



# MPLX, LP (MPLX)

Updated February 8<sup>th</sup>, 2020 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$23	<b>5 Year CAGR Estimate:</b>	14.6%	<b>Market Cap:</b>	\$25.3B
<b>Fair Value Price:</b>	\$28	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	02/03/20
<b>% Fair Value:</b>	82%	<b>5 Year Valuation Multiple Estimate:</b>	4.0%	<b>Dividend Payment Date:</b>	02/14/20
<b>Dividend Yield:</b>	12.0%	<b>5 Year Price Target</b>	\$31	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	A	<b>Last Dividend Increase<sup>1</sup>:</b>	6.2%

## 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 \$25 billion limited partner generated \$4.1 billion in distributable cash flow in 2019.

On July 30<sup>th</sup>, 2019 MPLX completed the acquisition of Andeavor Logistics LP.

On January 23<sup>rd</sup>, 2020 MPLX announced a 6.2% year-over-year quarterly distribution increase to \$0.6875 per unit, equating to \$2.75 on an annual basis. This marks the 28<sup>th</sup> consecutive quarterly distribution increase from the company.

On January 29<sup>th</sup>, 2020 MPLX released Q4 and full year results for the period ending December 31<sup>st</sup>, 2019. For the quarter Net Income equaled -\$581 million, compared to \$434 million previously, as MPLX took a \$1.2 billion non-cash impairment charge related to the Andeavor Logistics G&P businesses. Distributable cash flow (DCF) equaled \$1.045 billion (~\$0.99 per unit) compared to \$955 million (~\$1.20 per unit) in Q4 2018. Note that the higher Distributable Cash Flow came with a substantially higher unit count as well, due to the Andeavor acquisition. For the year Net Income equaled \$1.033 billion, compared to \$1.818 billion in 2018, once again influenced by the non-cash impairment charge. Distributable cash flow equaled \$4.1 billion (~\$4.52 per unit) versus \$3.035 billion (~\$3.99 per unit) in the prior year. MPLX ended the quarter with a consolidated debt to adjusted EBITDA ratio of 4.1x compared to 3.9x in Q4 2018. Distribution coverage was up from 1.49x in 2018 to 1.51x for 2019.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>CFPU</b>	---	---	\$2.30	\$1.72	\$2.14	\$0.79	\$1.42	\$2.48	\$3.99	\$4.52	<b>\$4.00</b>	<b>\$4.42</b>
<b>DPU</b>	---	---	\$0.18	\$1.17	\$1.41	\$1.82	\$2.03	\$2.21	\$2.49	\$2.65	<b>\$2.75</b>	<b>\$3.04</b>
<b>Units<sup>2</sup></b>	---	---	74	74	80	311	369	415	761	907	<b>1,100</b>	<b>1,300</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). 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

<sup>1</sup> Annualized

<sup>2</sup> In millions.

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forecasting 2% annual growth moving forward, which may change depending on how the recent Andeavor acquisition is integrated. Note that the unit count has jumped substantially as a result of the transaction.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	---	---	13.6	25.9	34.3	49.8	24.4	14.3	8.5	6.5	<b>5.8</b>	<b>7.0</b>
Avg. Yld.	---	---	0.6%	3.2%	2.5%	3.1%	6.5%	6.3%	7.4%	9.1%	<b>12.0%</b>	<b>9.8%</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 seven years. To alleviate this valuation problem, we are thinking about the security's value proposition in terms of the yield. 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 7 to 9 times expected distributable cash flow (DCF), with the possibility for growth, is a reasonable starting place for this MLP. Against the current mark of 5.8 times DCF, shares appear quite compelling, even against the low end of this range.

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

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	8%	68%	66%	230%	143%	89%	62%	59%	<b>69%</b>	<b>69%</b>

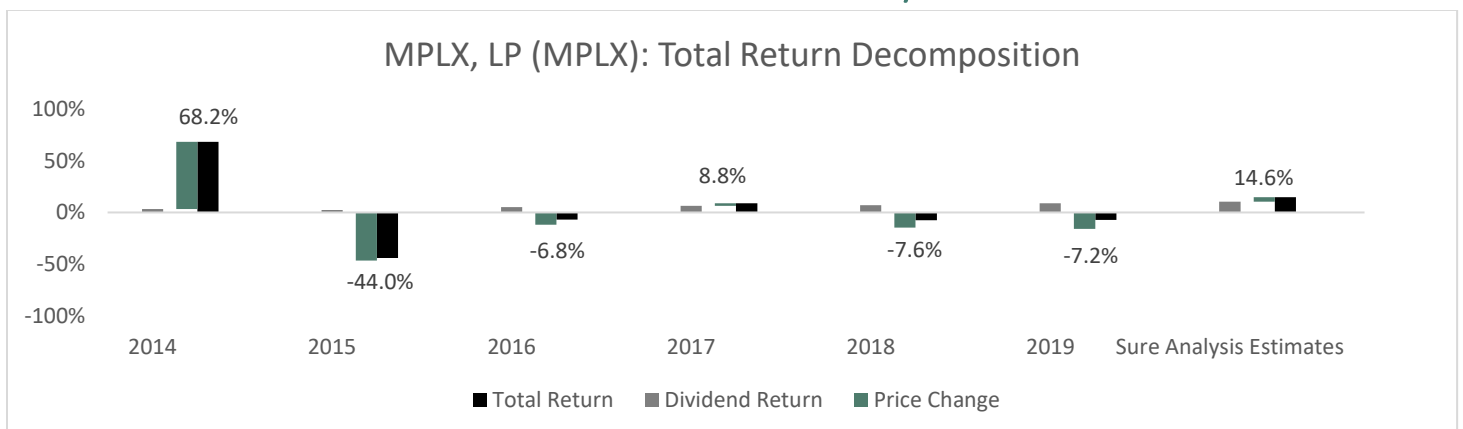
MPLX's industry generally holds competitive advantages as a result of the toll-booth model of pipelines. While growth potential may be limited, the need for the company's infrastructure is certainly present.

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 1.42x. The company's total debt to adjusted EBITDA was 3.1x in 2016, 3.7x in 2017, 3.9x in 2018 and 4.1x to end 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 -12% 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 14.6% per annum, stemming from the 12% dividend yield, 2% growth rate and a 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 continue to rate shares as a buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	---	---	442	463	747	1034	3010	3691	6079	8625
Gross Profit	---	---	224	232	365	583	1662	1993	3286	4913
Gross Margin	---	---	50.7%	50.1%	48.9%	56.4%	55.2%	54.0%	54.1%	57.0%
SG&A Exp.	---	---	50	53	81	125	227	241	291	388
D&A Exp.	---	---	39	49	75	129	591	683	766	
Operating Profit	---	---	144	147	245	378	887	1113	2263	3284
Operating Margin	---	---	32.5%	31.7%	32.8%	36.6%	29.5%	30.2%	37.2%	38.1%
Net Profit	---	---	13	78	121	156	233	794	1818	1033
Net Margin	---	---	3.0%	16.8%	16.2%	15.1%	7.7%	21.5%	29.9%	12.0%
Free Cash Flow	---	---	55	105	193	93	178	496	907	4082
Income Tax	---	---	0		1	1	-12	1	8	0

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	---	1301	1209	1214	16104	17509	19500	22779	40430
Cash & Equivalents	---	---	217	54	27	43	234	5	68	15
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	23817
Accounts Payable	---	---	39	31	14	91	140	151	162	
Long-Term Debt	---	---	11	11	644	5255	4422	6945	13392	0
Shareholder's Equity	---	---	691	646	457	9654	12092	10827	7712	16613

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	1.0%	6.2%	10.0%	1.8%	1.4%	4.3%	8.6%	3.3%
Return on Equity	---	---	1.4%	11.7%	21.9%	3.1%	2.1%	6.9%	19.6%	8.5%
Shares Out.	---	---	74	74	80	311	369	415	761	907
Revenue/Share	---	---	5.98	6.26	10.09	10.55	8.91	9.51	7.99	9.51
FCF/Share	---	---	0.74	1.42	2.61	0.95	0.53	1.28	1.19	4.50

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

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