



USA Compression Partners, LP (NYSE: USAC)

Updated November 2nd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$16.4	5 Year CAGR Estimate:	9.6%	Market Cap:	\$1.6B
Fair Value Price:	\$14.8	5 Year Growth Estimate:	1.0%	Ex-Dividend Date¹:	11/24/2021
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date²:	12/05/2021
Dividend Yield:	12.8%	5 Year Price Target	\$16	Years of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	1%

Overview & Current Events

USA Compression Partners, LP (USAC) is one of the largest independent providers of gas compression services to the oil and gas industry, with annual revenues of \$668 million (in 2020) and a market capitalization of \$1.6 billion. USAC was founded in 1998, completed its initial public offering in January 2013, and has paid a quarterly dividend continuously since the second quarter of 2013. The partnership is active in several shale plays throughout the U.S., including the Utica, Marcellus, and Permian Basin. They focus primarily on infrastructure applications, including centralized high-volume natural gas gathering systems and processing facilities, requiring large horsepower compression units. They design, operate, and maintain the compression units. USAC operate under fixed-fee, take-or-pay contracts, and does not have direct exposure to commodity prices.

In April 2018, USAC merged with CDM Compression. The merger provided better geographic diversification and access to areas where USAC was underrepresented. This merger essentially doubled the size of USAC. The data tables contained in this report use pre-merger information for the publicly traded and dividend paying entity USAC.

USAC reported third quarter results on November 2nd and revenues for the quarter fell to \$159 million, compared to the \$162 million in the third quarter of 2020. Distributable cash flow fell slightly from \$57 million to \$52 million. The distribution was held steady at \$0.525 per unit, in-line with last year. Distributable cash flow coverage was 1.02x for the third quarter, compared to 1.12x last year. Installed revenue generating horsepower decreased from 3.01 million to 2.92 million.

Management has updated and narrowed their 2021 outlook for DCF and estimate \$200 million to \$210 million. As a result, we are anticipating DCF of \$2.11 for the year. The company also expects net income between \$5.0 million and \$15.0 million.

Growth on a Per-Unit Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
DCFU	---	---	\$2.92	\$2.99	\$3.47	\$2.18	\$1.87	\$2.39	\$2.39	\$2.22	\$2.11	\$2.22
DPU	---	---	\$1.25	\$1.98	\$2.08	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10
Units³	---	---	18.0	28.0	34.0	53.0	62.0	75.0	92.9	97.0	97.0	100.0

The partnership has had roughly stagnant growth on a per common unit basis for several years. In the past two years, DCFU remained the same in 2018 and 2019, but since the pandemic began in 2020, DCFU has dropped. Since the partnership was in ramp up mode the first few years after the IPO and had a major acquisition a couple years ago that they are still digesting, calculating a historical growth rate is not a particularly telling exercise. Due to these circumstances, we will conservatively estimate 1% growth in distributable cash flow in the near term. At 2019-year end, virtually all issued units were outstanding, and management has indicated they intend to self-fund and not issue more equity.

¹ Estimate based on last year.

² Estimate based on last year.

³ Unit count is 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.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/DCFU	-	-	7.6	7.4	4.2	6.6	9	6.3	7.1	5.5	7.8	7.0
Avg. Yld.	-	-	5.5%	8.2%	11.3%	14.6%	12.5%	12.5%	12.7%	17.1%	12.8%	13.5%

Units are slightly above their average P/DCFU at 7.8, with the 5-year average of 6.6. We estimate a fair-value P/DCFU of 7.0 as natural gas demands recover in 2021 and grow beyond, which would result in a 2.1% annual loss due to multiple contraction. We see the yield rise very slightly as the share price drops to meet 7.0 times DCFU.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	-	-	43%	66%	60%	96%	112%	88%	88%	95%	100%	95%

The partnership has several competitive advantages. USAC is well established, with about 30% of their top 20 customers (by revenue) in a relationship longer than 10 years (contracts are about 5 years, so these are renewals). They have a seasoned and stable management team, which has managed to consistently achieve high utilization rates (a stable 93% average over the last decade) for their equipment. Lastly, they operate primarily in the large horsepower segment of the compression business, which has significant barriers to entry and tends to have longer contracts.

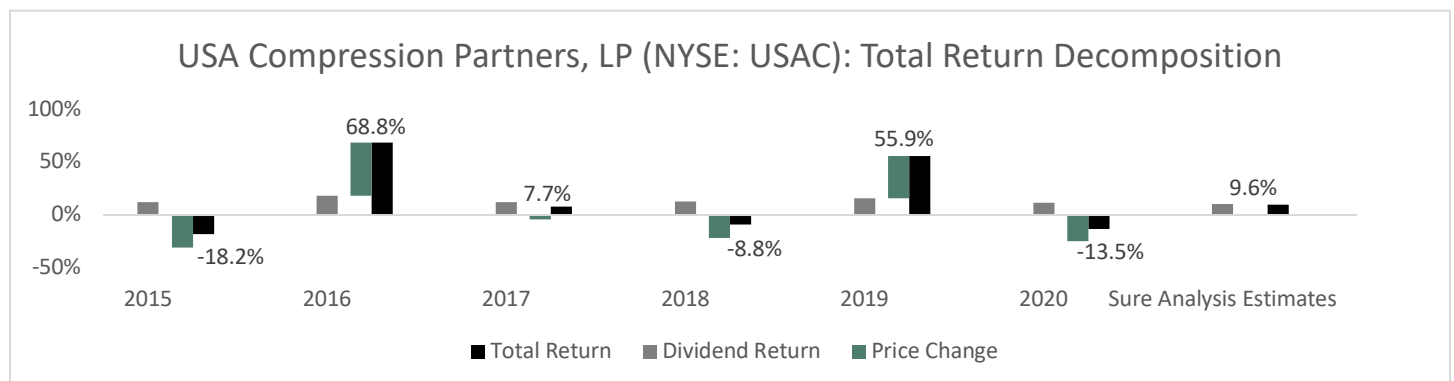
There are a number of favorable macro-factors that will accrue to the benefit of both USAC and its competitors: positive 2.6% natural gas transport growth projections (per the U.S. EIA), an inherent benefit deriving from the shift toward gas production from shale (which comes in at lower pressure and therefore requires more compression than gas from wells), and an inherent benefit from the aging of production areas (declining field pressures require more compression).

The partnership has paid a dividend for 28 consecutive quarters since it first went public in 2013. Management regards their level of leverage as manageable given the stability of their business and its growth prospects, and their argument is a reasonable one. However, they do indicate they are ‘working to decrease leverage and build coverage’.

Final Thoughts & Recommendation

USAC provides an attractive yield of 12.8% today, and this yield will be the primary total return driver. Management has indicated a preference for increasing DCF coverage and de-levering, so dividend increases in the near term are unlikely. Despite not being directly exposed to commodity price fluctuations, unit price is certainly not immune from them, decreasing from a high of \$28 in Jan 2014 to a low of \$8 in February 2016. However, the dividend continued growing during this period, as capital spending slowed. Considering total expected returns of 9.6% are strong, we rate USAC a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	-	118.8	152.9	221.5	270.5	265.9	280.2	584.4	698.4	667.7
Gross Profit	-	81.0	104.8	147.5	189.0	177.8	187.6	369.6	239.6	222.8
Gross Margin	-	68.2%	68.5%	66.6%	69.9%	66.9%	67.0%	63.2%	34.3%	33.4%
SG&A Exp.	-	18.3	27.6	38.7	41.0	44.5	47.5	69.0	64.4	60.0
D&A Exp.	-	41.9	52.9	71.1	85.2	92.3	98.6	213.7	231.4	239.0
Operating Profit	-	20.6	23.8	37.6	-135.6	34.4	37.1	65.3	175.2	162.8
Operating Margin	-	17.3%	15.6%	17.0%	-50.1%	12.9%	13.2%	11.2%	25.1%	24.4%
Net Profit	-	4.5	11.1	24.9	-154.3	12.9	11.4	-10.6	39.1	-594.7
Net Margin	-	3.8%	7.3%	11.2%	-57%	4.9%	4.1%	-1.8%	5.6%	-89.1%
Distr. Cash Flow	-	34.9	52.7	84.0	118.2	115.5	115.3	177.8	129.4	184.1
Income Tax	-	196	280	103	1085	421	538	-2.5	2.2	1.3

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	-	872.6	1185.9	1516.5	1509.8	1472.4	1492.1	3774.6	3730.4	2948.7
Cash & Equivalents	-	.01	.01	.01	.01	.07	.05	.10	0.0	0.0
Accounts Receivable	-	8.7	20.4	28.1	31.5	41.3	40.6	79.4	80.3	63.7
Inventories	-	4.2	9.9	8.9	18.9	29.6	33.4	89.0	91.9	84.6
Goodwill & Int. Ass.	-	157.1	208.1	208.1	35.9	35.9	35.9	619.4	982.6	333.8
Total Liabilities	-	529.1	478.2	677.0	791.5	742.9	858.2	2395.3	2072.5	2133.7
Accounts Payable	-	10.7	34.6	44.5	23.8	13.1	20.2	24.2	21.7	13.5
Long-Term Debt	-	502.3	420.9	594.9	729.2	685.4	782.9	1759.1	1852.4	1927.0
Partner's Equity	-	343.5	707.7	839.5	718.3	729.5	633.9	1378.9	1657.9	815.0
D/E Ratio	-	1.5	0.59	0.71	1.0	0.94	1.24	1.28		

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-	-							1.0%	-17.8%
Return on Equity	-	-							2.2%	-48.1%
ROIC	-	-							2.2%	-31.5%
Units Out.	-	-	18.0	28.1	34.1	53.0	61.6	74.5	92.9	97.0
Revenue/Unit	-	-	8.48	7.89	7.93	5.01	4.55	7.85	7.23	6.90
DCF/Unit	-	-	2.92	2.99	3.47	2.18	1.87	2.39	1.34	1.90

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

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