



MPLX, LP (MPLX)

Updated August 1st, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$30	5 Year CAGR Estimate:	15.1%	Volatility Percentile:	33.8%
Fair Value Price:	\$35	5 Year Growth Estimate:	3.0%	Momentum Percentile:	24.4%
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.2%	Growth Percentile:	14.5%
Dividend Yield:	8.9%	5 Year Price Target	\$41	Valuation Percentile:	79.2%
Dividend Risk Score:	F	Retirement Suitability Score:	C	Total Return Percentile:	87.6%

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 \$32 billion limited partner generated \$2.7 billion in distributable cash flow in 2018.

On July 22nd, 2019 MPLX announced a 6.4% year-over-year quarterly distribution increase to \$0.6675 per unit, equating to \$2.67 on an annualized basis. This marks the 26th consecutive quarterly distribution increase from the company.

On July 30th, 2019 MPLX completed the acquisition of Andeavor Logistics LP.

On August 1st, 2019 MPLX released Q2 2019 results for the period ending June 30th, 2019. For the quarter Distributable Cash Flow (DCF) equaled \$741 million (~\$0.91 per unit) compared to \$695 million (~\$0.85 per unit) in Q2 2018. Note that this does not yet take into account the unit issuance required for the Andeavor acquisition. MPLX ended the quarter with an adjusted distribution coverage ratio of 1.36x and a consolidated debt to adjusted EBITDA ratio of 3.9x versus 3.7x in Q2 2018.

Previously MPLX 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. However, these assumptions were made prior to the recently completed acquisition.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
CFPS	---	---	---	\$2.30	\$1.72	\$2.14	\$0.79	\$1.42	\$2.48	\$3.65	\$3.90	\$4.52
DPS	---	---	---	\$0.18	\$1.17	\$1.41	\$1.82	\$2.03	\$2.21	\$2.49	\$2.67	\$2.94
Units	---	---	---	74	74	80	311	369	415	761	800	1,100

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. We are forecasting 3% annual growth moving forward, which may change depending on how the recent Andeavor acquisition is integrated. Note that the unit count will jump substantially once this purchase is taken into account.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg P/CF	---	---	---	13.6	25.9	34.3	49.8	24.4	14.3	8.3	7.7	9.0
Avg. Yld.	---	---	---	0.6%	3.2%	2.5%	3.1%	6.5%	6.3%	8.2%	8.9%	7.2%

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. Against the current mark of 7.7 times DCF, shares appear reasonably compelling.

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 that range. 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	---	---	---	8%	68%	66%	230%	143%	89%	68%	68%	65%

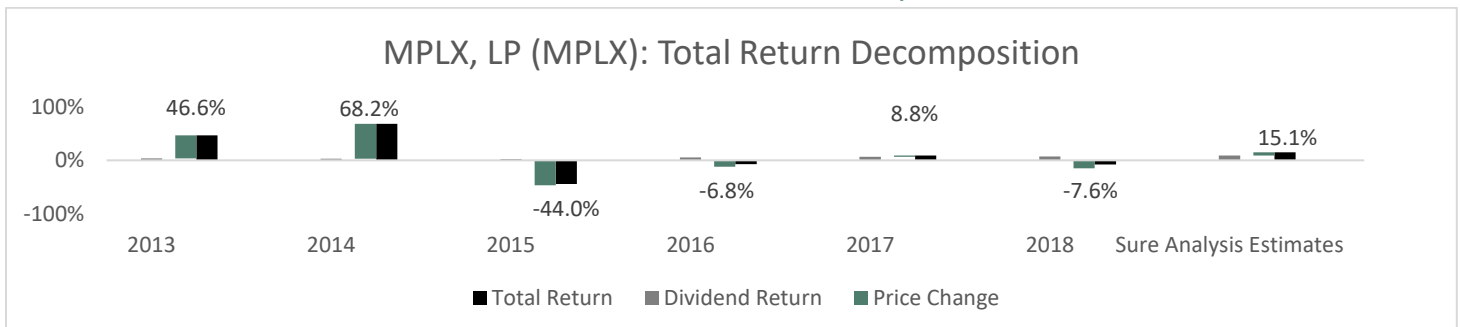
MPLX's industry generally holds competitive advantages as a result of the toll-booth model of pipelines. While growth potential may be limited, the need for the company's infrastructure is certainly present.

With MPLX in particular we are encouraged by the company self-funding on the equity side and getting rid of the IDRs. In the 2016 through 2018 stretch, MPLX had a distribution coverage ratio of 1.23x, 1.28x and 1.36x respectively. This quarter 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 and 3.9x to end Q2 2019 (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

Shares are down slightly since our last report. While we are cautious with the anticipated growth rate and note the MLP structure for tax purposes, the dividend yield and valuation look attractive. Total return potential comes in at 15.1% per annum, stemming from the 8.9% dividend yield, 3% growth rate and 3.2% valuation tailwind. We view the business model 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 shares as a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	---	---	---	442	463	747	1034	3010	3691	6079
Gross Profit	---	---	---	224	232	365	583	1662	1993	3286
Gross Margin	---	---	---	50.7%	50.1%	48.9%	56.4%	55.2%	54.0%	54.1%
SG&A Exp.	---	---	---	50	53	81	125	227	241	291
D&A Exp.	---	---	---	39	49	75	129	591	683	766
Operating Profit	---	---	---	144	147	245	378	887	1113	2263
Operating Margin	---	---	---	32.5%	31.7%	32.8%	36.6%	29.5%	30.2%	37.2%
Net Profit	---	---	---	13	78	121	156	233	794	1818
Net Margin	---	---	---	3.0%	16.8%	16.2%	15.1%	7.7%	21.5%	29.9%
Free Cash Flow	---	---	---	55	105	193	93	178	496	907
Income Tax	---	---	---	0		1	1	-12	1	8

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	---	---	---	1301	1209	1214	16104	17509	19500	22779
Cash & Equivalents	---	---	---	217	54	27	43	234	5	68
Accounts Receivable	---	---	---	18	12	10	245	299	292	417
Inventories	---	---	---	9	12	12	51	55	65	77
Goodwill & Int. Ass.	---	---	---	105	105	105	3036	2737	2698	3010
Total Liabilities	---	---	---	75	94	751	6437	5399	8527	14911
Accounts Payable	---	---	---	39	31	14	91	140	151	162
Long-Term Debt	---	---	---	11	11	644	5255	4422	6945	13392
Shareholder's Equity	---	---	---	691	646	457	9654	12092	10827	7712

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	---	---	---	1.0%	6.2%	10.0%	1.8%	1.4%	4.3%	8.6%
Return on Equity	---	---	---	1.4%	11.7%	21.9%	3.1%	2.1%	6.9%	19.6%
Shares Out.	---	---	---	74	74	80	311	369	415	761
Revenue/Share	---	---	---	5.98	6.26	10.09	10.55	8.91	9.51	7.99
FCF/Share	---	---	---	0.74	1.42	2.61	0.95	0.53	1.28	1.19

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

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