



Magellan Midstream Partners (MMP)

Updated August 7th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	\$65	5 Year CAGR Estimate:	15.2%	Volatility Percentile:	32.8%
Fair Value Price:	\$79	5 Year Growth Estimate:	5.0%	Momentum Percentile:	45.7%
% Fair Value:	82%	5 Year Valuation Multiple Estimate:	4.0%	Growth Percentile:	37.3%
Dividend Yield:	6.2%	5 Year Price Target	\$101	Valuation Percentile:	78.8%
Dividend Risk Score:	C	Retirement Suitability Score:	B	Total Return Percentile:	82.7%

Overview & Current Events

Magellan Midstream Partners (MMP) has the longest pipeline system of *refined* products, which is linked to nearly half of the total U.S. refining capacity. This segment generates 59% of its total operating income while the transportation and storage of *crude oil* generates 34% of its operating income. MMP has a fee-based model; only ~10% of its operating income depends on commodity prices. That is why it has exhibited impressive resilience in the downturn of the oil market that began in 2014. While most MLPs saw their earnings decline, MMP has grown its earnings-per-share at a 10% average annual rate in the last four years. MMP has a market capitalization of \$15.1 billion.

During the last decade, MMP has invested \$5.4 billion in growth projects and acquisitions and has exhibited much better performance than the vast majority of MLPs. Most MLPs carry excessive amounts of debt, post poor free cash flows due to their capital expenses and dilute their unitholders to a great extent on a regular basis. They also tend to have payout ratios above 100%. On the contrary, MMP has posted positive free cash flows for more than 10 consecutive years and has a strong balance sheet. In addition, it does not significantly dilute unitholders and maintains a healthy payout ratio. It is impressive that MMP has increased its unit count by only 1.8% in total in the last eight years. All these attributes confirm the discipline of its management, which invests only in high-return projects.

In early August, MMP reported (8/1/19) financial results for the second quarter of fiscal 2019. Its adjusted earnings-per-share increased 6% thanks to revenue growth from its Texas crude oil pipelines and favorable environment of commodity prices. Distributable cash flow (DCF) increased 18%, from \$266.6 million to an almost record level of \$314.8 million, thanks to tariff hikes in refined product pipelines and favorable commodity prices. Thanks to positive business momentum, management raised its annual DCF guidance for a second time this year, from \$1.18 to \$1.22 billion, and thus it now expects a distribution coverage ratio around 1.30. Accordingly, we have raised our estimate for the cash flow per share of this year by 3%, from \$5.15 to \$5.30.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
CF/S	\$1.52	\$1.94	\$2.37	\$2.49	\$3.20	\$4.42	\$4.34	\$4.31	\$4.68	\$4.84	\$5.30	\$6.76
DPS	\$1.42	\$1.46	\$1.56	\$1.78	\$2.10	\$2.51	\$2.92	\$3.25	\$3.52	\$3.80	\$4.03	\$5.00
Units	213.2	225.0	225.4	226.2	226.7	226.7	227.4	227.8	228.0	229.1	230.0	232.0

MMP has promising growth prospects, as it has several growth projects under way. The company will invest \$1.1 billion in these projects this year and \$150 million in 2020. It also has above \$500 million of potential growth projects under consideration and continues to evaluate their prospects in order to identify the most promising ones.

MMP has grown its cash flow per share at a 4.5% average annual rate in the last decade, which includes the Great Recession. In the last two conference calls, management has reiterated its commitment to raise its distribution by about 5% this year and maintain a distribution coverage ratio of at least 1.20 for the foreseeable future. We continue to expect 5% annual growth in distributable cash flow per share and distribution per share over the next five years.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
P/CF	14.2	14.6	14.6	17.3	19.8	18.7	15.7	17.6	15.2	13.7	12.3	15.0
Avg. Yld.	8.0%	6.0%	5.2%	4.6%	3.9%	3.2%	4.0%	4.7%	4.9%	5.7%	6.2%	5.0%

MMP is trading at a price-to-cash flow ratio of 12.3, which is lower than its 10-year average ratio of 16.1. In order to be somewhat conservative, we assume a fair price-to-cash flow ratio of 15.0 for this MLP. If the stock approaches our fair valuation level over the next five years, it will enjoy a 4.0% annualized boost to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	93.4%	75.3%	65.8%	71.5%	65.6%	56.8%	67.3%	75.4%	75.2%	78.5%	76.0%	74.0%

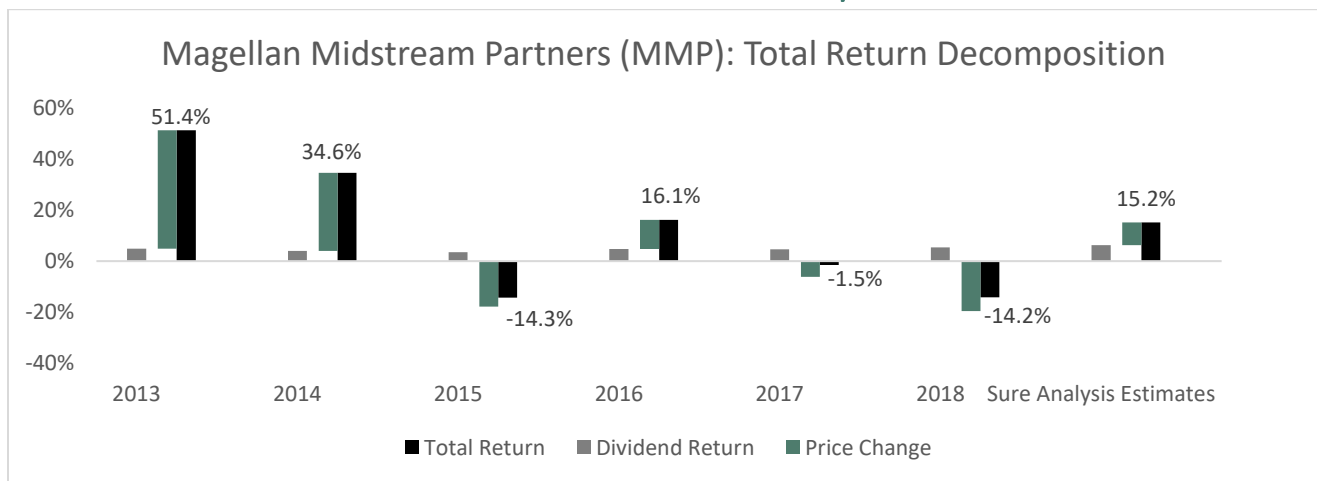
The competitive advantage of MMP comes from its fee-based model, its great scale and its discipline to invest only in high-return projects. MMP has grown its dividend for 68 consecutive quarters and has raised its annual dividend at a 12% average annual rate since 2001. In the last two conference calls, management has remained confident that the MLP will maintain a distribution coverage ratio of at least 1.2 in the years ahead. All these facts are testaments to the strength of its business model and its great discipline to invest only in high-return projects. Moreover, management has stated that it does not expect to issue any equity to fund current growth projects. Thanks to its fee-based model, MMP proved resilient during the downturn of the oil market that began in 2014.

On the other hand, investors should not jump to the conclusion that MMP is immune to recessions. In the Great Recession, its earnings-per-share fell 32%, from \$1.64 in 2008 to \$1.11 in 2009. As a recession has not occurred for a whole decade, investors should keep this risk factor in mind.

Final Thoughts & Recommendation

MMP is one of the safest and highest-quality MLPs around. It has raised its dividend for 68 consecutive quarters and has ample room to continue to raise it for years thanks to its promising pipeline of growth projects, healthy payout ratio and strong balance sheet. The stock is also attractively valued right now. As a result, it could offer a 15.2% average annual return over the next five years thanks to its 6.2% distribution yield, 5.0% annual growth in its cash flow per share and a 4.0% annualized expansion of its valuation level. MMP thus maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1014	1557	1749	1772	1948	2360	2188	2205	2508	2827
Gross Profit	476	607	736	787	974	1265	1218	1183	1294	1473
Gross Margin	47.0%	39.0%	42.1%	44.4%	50.0%	53.6%	55.6%	53.7%	51.6%	52.1%
SG&A Exp.	84	95	99	109	132	148	150	147	166	194
D&A Exp.	98	109	121	128	142	162	167	178	197	265
Operating Profit	295	403	516	549	699	955	901	858	932	1013
Operating Margin	29.1%	25.9%	29.5%	31.0%	35.9%	40.5%	41.2%	38.9%	37.2%	35.9%
Net Profit	127	312	414	436	582	840	819	803	870	1334
Net Margin	12.5%	20.0%	23.7%	24.6%	29.9%	35.6%	37.4%	36.4%	34.7%	47.2%
Free Cash Flow	53	203	378	292	352	744	449	299	573	801
Income Tax	2	1	2	3	5	5	2	3	4	0

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	3163	3718	4045	4420	4821	5501	6042	6772	7394	7748
Cash & Equivalents	4	7	210	328	25	17	29	15	161	218
Accounts Receivable	73	92	82	91	116	84	84	106	139	104
Inventories	193	216	259	222	187	158	131	134	182	186
Goodwill & Int. Ass.	21	57	68	67	61	58	55	105	106	104
Total Liabilities	1967	2248	2582	2904	3173	3633	4020	4680	5265	5104
Accounts Payable	37	41	66	112	76	97	104	77	105	139
Long-Term Debt	1680	1906	2152	2393	2685	2967	3440	4087	4524	4271
Shareholder's Equity	1196	1455	1463	1516	1647	1868	2022	2092	2130	2643

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.4%	9.1%	10.7%	10.3%	12.6%	16.3%	14.2%	12.5%	12.3%	17.6%
Return on Equity	20.1%	23.5%	28.3%	29.2%	36.8%	47.8%	42.1%	39.0%	41.2%	55.9%
Units Out.	213.2	225.0	225.4	226.2	226.7	226.7	227.4	227.8	228.0	229.1
Revenue/Share	8.87	7.11	7.74	7.82	8.58	10.37	9.60	9.67	10.98	12.37
FCF/Share	0.46	0.93	1.67	1.29	1.55	3.27	1.97	1.31	2.51	3.50

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

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