



MPLX, LP (MPLX)

Updated August 7th, 2021, by Eli Inkrot

Key Metrics

Current Price:	\$28	5 Year CAGR Estimate:	11.0%	Market Cap:	\$28 B
Fair Value Price:	\$29	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	08/05/21
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	08/13/21
Dividend Yield:	10.0%	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). On July 30th, 2019, MPLX completed the acquisition of Andeavor Logistics LP. The \$28 billion limited partnership generated \$4.3 billion in distributable cash flow in 2020.

On July 27th, 2021, MPLX announced a quarterly distribution of \$0.6875 per unit, equating to \$2.75 on an annual basis. This payment marks the seventh straight payout at this rate (prior to 2020 the company had increased its dividend for 28 straight quarters).

On August 4th, 2021, MPLX released Q2 2021 results for the period ending June 30th, 2021. For the quarter net income equaled \$706 million compared to \$648 million in Q2 2020. Distributable cash flow (DCF) equaled \$1.25 billion (~\$1.21 per unit) versus \$1.027 billion (~\$0.97 per unit) in the year ago period. Results were slightly better on a per unit basis as a result of a lower unit count.

MPLX ended the quarter with a consolidated debt to adjusted EBITDA ratio of 3.7x (down from 4.1x in Q2 2020). Distribution coverage equaled 1.73x compared to 1.39x in the year ago period.

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	1,030	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 ~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 are reporting 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.

The ongoing COVID-19 pandemic and significant drop in commodity prices 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.

¹ Annualized

² In millions.

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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	6.7	7.0
Avg. Yld.	---	0.6%	3.2%	2.5%	3.1%	6.5%	6.3%	7.4%	9.1%	16.0%	10.0%	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. 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 nearly 7 times estimated DCF, we forecast a small tailwind from the valuation.

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%

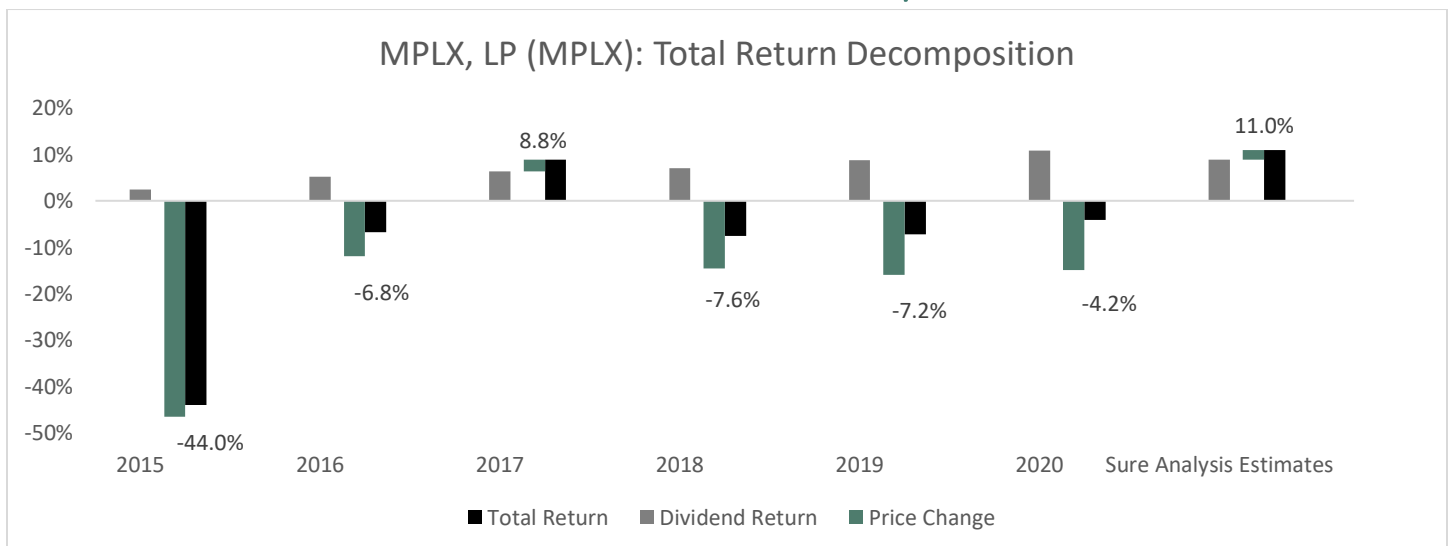
MPLX's industry generally holds competitive advantages as a result of the toll-booth model of pipelines. While growth potential may be limited, the need for the company's infrastructure is certainly present.

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

After being up 32% and 19% in our two previous reports, shares are down -5% in the last three months. While we are cautious with the anticipated growth rate and note the MLP structure for tax purposes, the dividend yield looks attractive. Total return potential comes in at 11.0% per annum, stemming from the 10.0% dividend yield and 2% growth rate. 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	2020
Revenue	---	442	463	747	1034	3010	3691	6079	8625	8246
Gross Profit	---	224	232	365	583	1662	1993	3286	4913	3593
Gross Margin	---	50.7%	50.1%	48.9%	56.4%	55.2%	54.0%	54.1%	57.0%	43.6%
SG&A Exp.	---	50	53	81	125	227	241	291	388	378
D&A Exp.	---	39	49	75	129	591	683	766	---	1377
Operating Profit	---	144	147	245	378	887	1113	2263	3284	3349
Operating Margin	---	32.5%	31.7%	32.8%	36.6%	29.5%	30.2%	37.2%	38.1%	40.6%
Net Profit	---	13	78	121	156	233	794	1818	1033	-720
Net Margin	---	3.0%	16.8%	16.2%	15.1%	7.7%	21.5%	29.9%	12.0%	8.7%
Free Cash Flow	---	55	105	193	93	178	496	907	4082	3338
Income Tax	---	0		1	1	-12	1	8	0	2

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	1301	1209	1214	16104	17509	19500	22779	40430	36410
Cash & Equivalents	---	217	54	27	43	234	5	68	15	15
Accounts Receivable	---	18	12	10	245	299	292	417	---	452
Inventories	---	9	12	12	51	55	65	77	---	118
Goodwill & Int. Ass.	---	105	105	105	3036	2737	2698	3010	---	8616
Total Liabilities	---	75	94	751	6437	5399	8527	14911	23817	22430
Accounts Payable	---	39	31	14	91	140	151	162	---	152
Long-Term Debt	---	11	11	644	5255	4422	6945	13392	---	20140
Shareholder's Equity	---	691	646	457	9654	12092	10827	7712	16613	13740

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	1.0%	6.2%	10.0%	1.8%	1.4%	4.3%	8.6%	3.3%	-1.9%
Return on Equity	---	1.4%	11.7%	21.9%	3.1%	2.1%	6.9%	19.6%	8.5%	-4.6%
Shares Out.	---	74	74	80	311	369	415	761	907	1051
Revenue/Share	---	5.98	6.26	10.09	10.55	8.91	9.51	7.99	9.51	7.85
FCF/Share	---	0.74	1.42	2.61	0.95	0.53	1.28	1.19	4.50	3.18

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

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