



# NGL Energy Partners LP (NGL)

Updated November 15<sup>th</sup>, 2021 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$2.25	<b>5 Year CAGR Estimate:</b>	7.4%	<b>Market Cap:</b>	\$291 M
<b>Fair Value Price:</b>	\$3.46	<b>5 Year Growth Estimate:</b>	-1.5%	<b>Ex-Dividend Date:</b>	-
<b>% Fair Value:</b>	65%	<b>5 Year Valuation Multiple Estimate:</b>	9.0%	<b>Payment Date:</b>	-
<b>Dividend Yield:</b>	0.0%	<b>5 Year Price Target</b>	\$3.00	<b>Years of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	N/A	<b>Retirement Suitability Score:</b>	N/A	<b>Last Dividend Increase:</b>	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 \$291 million.

The partnership released second quarter fiscal 2022 results on November 9<sup>th</sup>. NGL reported losses of \$1.2 million from continuing operations for the third quarter, unfavorable compared to the \$6.0 million earned in the same prior year period. The Water Solutions segment produced a record adjusted EBITDA of \$87.4 million which led adjusted EBITDA from continuing operations to \$146.3 million, a clip above last year's \$138.0 million. NGL processed roughly 1.8 million barrels of water per day in the second quarter, a 37% increase over Q2 2021, due to higher production volume in the Delaware Basin as a result of the recovery in crude oil prices.

As of the end of fiscal Q2, NGL had total liquidity of approximately \$207 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 \$46.9 million in the prior year to \$68.5 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 \$115 million.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2026
<b>CFO/S</b>	\$3.09	\$2.47	\$1.07	\$2.53	\$3.37	(\$0.20)	\$1.13	\$1.22	\$2.97	\$2.35	<b>\$1.15</b>	<b>\$1.07</b>
<b>DPS</b>	\$1.58	\$1.95	\$2.28	\$2.51	\$1.81	\$1.56	\$1.56	\$1.56	\$0.89	\$0.00	<b>\$0.00</b>	<b>\$0.00</b>
<b>Units<sup>1</sup></b>	29.2	53.6	79.3	103.8	104.2	120.2	121.5	124.5	128.8	129.6	<b>130.0</b>	<b>135.0</b>

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 1.5% annually over the medium term. The partnership's avenue to growth would be to increase volumes in the water solutions segment; an increase in crude oil prices to boost the water

<sup>1</sup> Unit count in millions

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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	2.0	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 2.0 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 9.0% in valuation gains annually.

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

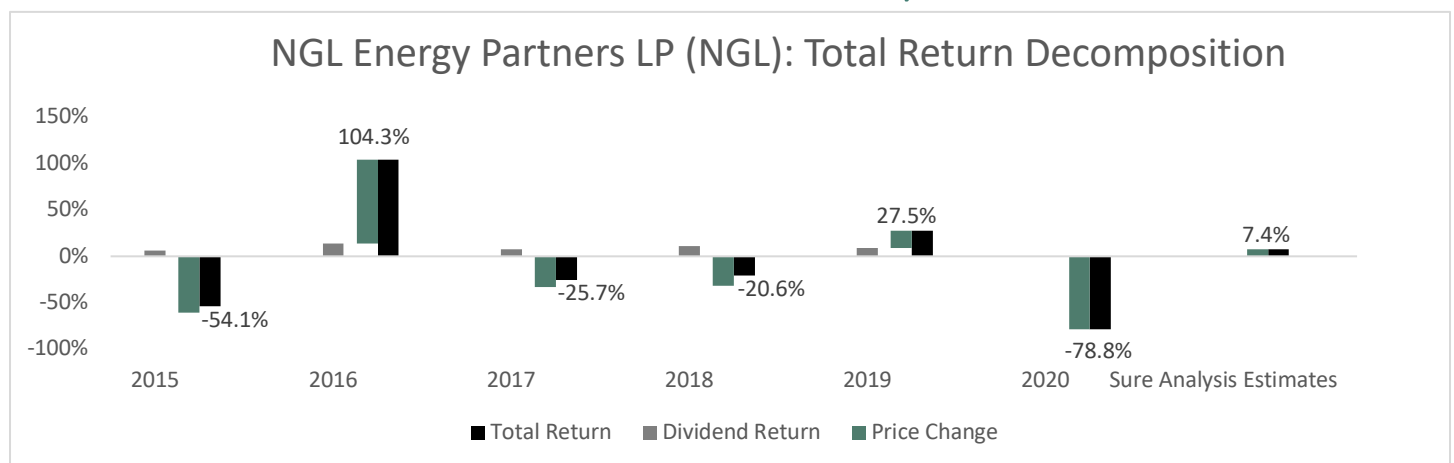
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2026
Payout	51%	79%	212%	99%	54%	-	138%	128%	30%	0%	0%	0%

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. In 2022, the priority is to reduce the leverage ratio to 4.75x. 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, it's 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 1.5% in cash from operations growth, and a 9.0% gain in valuation returns, we see total returns of roughly 7.4% annually, which are highly speculative. We rate NGL a Hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	4,418	9,699	16,802	11,742	12,707	6,954	8,689	7,584	5,227	5,227
<b>Gross Profit</b>	310	446	650	674	299	482	494	714	416	416
<b>Gross Margin</b>	7.0%	4.6%	3.9%	5.7%	2.3%	6.9%	5.7%	9.4%	8.0%	8.0%
<b>SG&amp;A Exp.</b>	53	76	149	140	106	98	107	114	70	70
<b>Depr. &amp; Amort.</b>	78	133	210	249	195	220	222	277	331	331
<b>Operating Profit</b>	87	110	149	216	(3)	170	161	258	85	85
<b>Operating Margin</b>	2.0%	1.1%	0.9%	1.8%	0.0%	2.4%	1.9%	3.4%	1.6%	1.6%
<b>Net Profit</b>	48	48	37	(199)	137	(71)	360	(397)	(640)	(640)
<b>Net Margin</b>	1.1%	0.5%	0.2%	-1.7%	1.1%	-1.0%	4.1%	-5.2%	-12.2%	-12.2%
<b>Free Cash Flow</b>	133	85	34	(310)	(370)	4	(118)	(92)	117	117
<b>Income Tax</b>	2	1	(4)	(0)	2	1	1	0	(3)	-3

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	2,292	4,148	6,656	5,560	6,320	6,151	5,902	6,499	5,947	5,947
<b>Cash &amp; Equivalents</b>	12	10	41	28	12	22	19	23	5	5
<b>Accounts Receivable</b>	563	878	1,026	521	801	1,027	998	580	735	735
<b>Inventories</b>	127	310	442	368	561	551	136	70	158	158
<b>Total Liabilities</b>	997	1,821	2,791	2,464	2,616	2,118	1,911	2,606	2,007	2,007
<b>Accounts Payable</b>	1,402	2,616	3,962	3,866	4,090	3,982	3,475	4,226	4,448	4,448
<b>Long-Term Debt</b>	543	796	859	427	666	854	908	533	680	680
<b>Shareholder's Equity</b>	749	1,637	2,732	2,921	2,993	2,680	2,161	3,150	3,321	3,321
<b>D/E Ratio</b>	884	1,527	2,146	1,656	2,204	2,085	2,369	2,200	1,430	1,430

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	3.2%	1.5%	0.7%	-3.3%	2.3%	-1.1%	6.0%	-6.4%	-10.3%	-10.3%
<b>Return on Equity</b>	7.4%	4.0%	2.0%	-10.5%	7.1%	-3.3%	16.2%	-17.4%	-35.3%	-35.3%
<b>ROIC</b>	9.8%	4.0%	1.5%	-6.4%	4.6%	-2.5%	14.4%	-14.6%	-19.3%	-19.3%
<b>Shares Out.</b>	53.6	79.3	103.8	104.2	120.2	121.5	124.5	128.8	129.6	129.6
<b>Revenue/Share</b>	106.83	156.51	194.56	112.00	113.61	57.47	70.63	59.52	40.53	40.53
<b>FCF/Share</b>	3.21	1.38	0.40	(2.96)	(3.31)	0.03	(0.96)	(0.72)	0.91	0.91

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

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