



Phillips 66 Partners LP (PSXP)

Updated November 1st, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$37	5 Year CAGR Estimate:	14.1%	Market Cap:	\$8.4 B
Fair Value Price:	\$44	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	10/28/2021
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.7%	Dividend Payment Date:	11/12/2021
Dividend Yield:	9.5%	5 Year Price Target	\$54	Years Of Dividend Growth:	7
Dividend Risk Score:	F	Retirement Suitability Score:	B	Last Dividend Increase:	2.9%

Overview & Current Events

Phillips 66 Partners LP (PSXP) is a Master Limited Partnership (MLP), which was formed by Phillips 66 in 2013. Phillips 66 currently owns 74% of the units of PSXP. PSXP is a growth-oriented MLP, which owns, operates, develops and acquires primarily fee-based midstream assets. It generates its revenues by providing fee-based transportation, terminaling, storage and processing services to Phillips 66 and other customers. PSXP has a market capitalization of \$8.4 billion.

Many of the assets of PSXP are connected to the operations of the refineries of Phillips 66. The MLP has signed long-term contracts with Phillips 66 for transportation and storage of crude oil and refined products. As these contracts have minimum volume requirements, they secure reliable cash flows for PSXP.

On October 29th, 2021, Phillips 66 announced that it will buy all the units of PSXP it does not own in an all-stock deal valued at \$3.4 billion in order to simplify its structure across its integrated portfolio. The unitholders of PSXP will receive 0.5 shares of Phillips 66 for each unit of PSXP they own. The deal is expected to close in the first quarter of 2022. At that point, PSXP will stop being a publicly traded MLP.

In late October, PSXP reported (10/29/21) financial results for the third quarter of fiscal 2021. Its distributable cash flow (DCF) remained flat at \$1.10 per share sequentially but its earnings-per-share grew 8% thanks to higher equity earnings from Bakken and Gray Oak pipelines. PSXP maintained a healthy distribution coverage ratio of 1.34 and thus its 9.5% distribution yield is well covered, particularly given the solid balance sheet of the MLP.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCF	---	---	\$0.43	\$1.74	\$2.82	\$3.99	\$4.96	\$6.25	\$5.45	\$4.00	\$4.40	\$5.35
DPS	---	---	\$0.15	\$1.12	\$1.54	\$1.98	\$2.41	\$2.94	\$3.40	\$3.50	\$3.50	\$3.50
Units¹	---	---	70.4	73.5	80.9	95.2	115.3	136.6	181.5	242.2	228.0	400.0

The energy sector is infamous for its high cyclical, but PSXP is one of the most resilient oil companies to the swings of commodity prices. PSXP generates reliable cash flows by providing fee-based transportation and storage services to Phillips 66 and other customers. It operates under contracts with tariff escalators and thus its cash flows grow over time. In addition, PSXP pursues the strategic acquisition of assets of Phillips 66 and third parties and thus enhances its cash flows from year to year. PSXP has grown its DCF per unit at a 7.2% average annual rate over the last five years. Due to the cyclical nature of the energy sector, we expect 4.0% average annual growth of DCF per unit.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCF	---	---	75.1	34.2	23.0	13.2	10.2	8.1	9.7	9.2	8.4	10.1
Avg. Yld.	---	---	0.5%	1.9%	2.4%	3.8%	4.8%	5.8%	6.5%	9.5%	9.5%	6.5%

¹ In millions.

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PSXP is currently trading at a price-to-cash flow ratio of 8.4, which is lower than the 5-year average ratio of 10.1. As soon as the pandemic subsides, the stock is likely to revert towards its historical valuation level. If the stock trades at our assumed fair valuation level in five years, it will enjoy a 3.7% annualized boost to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

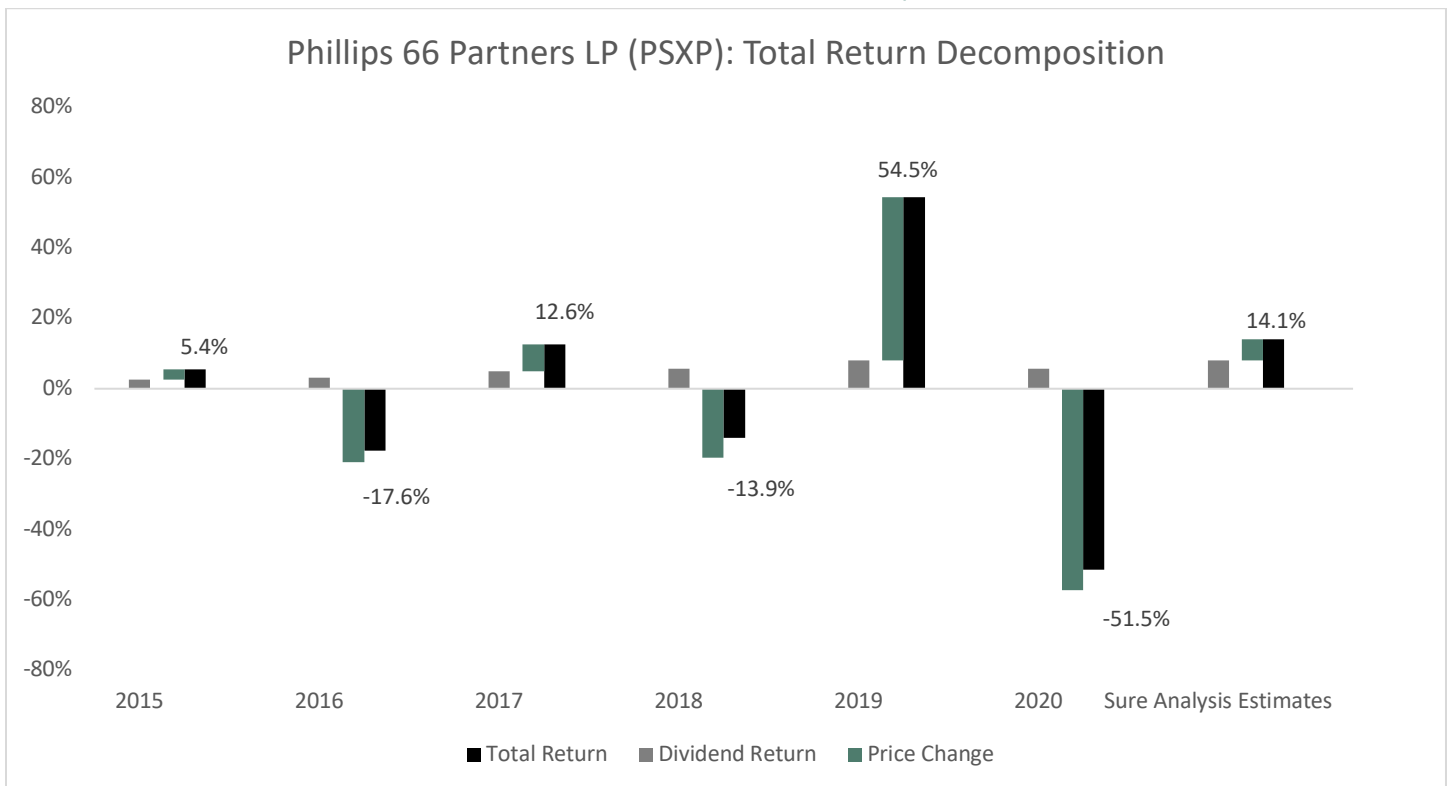
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	34.7%	64.2%	54.6%	49.6%	48.6%	47.0%	62.4%	87.4%	79.5%	65.4%

The energy sector is characterized by fierce boom-and-bust cycles, but PSXP is one of the most resilient oil stocks. Its competitive advantage comes from its fee-based model, its minimum-volume requirements and its discipline to execute only high-return investments. Thanks to its strong business model, PSXP has maintained a rock-solid balance sheet. Its net debt of \$4.0 billion is only four times its annual DCF. As a result, PSXP can easily endure the downturn caused by the pandemic. Moreover, PSXP grew its distribution every single quarter since its formation (25 consecutive quarters) before the freeze in 2020 due to the pandemic. This record is a testament to the strength of the business model and the focus of management only on high-return growth projects and acquisitions. Moreover, given the strong balance sheet and the distribution coverage ratio of 1.3, the exceptional 9.5% distribution of PSXP is well covered but the unitholders of PSXP will become shareholders of Phillips 66 from next year. The latter is currently offering a 4.9% dividend yield.

Final Thoughts & Recommendation

PSXP is one of the highest-quality MLPs and one of the most resilient energy companies amid the pandemic. Nearly all the oil companies posted losses or depressed profits in 2020 but PSXP posted just a -27% decrease in DCF per unit. If PSXP were not acquired by Phillips 66 early next year, it could offer a 14.1% average annual return over the next five years and would thus earn a buy rating. As Phillips 66 has a buy rating as well, PSXP 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	2020
Revenue	76	145	187	555	612	758	934	1,045	1,126	1,038
Gross Profit	70	132	173	509	551	662	818	928	1,006	903
Gross Margin	92.4%	90.6%	92.4%	91.7%	90.0%	87.3%	87.6%	88.8%	89.3%	87.0%
SG&A Exp.	6	14	18	57	63	65	69	64	67	66
D&A Exp.	6	14	14	46	61	96	116	117	120	135
Operating Profit	39	60	97	252	263	348	402	475	495	455
Operating Margin	51.1%	40.9%	52.0%	45.4%	43.0%	45.9%	43.0%	45.5%	44.0%	43.8%
Net Profit	39	-	29	116	194	301	461	796	923	791
Net Margin	50.7%	0.0%	15.5%	20.9%	31.7%	39.7%	49.4%	76.2%	82.0%	76.2%
Free Cash Flow	33	41	10	(363)	(556)	(92)	293	154	(79)	45
Income Tax	0	0	1	1	---	2	4	4	3	3

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	135	145	775	540	3,662	4,109	5,334	5,819	6,961	7,258
Cash & Equivalents	---	---	425	8	50	2	185	1	286	7
Accounts Receivable	0	0	12	23	29	83	86	95	105	106
Inventories	---	0	2	2	8	11	12	13	13	16
Goodwill & Int. Ass.	3	3	3	11	182	185	185	185	185	185
Total Liabilities	4	3	31	467	2,218	2,543	3,173	3,310	4,127	4,167
Accounts Payable	3	1	23	28	86	43	60	110	103	92
Long-Term Debt	---	---	---	430	2,055	2,411	2,945	3,048	3,516	3,909
Shareholder's Equity	130	142	744	72	1,444	1,566	2,161	2,509	2,834	2,798

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	6.3%	17.6%	9.2%	7.7%	9.8%	14.3%	14.4%	11.1%
Return on Equity	---	---	6.5%	28.4%	25.6%	20.0%	24.7%	34.1%	34.5%	28.1%
Units Out.	---	---	70.4	73.5	80.9	95.2	115.3	136.6	181.5	242.2
Revenue/Share	1.08	2.06	2.66	7.55	8.98	7.96	8.10	7.65	6.20	4.29
FCF/Share	0.47	0.58	0.14	(4.94)	(8.16)	(0.97)	2.54	1.13	(0.44)	0.19

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

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