



Magellan Midstream Partners (MMP)

Updated February 2nd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$44	5 Year CAGR Estimate:	15.5%	Market Cap:	\$9.9 B
Fair Value Price:	\$56	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	2/4/2021
% Fair Value:	78%	5 Year Valuation Multiple Estimate:	5.1%	Dividend Payment Date:	2/12/2021
Dividend Yield:	9.3%	5 Year Price Target	\$69	Years Of Dividend Growth:	20
Dividend Risk Score:	C	Retirement Suitability Score:	A	Last Dividend Increase:	1.7%

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 65% of its total operating income while the transportation and storage of crude oil generates 35% of its operating income. MMP has a fee-based model; only ~10% of its operating income depends on commodity prices. That is why it exhibited impressive resilience in the downturn of the oil market between 2014 and 2017. MMP has a market capitalization of \$9.9 billion.

During the last decade, MMP has invested \$6.3 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 near or 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 dilute unitholders and maintains a healthy payout ratio. All these attributes confirm the discipline of its management, which invests only in high-return projects.

In early February, MMP reported (2/2/21) financial results for the fourth quarter of fiscal 2020. The demand for refined products remained suppressed due to the pandemic and thus distributable cash flow fell -25%. In the year, distributable cash flow per share declined -18%, from \$5.67 to \$4.66, but exceeded the guidance of MMP by \$0.16 while it also resulted in a distribution coverage ratio of 1.13. MMP is resilient to the pandemic and thus it expects to maintain its quarterly distribution this year, with a coverage ratio of 1.1. In addition, MMP views its depressed stock price as deeply undervalued and thus it has initiated a share repurchase program of \$750 million for the next two years (\$473 million remaining right now). This is in sharp contrast to most companies, which repurchase their shares during good times, at high stock prices, and suspend buybacks during rough times.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
CF/S	\$2.37	\$2.49	\$3.20	\$4.42	\$4.34	\$4.31	\$4.68	\$4.84	\$5.67	\$4.66	\$4.70	\$5.72
DPS	\$1.56	\$1.78	\$2.10	\$2.51	\$2.92	\$3.25	\$3.52	\$3.80	\$4.04	\$4.11	\$4.11	\$4.50
Units¹	225.4	226.2	226.7	226.7	227.4	227.8	228.0	229.1	228.7	224.0	220.0	200.0

MMP has promising growth prospects, as it has several growth projects under way. The company invested \$1.0 billion in these projects in 2019 and \$355 million in 2020. It also has more than \$500 million of potential growth projects under consideration and continues to evaluate their prospects in order to identify the most promising ones. We view the pandemic as a temporary headwind and expect the energy market to recover in the second half of this year. MMP has grown its cash flow per share at a 7.8% average annual rate over the last decade. In the last eight conference calls, management has reiterated its commitment to maintain a distribution coverage ratio of at least 1.20 in the long run. In order to be on the safe side, we expect 4% annual growth in distributable cash flow per share. We also praise MMP for repurchasing its shares at depressed prices, which enhances shareholder value.

¹ In millions.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/CF	14.6	17.3	19.8	18.7	15.7	17.6	15.2	13.7	11.0	9.4	9.4	12.0
Avg. Yld.	5.2%	4.6%	3.9%	3.2%	4.0%	4.7%	4.9%	5.7%	6.4%	9.4%	9.3%	6.6%

MMP is trading at a price-to-cash flow ratio of 9.4, which is a nearly decade-low level, much lower than the 10-year average ratio of 15.3. In order to be conservative, we assume a fair price-to-cash flow ratio of 12.0 for this MLP. If the stock approaches our fair valuation level over the next five years, it will enjoy a 5.1% annualized boost to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	65.8%	71.5%	65.6%	56.8%	67.3%	75.4%	75.2%	78.5%	71.2%	88.2%	87.4%	78.8%

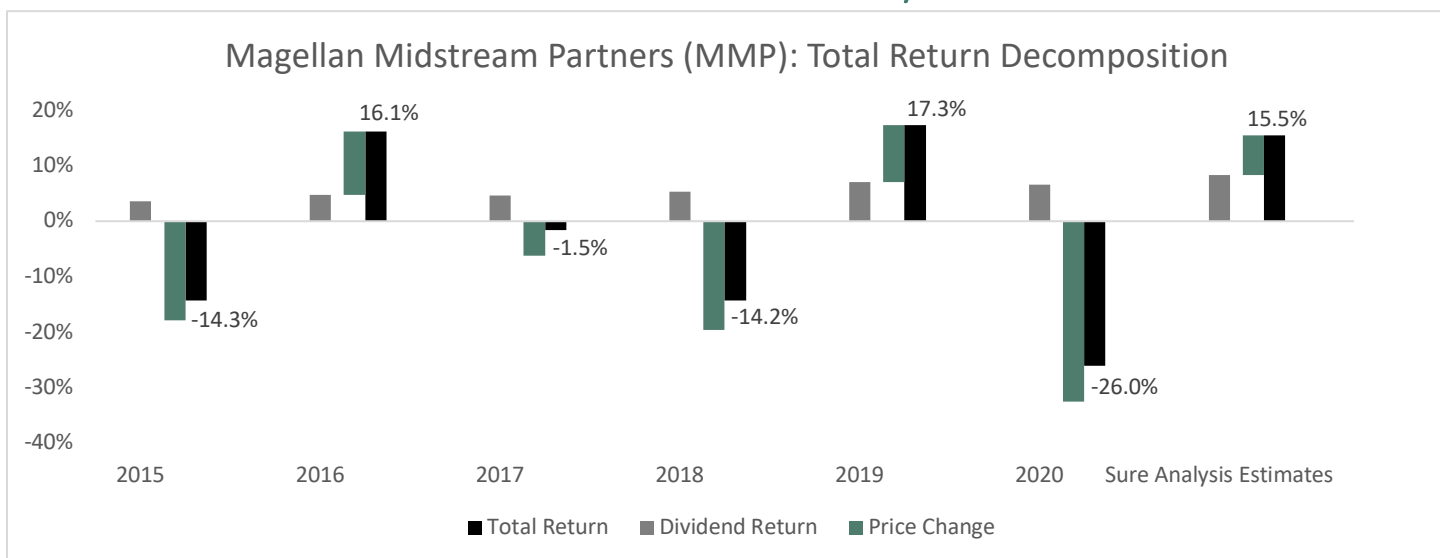
The competitive advantage of MMP comes from its fee-based model, its great scale and its discipline to invest only in high-return projects. MMP grew its dividend for 70 consecutive quarters before the freeze last year and has raised its annual dividend at a 12% average annual rate since 2001. This record is a testament to the strength of the business model and the great discipline of management to invest only in high-return projects. MMP is one of the few energy companies that continue to provide guidance amid the pandemic. Moreover, instead of issuing new shares to fund growth projects, like nearly all the MLPs, MMP is now repurchasing its shares at depressed prices to enhance shareholder value. Thanks to its fee-based model, MMP proved resilient in the downturn of the oil market in 2014-2016.

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. In the ongoing recession, earnings fell -20% but MMP should endure the downturn and enjoy a strong recovery as soon as the pandemic subsides.

Final Thoughts & Recommendation

MMP is one of the safest and highest-quality MLPs and the most resilient energy company amid the pandemic. Nearly all the oil companies posted losses or depressed profits in 2020 but MMP incurred just a ~20% EPS decrease. The pandemic has presented a unique opportunity to invest in this best-of-breed MLP. MMP could offer a 15.5% average annual return over the next five years thanks to its 9.3% distribution yield and its cheap valuation. It thus maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1,749	1,772	1,948	2,360	2,188	2,205	2,508	2,827	2,728
Gross Profit	921	987	1,227	1,604	1,574	1,534	1,675	1,857	1,862
Gross Margin	52.7%	55.7%	63.0%	68.0%	71.9%	69.6%	66.8%	65.7%	68.3%
SG&A Exp.	99	109	132	148	150	147	166	194	197
D&A Exp.	121	128	142	162	167	178	197	265	246
Operating Profit	516	549	699	955	901	858	932	1,013	1,035
Operating Margin	29.5%	31.0%	35.9%	40.5%	41.2%	38.9%	37.2%	35.9%	37.9%
Net Profit	414	436	582	840	819	803	870	1,334	1,021
Net Margin	23.7%	24.6%	29.9%	35.6%	37.4%	36.4%	34.7%	47.2%	37.4%
Free Cash Flow	378	292	352	744	449	299	573	801	377
Income Tax	2	3	5	5	2	3	4	0	1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	4,045	4,420	4,821	5,501	6,042	6,772	7,394	7,748	8,438
Cash & Equivalents	210	328	25	17	29	15	161	218	58
Accounts Receivable	82	91	116	84	84	106	139	104	125
Inventories	259	222	187	158	131	134	182	186	184
Goodwill & Int. Ass.	68	67	61	58	55	105	106	104	101
Total Liabilities	2,582	2,904	3,173	3,633	4,020	4,680	5,265	5,104	5,723
Accounts Payable	66	112	76	97	104	77	105	139	151
Long-Term Debt	2,152	2,393	2,685	2,967	3,440	4,087	4,524	4,271	4,706
Shareholder's Equity	1,463	1,516	1,647	1,868	2,022	2,092	2,130	2,643	2,715

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	10.7%	10.3%	12.6%	16.3%	14.2%	12.5%	12.3%	17.6%	12.6%
Return on Equity	28.3%	29.2%	36.8%	47.8%	42.1%	39.0%	41.2%	55.9%	38.1%
Units Out.	225.4	226.2	226.7	226.7	227.4	227.8	228.0	229.1	228.7
Revenue/Share	7.74	7.82	8.58	10.37	9.60	9.67	10.98	12.37	11.92
FCF/Share	1.67	1.29	1.55	3.27	1.97	1.31	2.51	3.50	1.65

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

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