



# MPLX, LP (MPLX)

Updated January 22<sup>nd</sup>, 2019 by Eli Inkrot

## 3Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	11.6%	<b>Volatility Percentile:</b>	82.5%
<b>Fair Value Price:</b>	\$35	<b>5 Year Growth Estimate:</b>	3.5%	<b>Momentum Percentile:</b>	45.5%
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.6%	<b>Growth Percentile:</b>	18.7%
<b>Dividend Yield:</b>	7.5%	<b>5 Year Price Target</b>	\$42	<b>Valuation Percentile:</b>	54.2%
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	A	<b>Total Return Percentile:</b>	67.4%

## Overview & Current Events

MPLX, LP is a master limited partnership that was formed by the Marathon Petroleum Corporation (MPC) in 2012. The business operates in two segments: Logistics and Storage – which relates to crude oil and refined petroleum products – and Gathering and Processing – which relates to natural gas and natural gas liquids (NGLs). The Logistics and Storage unit owns, leases, operates or has interest in roughly 10,000 miles of crude and refined product pipelines, along with 62 light product terminals in the Midwest, Gulf Coast and Southeast regions of the U.S. The Gathering and Processing unit has natural gas gathering systems in five states, with throughput capacity of 5.9 billion cubic feet (bcf) per day, and operates natural gas processing complexes in the Marcellus shale, Utica shale, Appalachia region and Southwest region with 8.9 bcf/day of processing capacity. The \$27.1 billion limited partner is expected to generate \$3.1 billion in distributable cash flow (DFC) in 2019.

On November 1<sup>st</sup>, 2018 MPLX reported results for the period ending September 30<sup>th</sup>, 2018. For the quarter the company generated \$510 million in net income and adjusted earnings before interest taxes depreciation and amortization (EBITDA) of \$937 million – both of which represented substantial increases driven by strong performance in both businesses and asset drop downs in Logistics and Storage. The Logistics and Storage segment generated \$468 million in income from operations and \$547 million in EBITDA. The Gathering and Processing segment generated \$204 million in income from operations and \$390 million in EBITDA. MPLX ended the quarter with a distribution coverage ratio of 1.47x (higher is better) and a consolidated debt to adjusted EBITDA ratio of 3.8x (lower is better, as it relates to firm safety).

## Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
<b>CFPS</b>	NA	NA	NA	NA	\$2.30	\$1.72	\$2.14	\$0.79	\$1.42	\$2.48	<b>\$3.20</b>	<b>\$3.80</b>
<b>DPS</b>	NA	NA	NA	NA	\$0.18	\$1.17	\$1.41	\$1.82	\$2.03	\$2.21	<b>\$2.49</b>	<b>\$2.75</b>
<b>Units</b>	NA	NA	NA	NA	74	74	80	311	369	415	<b>800</b>	<b>850</b>

Ideally you would use distributable cash flow (DCF) as a leading metric for a master limited partnership, but MPLX's DCF history is skewed by the general partner's (GP) incentive distribution rights (IDRs). In February of 2018 the parent company, Marathon Petroleum Corporation, dropped down assets and exchanged its GP interest, including IDRs, for a larger portion of MPLX (MPC's interest now equals 64%). Moving forward this should make the reporting clearer, but for now we have elected to show historical cash flow per share (which is not a perfect measure either).

Also note that instead of dividends and shares, the figures above refer to distributions and units – highlighting the different corporate and tax structure associated with an MLP.

In general, pipelines tend to have a stronghold in terms of extracting economic rents. With natural gas, as an example, you're dealing with a cheaper, cleaner and more efficient method of generating energy. In the last decade, natural gas has overtaken coal as the leading source of electricity generation in the U.S., as an example. Building pipelines requires years of approvals and ongoing regulation. As such, the incumbent positions enjoy "toll-booth" type business models, with a good portion of their revenue fixed via fee-based and "take or pay" agreements.

MPLX in particular has a strong position in the Marcellus / Utica region, with long-term contracts from Marathon.

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## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/CF	NA	NA	NA	NA	13.6	25.9	34.3	49.8	24.4	14.3	<b>10.7</b>	<b>11.0</b>
Avg. Yld.	NA	NA	NA	NA	0.6%	3.2%	2.5%	3.1%	6.5%	6.3%	<b>7.3%</b>	<b>6.6%</b>

MPLX does not lend itself to a nice average historical valuation, especially with both the cash flow per share and share price jumping around significantly in the last six years. To alleviate this valuation problem, we are thinking about the security's value proposition in three separate ways.

With the elimination of the IDRs, the cash available to all unit holders should be a more accurate reflection of value moving forward. We believe something around 10 times expected cash flow (implying a 10% shareholder yield) with the possibility for growth is a reasonable starting place for MLP securities.

A second way to value MPLX is that it has told investors to anticipate \$3.1 billion in DCF in 2019 and \$3.5 billion in 2020. Against a current market cap of \$27.1 billion, these numbers equate to forward overall price to DCF ratios of 8.7 and 7.7 in the coming two years. We believe something in the 8 to 10 times DCF range is reasonable, implying that the current share price is more or less fair.

And third, you can think about valuation based on the security's distribution yield. Here we believe something in the 6% to 8% range is attractive, with MPLX currently sitting within those levels. Note that the distribution growth rate has been slowing recently, with management's intention of increasing the payout by a penny per quarter.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	NA	NA	NA	NA	8%	68%	66%	230%	143%	89%	<b>78%</b>	<b>72%</b>

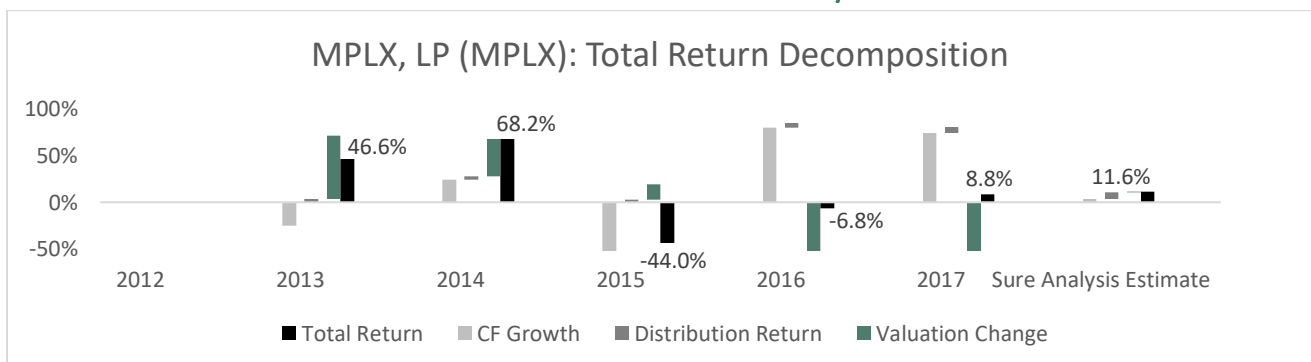
MPLX's industry generally holds competitive advantages as a result of the toll-booth model of pipelines.

With MPLX in particular we are encouraged by the company self-funding on the equity side and getting rid of the IDRs. In 2016 and 2017 MPLX had a distribution coverage ratio of 1.23x and 1.28x respectively. Over the last nine months it has equaled 1.38x (equating to a payout ratio of about 72%). The company's total debt to adjusted EBITDA was 3.1x in 2016, 3.7x in 2017 and 3.8x over the prior nine months (generally MLP's are shooting for a ratio under 5x). In addition, MPLX's revenues are quite steady given the Marathon parent relationship and long-term contracts.

## Final Thoughts & Recommendation

We view the business model (and industry) as compelling and the security appears to be trading hands at a reasonable level with a well above average yield. MPLX is one of the safer MLPs around, and is a buy at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	N/A	N/A	N/A	N/A	442	463	747	1034	3010	3691
Gross Profit	N/A	N/A	N/A	N/A	224	232	365	583	1662	1993
Gross Margin	N/A	N/A	N/A	N/A	50.7%	50.1%	48.9%	56.4%	55.2%	54.0%
SG&A Exp.	N/A	N/A	N/A	N/A	50	53	81	125	227	241
D&A Exp.	N/A	N/A	N/A	N/A	39	49	75	129	591	683
Operating Profit	N/A	N/A	N/A	N/A	144	147	245	378	886	1113
Operating Margin	N/A	N/A	N/A	N/A	32.5%	31.7%	32.8%	36.6%	29.4%	30.2%
Net Profit	N/A	N/A	N/A	N/A	13	78	121	156	233	794
Net Margin	N/A	N/A	N/A	N/A	3.0%	16.8%	16.2%	15.1%	7.7%	21.5%
Free Cash Flow	N/A	N/A	N/A	N/A	55	105	193	93	178	496
Income Tax	N/A	N/A	N/A	N/A	0		1	1	-12	1

## Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	N/A	N/A	N/A	N/A	1301	1209	1214	16104	17509	19500
Cash & Equivalents	N/A	N/A	N/A	N/A	217	54	27	43	234	5
Accounts Receivable	N/A	N/A	N/A	N/A	56	61	51	432	546	452
Inventories	N/A	N/A	N/A	N/A	9	12	12	51	55	65
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	105	105	105	3036	2737	2698
Total Liabilities	N/A	N/A	N/A	N/A	75	94	751	6437	5399	8527
Accounts Payable	N/A	N/A	N/A	N/A	39	31	14	91	140	151
Long-Term Debt	N/A	N/A	N/A	N/A	11	11	644	5255	4422	6945
Shareholder's Equity	N/A	N/A	N/A	N/A	691	646	457	9654	12092	10827

## Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	N/A	N/A	N/A	1.0%	6.2%	10.0%	1.8%	1.4%	4.3%
Return on Equity	N/A	N/A	N/A	N/A	1.4%	11.7%	21.9%	3.1%	2.1%	6.9%
Shares Out.	N/A	N/A	N/A	N/A	74	74	80	311	369	415
Revenue/Share	N/A	N/A	N/A	N/A	5.98	6.26	10.09	10.55	8.91	9.51
FCF/Share	N/A	N/A	N/A	N/A	0.74	1.42	2.61	0.95	0.53	1.28

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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