



MPLX, LP (MPLX)

Updated February 7th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$33	5 Year CAGR Estimate:	14.5%	Volatility Percentile:	65.6%
Fair Value Price:	\$39	5 Year Growth Estimate:	3.5%	Momentum Percentile:	44.3%
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.3%	Growth Percentile:	18.6%
Dividend Yield:	7.7%	5 Year Price Target	\$46	Valuation Percentile:	77.0%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	86.1%

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 \$26 billion limited partner generated \$2.7 billion in distributable cash flow in 2018.

On February 7th, 2019 MPLX released Q4 and full year 2018 results for the period ending December 1st, 2018.

Distributable cash flow (DCF) for the quarter equaled \$701 million (\$0.88 per unit) compared to \$445 million (\$1.09 per unit) in Q4 2017. Note that significant unit issuance caused the per unit numbers to decline, despite showing growth on a company wide basis. For the year MPLX reported \$2.78 billion (\$3.65 per unit) in DCF, compared to \$1.63 billion (\$4.20 per unit) in 2017. MPLX ended the quarter with a distribution coverage ratio of 1.36x (compared to 1.28x in 2017) and a consolidated debt to adjusted EBITDA ratio of 3.9x versus 3.6x in the prior year period.

MPLX also provided an outlook for 2019 and 2020. Distributable cash flow is expected to come in at \$3.1 billion (~\$3.90 per unit) in 2019 and \$3.5 billion (~\$4.41 per unit without an increased unit count) in 2020. In addition, MPLX said that it does not anticipate needing to issue public equity in 2019 or 2020 to fund growth capital.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
CFPS	NA	NA	NA	\$2.30	\$1.72	\$2.14	\$0.79	\$1.42	\$2.48	\$3.65	\$3.90	\$4.63
DPS	NA	NA	NA	\$0.18	\$1.17	\$1.41	\$1.82	\$2.03	\$2.21	\$2.49	\$2.60	\$2.90
Units	NA	NA	NA	74	74	80	311	369	415	794	794	800

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). For 2018 (and moving forward) we have started to report DCF.

In general, pipelines tend to have a stronghold in terms of extracting economic rents. And natural gas is cleaner than coal. In the last decade, natural gas has overtaken coal as the leading source of electricity generation in the U.S. 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.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/CF	NA	NA	NA	13.6	25.9	34.3	49.8	24.4	14.3	8.3	8.5	10.0
Avg. Yld.	NA	NA	NA	0.6%	3.2%	2.5%	3.1%	6.5%	6.3%	8.2%	7.9%	6.3%

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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 seven years. To alleviate this valuation problem, we are thinking about the security's value proposition in a couple of ways.

With the elimination of the IDRs, the cash available to unit holders should be a more accurate reflection of value moving forward. We believe something around 8 to 10 times expected distributable cash flow (DCF), implying a 10% to 12.5% shareholder yield, with the possibility for growth is a reasonable starting place for MLP securities. MPLX has told investors to anticipate \$3.1 billion in DCF in 2019 and \$3.5 billion in 2020. Against a current market cap of \$26 billion, these numbers equate to a forward overall price to DCF ratios of 8.4 and 7.4 in the coming two years, implying that the current unit price is fair or even a bit on the lower end.

A second way to think about valuation is 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	NA	NA	NA	8%	68%	66%	230%	143%	89%	68%	67%	63%

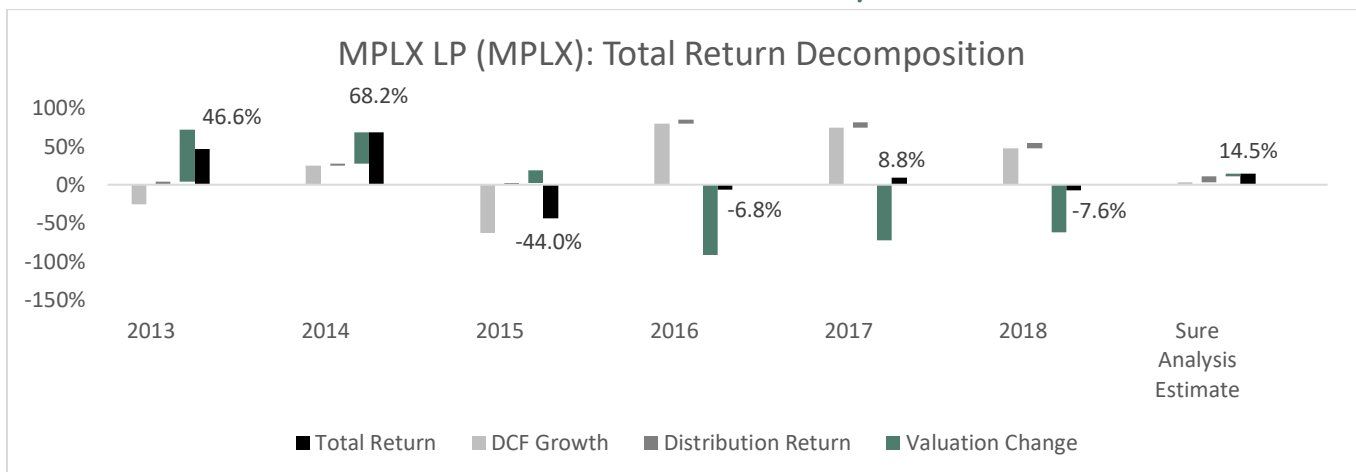
MPLX's industry generally holds competitive advantages as a result of the toll-booth model of pipelines.

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 and last year it came in at 1.36x. The company's total debt to adjusted EBITDA was 3.1x in 2016, 3.7x in 2017 and 3.9x in 2018 (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

MPLX's share price is down about 3% since our last update, while DCF expectations remain solid. While we are cautious with the anticipated growth rate and note the MLP structure for tax purposes, the dividend yield and valuation look attractive. We view the business model (and industry) as compelling. It will be important to watch the company's quality metrics, too much debt can stymie the investment thesis, but otherwise MPLX offers a solid combination of attractive qualities. We rate it as 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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