



NGL Energy Partners LP (NGL)

Updated September 3rd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$1.78	5 Year CAGR Estimate:	8.2%	Market Cap:	\$224 M
Fair Value Price:	\$3.00	5 Year Growth Estimate:	-2.5%	Ex-Dividend Date:	-
% Fair Value:	59%	5 Year Valuation Multiple Estimate:	11.0%	Payment Date:	-
Dividend Yield:	0.0%	5 Year Price Target	\$3.00	Years of Dividend Growth:	0
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Last Dividend Increase:	0

Overview & Current Events

NGL Energy Partners LP is a US-based vertically integrated energy master limited partnership which operates in crude oil logistics, water solutions, and liquids logistics. The partnership's water solutions business transports, treats, recycles, and disposes of produced water generated from oil and natural gas production, and this is generally through long-term, fixed fee contracts, some with minimum volume commitments large O&G companies. The crude oil logistics segment purchases crude oil from producers and transports it to refiners or to resell, and provides storage, terminaling and transportation services, which are also under long-term, fixed rate contracts with minimum volume commitments. The liquid logistics segment supplies natural gas liquids, refined petroleum products and biodiesel to customers across the U.S. and Canada. NGL Energy Partners LP is headquartered in Tulsa, Oklahoma and has offices in Colorado and Texas. NGL Energy Partners trades on the NYSE under the ticker symbol NGL has a market capitalization of \$224 million.

The partnership released first quarter fiscal 2022 results on August 9th. NGL reported losses of \$134.5 million from continuing operations for the first quarter, significantly worse than the \$33.8 million loss in the same prior year period. The Water Solutions segment produced a record adjusted EBITDA of \$81.5 million which led adjusted EBITDA from continuing operations to \$91.1 million, about the same as last year's \$91.0 million. NGL processed roughly 1.7 million barrels of water per day in the first quarter, a 22.0% increase over Q1 2021, due to higher production volume in the Delaware Basin as a result of the recovery in crude oil prices.

During the quarter, NGL sold the partnership's 71.5% interest in Sawtooth Caverns, LLC for gross proceeds of \$70.0 million. As of the end of fiscal Q1, NGL had total liquidity of approximately \$303 million in cash and available capacity on their asset-based revolving credit facility. No significant debt maturities are expected before November 2023. Excess cash flow generated in the current fiscal year will be used to repay outstanding indebtedness and improve the leverage profile. Interest expense on the partnership has crept up from \$43.9 million in the prior year to \$67.1 million this quarter, so paying debt is a priority for the partnership.

Leadership reaffirms previously provided 2022 adjusted EBITDA guidance of \$570 million to \$600 million and capex guidance of about \$112.5 million at the mid-point.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2026
CFO/S	\$3.09	\$2.47	\$1.07	\$2.53	\$3.37	(\$0.20)	\$1.13	\$1.22	\$2.97	\$2.35	\$1.00	\$0.88
DPS	\$1.58	\$1.95	\$2.28	\$2.51	\$1.81	\$1.56	\$1.56	\$1.56	\$0.89	\$0.00	\$0.00	\$0.00
Units¹	29.2	53.6	79.3	103.8	104.2	120.2	121.5	124.5	128.8	129.6	130.0	135.0

Given the constant depreciation on the partnership's energy assets, looking at net cash from operations provides a clearer picture of the partnership's long-term performance. The partnership has performed poorly over the long and medium term, and additionally has massively inflated the share count over the last decade. Over the last nine and five years, NGL's cash from operations per share have decreased by 3.0% and 7.0% annually. We estimate cash from operations will continue to shrink by roughly 2.5% over the medium term. The partnership's avenue to growth would be

¹ Unit count 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.



NGL Energy Partners LP (NGL)

Updated September 3rd, 2021 by Quinn Mohammed

to increase volumes in the water solutions segment; an increase in crude oil prices to boost the water solutions and crude oil logistics business, and an increase in refined product demand would add to the liquids logistics segment. Additionally, reduced debt leading to smaller interest expense would add to the bottom line.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2026
Avg. P/CFO	7.4	11.7	35.2	9.8	4.5	-	10.6	10.7	1.7	1.0	1.8	3.0
Avg. Yld.	6.2%	6.3%	5.6%	10.8%	17.3%	11.2%	13.3%	12.2%	31.9%	0.0%	0.0%	0.0%

NGL Energy Partners has been trading extremely low historically since the COVID-19 pandemic and the distribution cut. Poor performance and expectations have led to the security trading at 1.8 times cash from operations. Given its hardships, we see a path for NGL to trade at roughly 3.0 times cash from operations given it executes on deleveraging to reinstate the distribution over the 2022 fiscal year. A 3.0 times CFO valuation would lead to 11.0% in valuation gains annually.

Safety, Quality, Competitive Advantage, & Recession Resiliency

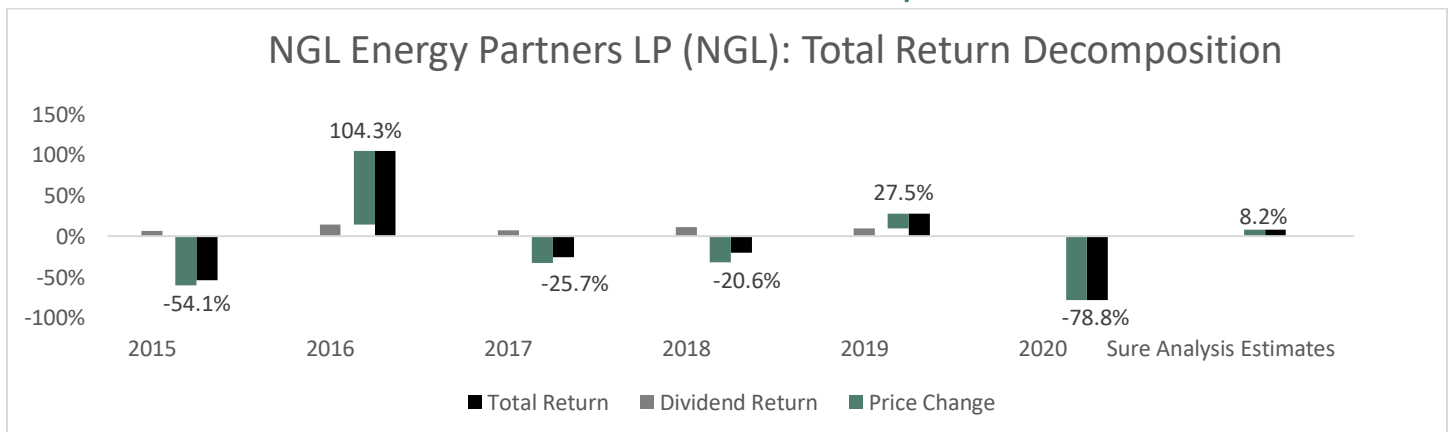
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2026
Payout	51%	79%	212%	99%	54%	-	138%	128%	30%	0%	0%	0%

The distribution today remains suspended, and we expect this will remain the case until the partnership gets their debt under control, as long-term debt now stands at \$3.4 billion and interest expense greater than \$60 million per quarter eats away at the bottom line. As a result, adjusted EBITDA from continuing operations of \$448 million in fiscal 2021 to long-term debt of \$3.4 billion is 7.6 times levered. The COVID-19 pandemic's decimation of oil prices weighed heavily as the partnerships' share price cratered from \$11.87 in January 2020 to \$2.54 in January 2021. We don't see the partnership as being recession resilient, however long-term, fixed fee contracts support the partnership and reduce the risk profile slightly.

Final Thoughts & Recommendation

NGL Energy Partners is a heavily indebted master limited partnership with a share price that has cratered from its highs amid the oil crisis. While it is now priced favorably, its also a speculative investment. The partnership has become overextended, which led to the suspension of the dividend until further notice. With a nonexistent yield, an estimated loss of 2.5% in cash from operations growth, and an 11.0% gain in valuation returns, we see total returns of roughly 8.2%, which are highly speculative. We rate NGL a Hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



NGL Energy Partners LP (NGL)

Updated September 3rd, 2021 by Quinn Mohammed

Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,310	4,418	9,699	16,802	11,742	12,707	6,954	8,689	7,584	5,227
Gross Profit	78	310	446	650	674	299	482	494	714	416
Gross Margin	6.0%	7.0%	4.6%	3.9%	5.7%	2.3%	6.9%	5.7%	9.4%	8.0%
SG&A Exp.	16	53	76	149	140	106	98	107	114	70
Depr. & Amort.	17	78	133	210	249	195	220	222	277	331
Operating Profit	15	87	110	149	216	(3)	170	161	258	85
Operating Margin	1.1%	2.0%	1.1%	0.9%	1.8%	0.0%	2.4%	1.9%	3.4%	1.6%
Net Profit	8	48	48	37	(199)	137	(71)	360	(397)	(640)
Net Margin	0.6%	1.1%	0.5%	0.2%	-1.7%	1.1%	-1.0%	4.1%	-5.2%	-12.2%
Free Cash Flow	90	133	85	34	(310)	(370)	4	(118)	(92)	117
Income Tax	1	2	1	(4)	(0)	2	1	1	0	(3)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	750	2,292	4,148	6,656	5,560	6,320	6,151	5,902	6,499	5,947
Cash & Equivalents	8	12	10	41	28	12	22	19	23	5
Accounts Receivable	84	563	878	1,026	521	801	1,027	998	580	735
Inventories	95	127	310	442	368	561	551	136	70	158
Total Liabilities	317	997	1,821	2,791	2,464	2,616	2,118	1,911	2,606	2,007
Accounts Payable	344	1,402	2,616	3,962	3,866	4,090	3,982	3,475	4,226	4,448
Long-Term Debt	91	543	796	859	427	666	854	908	533	680
Shareholder's Equity	219	749	1,637	2,732	2,921	2,993	2,680	2,161	3,150	3,321
D/E Ratio	405	884	1,527	2,146	1,656	2,204	2,085	2,369	2,200	1,430

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.7%	3.2%	1.5%	0.7%	-3.3%	2.3%	-1.1%	6.0%	-6.4%	-10.3%
Return on Equity	3.5%	7.4%	4.0%	2.0%	-10.5%	7.1%	-3.3%	16.2%	-17.4%	-35.3%
ROIC	5.5%	9.8%	4.0%	1.5%	-6.4%	4.6%	-2.5%	14.4%	-14.6%	-19.3%
Shares Out.	29.2	53.6	79.3	103.8	104.2	120.2	121.5	124.5	128.8	129.6
Revenue/Share	86.39	106.83	156.51	194.56	112.00	113.61	57.47	70.63	59.52	40.53
FCF/Share	5.95	3.21	1.38	0.40	(2.96)	(3.31)	0.03	(0.96)	(0.72)	0.91

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.