



MPLX, LP (MPLX)

Updated February 2nd, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$24	5 Year CAGR Estimate:	14.3%	Market Cap:	\$25 B
Fair Value Price:	\$29	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	02/05/21
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	02/12/21
Dividend Yield:	11.6%	5 Year Price Target	\$32	Years Of Dividend Growth:	8
Dividend Risk Score:	C	Retirement Suitability Score:	A	Last Dividend Increase¹:	1.5%

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 partnership generated \$4.3 billion in distributable cash flow in 2020. On July 30th, 2019 MPLX completed the acquisition of Andeavor Logistics LP.

On January 28th, 2021 MPLX announced a quarterly distribution of \$0.6875 per unit, equating to \$2.75 on an annual basis. This payment marks the fifth straight payout at this rate (prior to 2020 the company had increased its dividend for 28 straight quarters).

On February 2nd, 2020 MPLX released Q4 and full year 2020 results for the period ending December 31st, 2020. For the quarter Net Income equaled \$691 million compared to a loss of -\$581 million previously. Distributable cash flow (DCF) equaled \$1.155 billion (~\$1.11 per unit) versus \$1.045 billion (~\$0.99 per unit) in Q4 2019.

For the year MPLX posted Net Income of -\$720 million versus a gain of \$1.033 billion in 2019. However, this included \$3.4 billion in non-cash impairment charges. Distributable cash flow equaled \$4.327 billion (~\$4.12 per unit) compared to \$4.100 billion (~\$4.52 per unit) in 2019. The decline in per share results despite higher company-wide distributable cash flow is a result of a higher unit count due to the Andeavor acquisition.

MPLX ended the year with a consolidated debt to adjusted EBITDA ratio of 3.9x (down from 4.1x in 2019). Distribution coverage equaled 1.46x compared to 1.51x in 2019.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCF	---	\$2.30	\$1.72	\$2.14	\$0.79	\$1.42	\$2.48	\$3.99	\$4.52	\$4.12	\$4.10	\$4.53
DPU	---	\$0.18	\$1.17	\$1.41	\$1.82	\$2.03	\$2.21	\$2.49	\$2.65	\$2.75	\$2.75	\$3.04
Units²	---	74	74	80	311	369	415	761	907	1,051	1,050	1,200

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 ~63%). 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. 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.

¹ Annualized

² In millions.

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The ongoing COVID-19 pandemic and significant drop in commodity prices has impacted all energy companies, but pipelines are better insulated from the volatility. We are forecasting steady DCF this year along with a 2% growth rate.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg P/CF	---	13.6	25.9	34.3	49.8	24.4	14.3	8.5	6.5	4.2	5.8	7.0
Avg. Yld.	---	0.6%	3.2%	2.5%	3.1%	6.5%	6.3%	7.4%	9.1%	16.0%	11.6%	9.6%

MPLX does not lend itself to a nice average historical valuation, especially with both cash flow per share and the share price jumping around significantly in the last eight years. 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 estimated DCF, shares appear quite compelling.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	8%	68%	66%	230%	143%	89%	62%	59%	67%	67%	67%

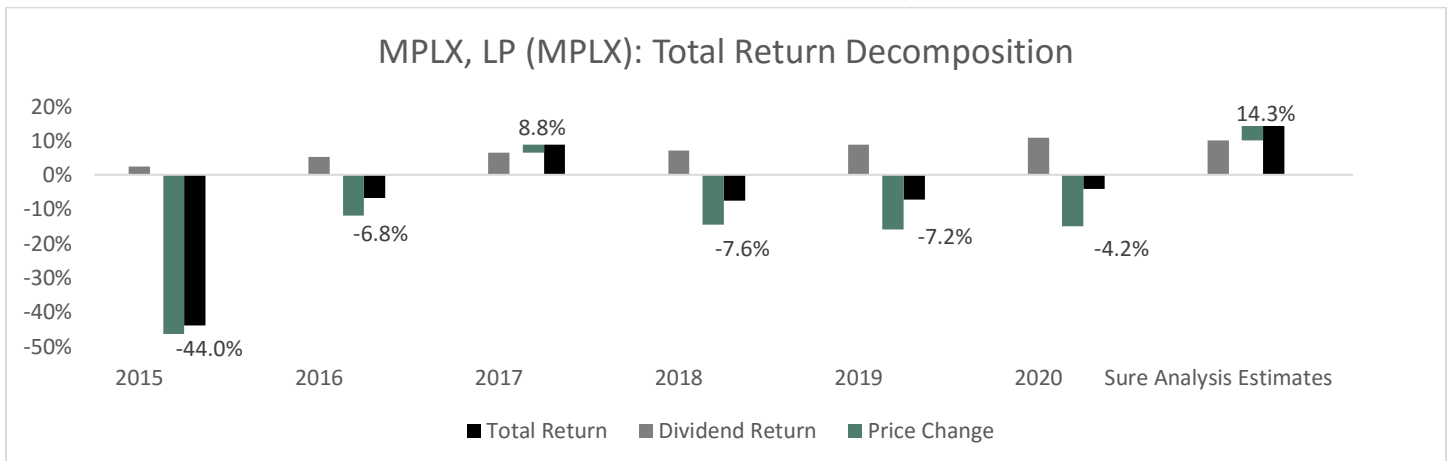
MPLX's industry generally holds competitive advantages as a result of the toll-booth model of pipelines. While growth potential may be limited, the need for the company's infrastructure is certainly present.

With MPLX in particular we are encouraged by the company self-funding on the equity side and getting rid of the IDRs. In the last five years MPLX has had distribution coverage ratios of 1.23x, 1.28x, 1.36x, 1.51x and 1.46x. Meanwhile, the company's total debt to adjusted EBITDA has been 3.1x, 3.7x, 3.9x, 4.1x and 3.9x during the same time period (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 up 32% 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 14.3% per annum, stemming from the 11.6% 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, as too much debt can stymie the investment thesis, but MPLX offers many attractive qualities. Shares earn a 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	---	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	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	---
Shareholder's Equity	---	691	646	457	9654	12092	10827	7712	16613

Profitability & Per Share Metrics

Year	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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