cubic feet per day of biogas are transported from TC Pipelines' top Biogas suppliers
- Demand is high from other biogas suppliers to partner with TC Pipelines and they are putting a plan in place to meet that
- With these expansions TC PipeLines can take on projects earning \$1.5-\$3.5 million from each pipeline constructed
- Currently there are over 2,200 sites producing biogas, and there are 14,985 new sites ripe for development today at a potential value of \$45 billion

TC PipeLines is positioned to capture impressive growth in the Biogas market

Professionally Managed ESG Mandated Assets in the US

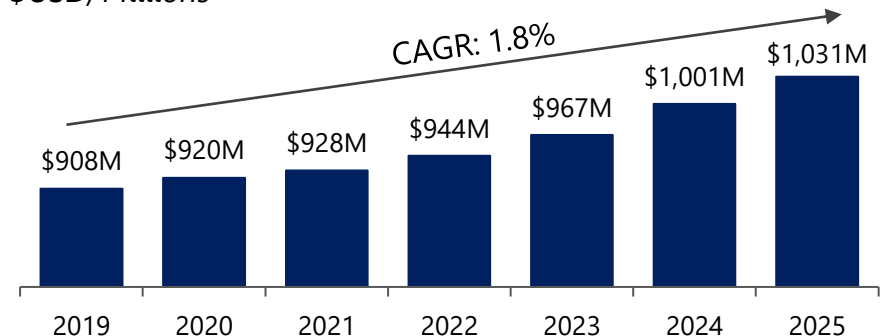
\$USD, Trillions



Client demand to drive ESG mandated assets, to fuel the launch of 200 new ESG funds by 2023

Biogas Market Revenues

\$USD, Millions



Catalysts and Risks

TC PipeLines, LP (NYSE: TCP)

The nature of TCP's business model significantly reduces macro risks typical to most oil & gas firms

Risks



Natural Gas Prices

When gas prices decline, oil & gas companies may cut spending and reduce their drilling activities. This causes oil and gas production to drop, which in turn results in fewer volumes flowing through pipelines



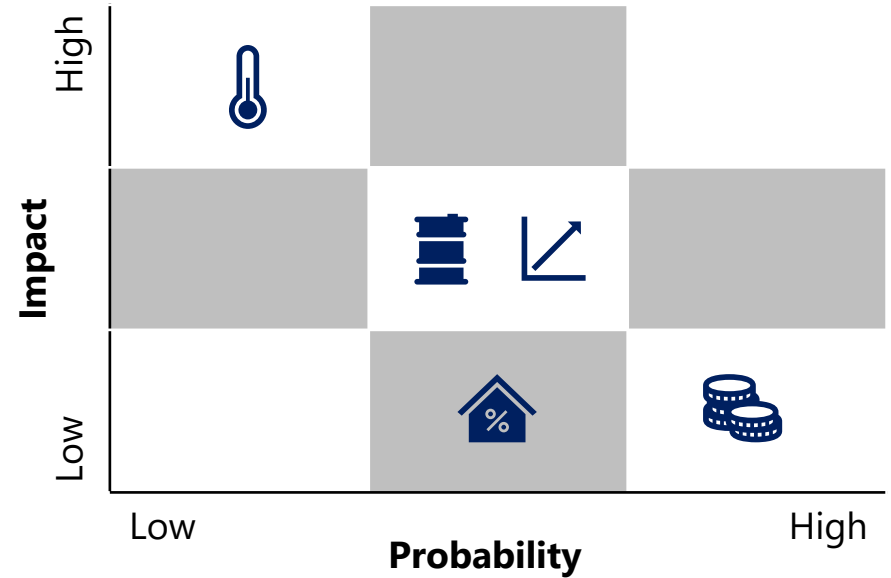
Climate Change

Growing concerns over climate change represents a risk as a greater number of environmental regulations come into play, thus limiting the movement of TCP



Interest Rates

Changes in interest rates can negatively impact pipeline stocks, as the industry is depending on leverage to fund new projects



Mitigants



Natural Gas Prices

Long-term contracts insure minimal variability in revenues and little exposure to natural gas prices



Climate Change

Natural gas is a much cleaner fossil fuel that will be the "bridge" energy source for the decade(s) to come



Interest Rates

TCP's strong FCF yield has allowed them to begin shifting from debt funding to internal project funding

Catalysts



Funding

According to an estimate by the INGAA Foundation, the U.S. and Canada need to invest \$44 billion per year through to 2035 on midstream infrastructure



Natural Gas and Biogas Demand Growth

Market is projected to reach USD 32 billion by 2027



North American Export Growth

Increases in U.S. natural gas production contributed to lower prices, allowing export to 38 countries

Valuation

Comparable Analysis

Valuation Statistics: Company Name	Capitalization		Price /	Enterprise Value /		Price /	
	Equity Value	Enterprise Value	DCF 2019A	EBITDA 2019A	2020E	EPS 2019A	2020E
Holly Energy Partners	\$1,259.5	\$2,927.8	10.9 x	8.5 x	8.4 x	7.7 x	6.6 x
Antero Midstream Corporation	\$3,040.7	\$6,160.1	9.0 x	8.5 x	7.5 x	NM	6.9 x
Equitrans Midstream Corporation	\$3,044.8	\$11,239.3	13.9 x	8.8 x	9.0 x	NM	4.6 x
Northwest Natural Holding Company	\$1,504.0	\$2,728.4	26.6 x	11.7 x	10.3 x	23.9 x	19.7 x
South Jersey Industries	\$2,349.0	\$5,639.0	45.2 x	13.9 x	12.1 x	17.3 x	13.9 x
Maximum	\$3,044.8	\$11,239.3	45.2 x	13.9 x	12.1 x	23.9 x	19.7 x
75th Percentile	3,040.7	6,160.1	26.6 x	11.7 x	10.3 x	20.6 x	13.9 x
Median	\$2,349.0	\$5,639.0	13.9 x	8.8 x	9.0 x	17.3 x	6.9 x
25th Percentile	1,504.0	2,927.8	10.9 x	8.5 x	8.4 x	12.5 x	6.6 x
Minimum	1,259.5	2,728.4	9.0 x	8.5 x	7.5 x	7.7 x	4.6 x
TC PipeLines	\$2,075.5	\$4,077.5	15.0 x	8.8 x	8.4 x	7.6 x	7.9 x

Discounted Cash Flow Forecast

Discounted Cash Flow Model

(US\$ millions)	Historical			Forecast									
	2017	2018A	2019A	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E
Revenue	546.0	722.0	563.0	562.0	540.0	554.2	568.8	582.0	595.5	608.4	620.6	633.0	645.6
(-) Operating Expenses	(255.0)	(259.0)	(282.0)	(290.0)	(266.0)	(282.5)	(271.4)	(278.5)	(285.9)	(292.5)	(299.3)	(305.8)	(311.9)
EBIT	291.0	463.0	281.0	272.0	274.0	271.7	297.4	303.4	309.6	315.9	321.2	327.2	333.7
Add: D&A	97.0	97.0	78.0	106.8	102.6	105.3	108.1	110.6	113.1	115.6	117.9	120.3	122.7
EBITDA	388.0	560.0	359.0	378.8	376.6	377.0	405.4	414.0	422.8	431.5	439.2	447.5	456.4
Less: CapEx	(29.0)	(40.0)	(75.0)	(83.3)	(92.4)	(102.6)	(113.9)	(126.4)	(140.3)	(155.7)	(172.8)	(191.9)	(213.0)
Less: Change in Net Working Capital	(5.0)	1.0	2.0	(3.8)	(0.3)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Unlevered Free Cash Flows	354.0	521.0	286.0	291.7	283.9	274.6	291.8	287.8	282.7	275.9	266.5	255.8	243.6

DCF Valuation Results

	Forecast										
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	
EBIT	272.0	274.0	271.7	297.4	303.4	309.6	315.9	321.2	327.2	333.7	
Add: Depreciation & Amortization	106.8	102.6	105.3	108.1	110.6	113.1	115.6	117.9	120.3	122.7	
Less: CapEx	(83.3)	(92.4)	(102.6)	(113.9)	(126.4)	(140.3)	(155.7)	(172.8)	(191.9)	(213.0)	
Less: Change in Net Working Capital	(3.8)	(0.3)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Unlevered Free Cash Flows	291.7	283.9	274.6	291.8	287.8	282.7	275.9	266.5	255.8	243.6	
Discount Period	0.25	1.25	2.25	3.25	4.25	5.25	6.25	7.25	8.25	9.25	
WACC	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	
Discount Factor	0.98	0.92	0.86	0.81	0.76	0.71	0.66	0.62	0.58	0.55	
PV of Unlevered Free Cash Flows	286.9	261.5	237.0	235.8	217.9	200.4	183.2	165.7	149.0	132.9	

Valuation

Discounted Cash Flow Analysis

DCF Output – Gordon Growth

Gordon Growth Method	
PV of Forecast Period	2,070
<i>% of Enterprise Value</i>	44.7%
Terminal Value	
Terminal Year UFCF	244
Perpetuity Growth Rate	1.50%
Terminal Value	4,690
PV of Terminal Value	2,559
<i>% of Enterprise Value</i>	55.3%
Enterprise Value	4,629
Less: Net Debt	2,024
Equity Value	2,605
Fully Diluted Shares Outstanding	73
Implied Share Price	\$35.63
Current Share Price	\$29.11
Implied Margin of Safety	22.4%

DCF Output – Terminal Multiple

Terminal Multiple Method	
Cumulative PV of Free Cash Flow	2,070
<i>% of Enterprise Value</i>	48.0%
Terminal Value	
Terminal Year EBITDA	456
EBITDA Multiple	9.0x
Terminal Value	4,108
PV of Terminal Value	2,241
<i>% of Enterprise Value</i>	52.0%
Enterprise Value	4,311
Less: Net Debt	2,024
Equity Value	2,287
Fully Diluted Shares Outstanding	73
Implied Share Price	\$31.29
Current Share Price	\$29.11
Implied Margin of Safety	7.5%

Terminal Growth	WACC					
		5.8%	6.3%	6.8%	7.3%	7.8%
0.5%	39.56	34.24	29.76	25.94	22.63	
1.0%	43.73	37.56	32.45	28.14	24.46	
1.5%	48.88	41.57	35.63	30.72	26.57	
2.0%	55.39	46.52	39.49	33.79	29.05	
2.5%	63.89	52.78	44.25	37.50	32.01	

Exit Multiple	WACC					
		5.8%	6.3%	6.8%	7.3%	7.8%
8.0x	31.5	29.6	27.9	26.2	24.6	
8.5x	33.3	31.4	29.6	27.8	26.1	
9.0x	35.2	33.2	31.3	29.5	27.7	
9.5x	37.1	35.0	33.0	31.1	29.3	
10.0x	38.9	36.8	34.7	32.7	30.8	

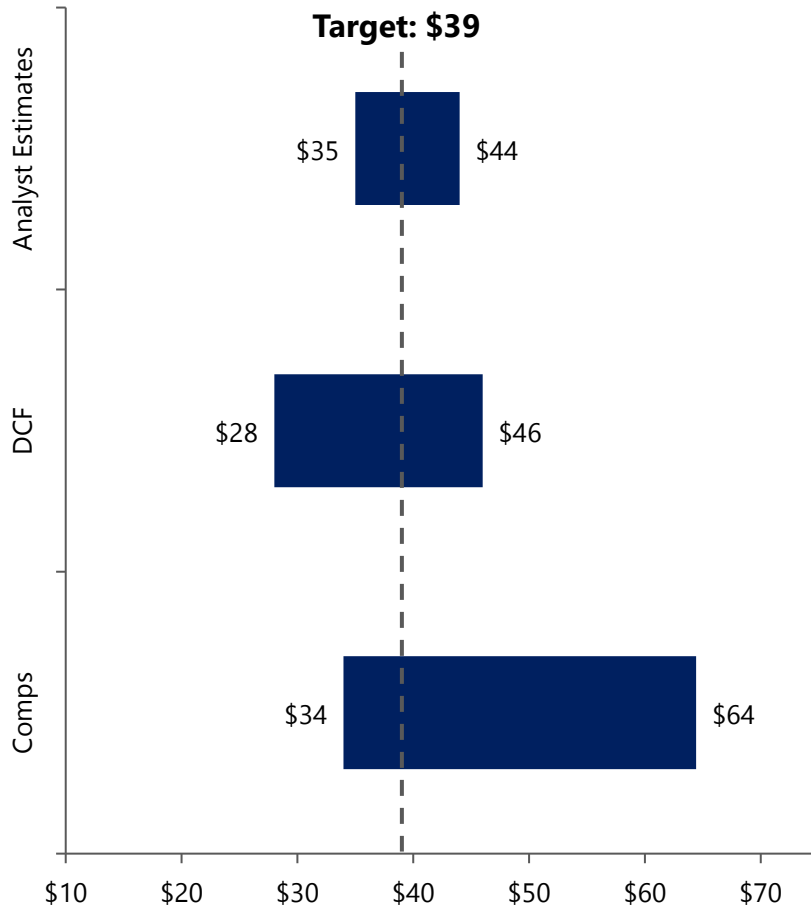
Terminal Growth	WACC					
		5.8%	6.3%	6.8%	7.3%	7.8%
0.5%	35.9%	17.6%	2.2%	-10.9%	-22.3%	
1.0%	50.2%	29.0%	11.5%	-3.3%	-16.0%	
1.5%	67.9%	42.8%	22.4%	5.5%	-8.7%	
2.0%	90.3%	59.8%	35.7%	16.1%	-0.2%	
2.5%	119.5%	81.3%	52.0%	28.8%	10.0%	

Exit Multiple	WACC					
		5.8%	6.3%	6.8%	7.3%	7.8%
8.0x	8.1%	1.8%	-4.2%	-10.0%	-15.6%	
8.5x	14.5%	7.9%	1.6%	-4.4%	-10.2%	
9.0x	20.9%	14.0%	7.5%	1.2%	-4.8%	
9.5x	27.3%	20.2%	13.3%	6.8%	0.5%	
10.0x	33.7%	26.3%	19.2%	12.4%	5.9%	

Recommendation: BUY

TC PipeLines, LP (NYSE: TCP)

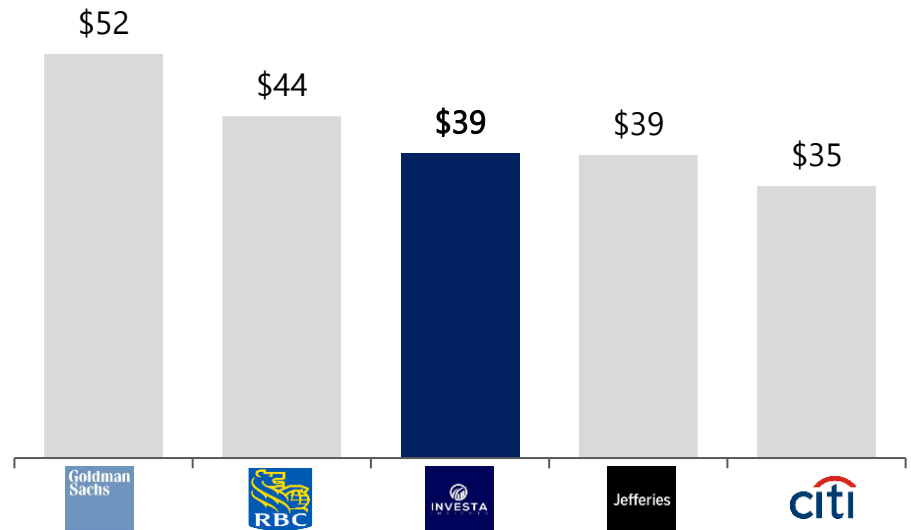
Football Field Analysis



Weighted Valuation

Analysis	Price	Weights
Comparable Analysis	\$41.49	30%
DCF	\$36.63	50%
Analyst Targets	\$42.50	20%
Investa Target	\$39.26	100%
Current Price	\$30.00	
Capital Gains Return	30.9%	
(+) Dividend Yield	8.7%	
Implied Return	39.5%	

Selected Brokerage Summary



Investa Insights believe that in a time of volatility and uncertainty, TC PipeLines provides an attractive, yet risk-averse, value investment cemented in their recurring revenues and efficient scale. Furthermore, TCP's environmental sustainability contributes to the longevity of their economic moat. We place a BUY recommendation on TCP with a price target of \$39 and expected return of 39.5%.

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