



Magellan Midstream Partners (MMP)

Updated February 4th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$50	5 Year CAGR Estimate:	13.5%	Market Cap:	\$10.6 B
Fair Value Price:	\$62	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	2/4/2022
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.5%	Dividend Payment Date:	2/12/2022
Dividend Yield:	8.3%	5 Year Price Target	\$72	Years Of Dividend Growth:	21
Dividend Risk Score:	C	Retirement Suitability Score:	A	Last Dividend Increase:	1.0%

Overview & Current Events

Magellan Midstream Partners (MMP) has the longest pipeline system of refined products, which is linked to nearly half of the total U.S. refining capacity. This segment generates 65% of its total operating income while the transportation and storage of crude oil generates 35% of its operating income. MMP has a fee-based model; only ~9% of its operating income depends on commodity prices. That is why it exhibited impressive resilience in the downturn of the oil market between 2014 and 2017. MMP has a market capitalization of \$10.6 billion.

During the last decade, MMP has invested \$6.1 billion in growth projects and acquisitions and has exhibited much better performance than the vast majority of MLPs. Most MLPs carry excessive amounts of debt, post poor free cash flows due to their capital expenses and dilute their unitholders to a great extent on a regular basis. They also tend to have payout ratios near or above 100%. On the contrary, MMP has posted positive free cash flows for more than 10 consecutive years and has a strong balance sheet. In addition, it does not dilute unitholders and maintains a healthy payout ratio. All these attributes confirm the discipline of its management, which invests only in high-return projects.

In early February, MMP reported (2/2/22) financial results for the fourth quarter of fiscal 2021. The MLP continued to recover from the pandemic thanks to improved demand for refined products. As a result, distributable cash flow grew 10% over the prior year's quarter and earnings-per-share of \$1.24 exceeded analysts' consensus by \$0.16. MMP proved resilient to the pandemic and posted a distribution coverage ratio of 1.26 in 2021. Management expects total shipments of refined products to grow 4% this year but expects annual distributable cash flow of \$1.075 billion, -4% lower than in 2021, due to asset sales. Notably MMP repurchased 5% of its shares in 2021, thus signaling that it views its stock as undervalued. We praise management for repurchasing shares when the stock price is suppressed, in contrast to most companies, which repurchase shares during boom times, at elevated stock prices.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
CF/S	\$2.49	\$3.20	\$4.42	\$4.34	\$4.31	\$4.68	\$4.84	\$5.67	\$4.66	\$5.22	\$5.20	\$6.03
DPS	\$1.78	\$2.10	\$2.51	\$2.92	\$3.25	\$3.52	\$3.80	\$4.04	\$4.11	\$4.13	\$4.15	\$4.45
Units¹	226.2	226.7	226.7	227.4	227.8	228.0	229.1	228.7	224.0	214.1	210.0	190.0

MMP has promising growth prospects, as it has many growth projects under way. The company invested \$1.0 billion in these projects in 2019, \$355 million in 2020, and \$73 million in 2021. It also has more than \$500 million of potential growth projects under consideration and continues to evaluate their prospects in order to identify the most promising ones. In addition, share repurchases may constitute another significant growth driver. Moreover, the energy market is recovering strongly from the pandemic. MMP has grown its cash flow per share at an 8.6% average annual rate over the last decade. In the last twelve conference calls, management has reiterated its commitment to maintain a distribution coverage ratio of at least 1.20 in the long run. In order to be on the safe side, we expect 3% annual growth in distributable cash flow per share.

¹ 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/CF	17.3	19.8	18.7	15.7	17.6	15.2	13.7	11.0	9.4	9.0	9.6	12.0
Avg. Yld.	4.6%	3.9%	3.2%	4.0%	4.7%	4.9%	5.7%	6.4%	9.4%	8.8%	8.3%	6.1%

MMP is trading at a price-to-cash flow ratio of 9.6, which is a nearly decade-low level, much lower than the 10-year average ratio of 14.7. In order to be conservative, we assume a fair price-to-cash flow ratio of 12.0 for this MLP. If the stock approaches our fair valuation level over the next five years, it will enjoy a 4.5% annualized boost to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	71.5%	65.6%	56.8%	67.3%	75.4%	75.2%	78.5%	71.2%	88.2%	79.1%	79.8%	73.8%

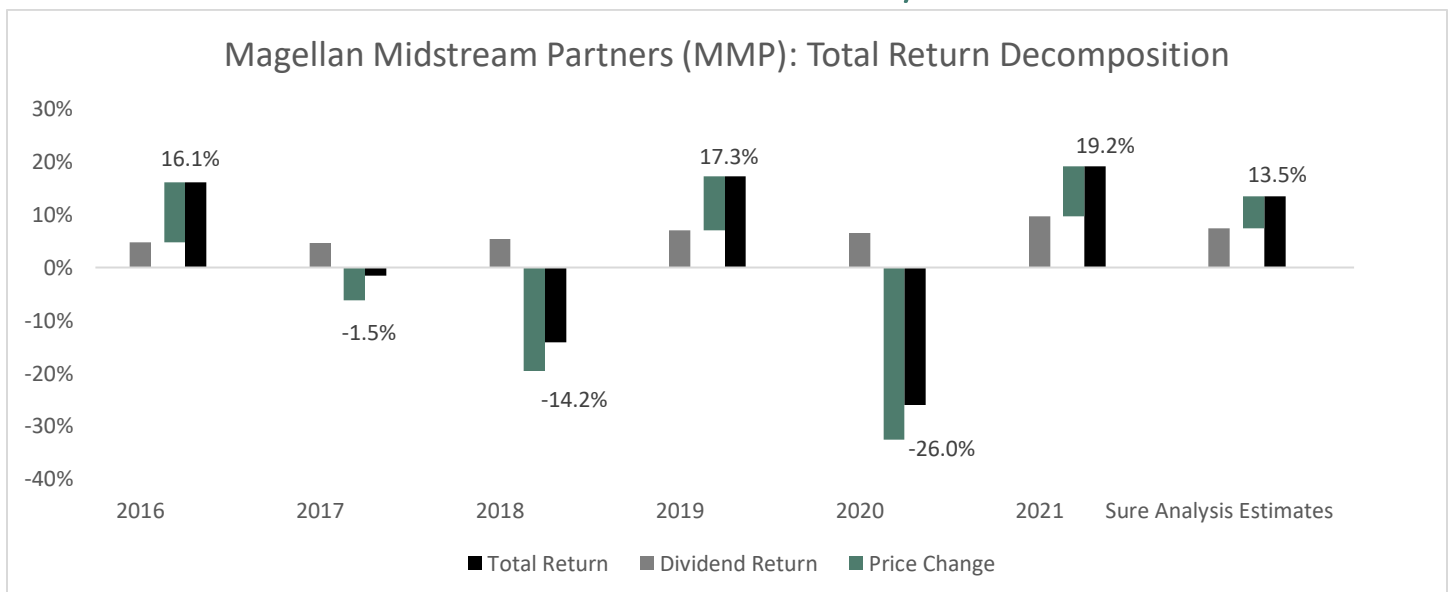
The competitive advantage of MMP comes from its fee-based model, its great scale and its discipline to invest only in high-return projects. MMP grew its dividend for 70 consecutive quarters before the freeze in 2020 and has raised its annual dividend at an 11% average annual rate since 2001. This record is a testament to the strength of the business model and the great discipline of management. Moreover, instead of issuing new shares to fund growth projects, like nearly all the MLPs, MMP is now repurchasing its shares at low prices to enhance shareholder value. Thanks to its fee-based model, MMP proved resilient in the downturn of the oil market in 2014-2016.

On the other hand, investors should not jump to the conclusion that MMP is immune to recessions. In the Great Recession, its earnings-per-share fell -32%, from \$1.64 in 2008 to \$1.11 in 2009. In 2020, earnings fell -20% due to the pandemic but MMP has begun to recover from this downturn.

Final Thoughts & Recommendation

MMP is one of the safest and highest-quality MLPs and the most resilient energy company amid the pandemic. Nearly all the oil companies posted losses or depressed profits in 2020 but MMP incurred just a ~20% decrease. The pandemic has presented a unique opportunity to invest in this best-of-breed MLP. MMP could offer a 13.5% average annual return over the next five years thanks to its 8.3% distribution yield and its cheap valuation. It thus maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,772	1,948	2,360	2,188	2,205	2,508	2,827	2,728	2,428
Gross Profit	987	1,227	1,604	1,574	1,534	1,675	1,857	1,862	1,655
Gross Margin	55.7%	63.0%	68.0%	71.9%	69.6%	66.8%	65.7%	68.3%	68.2%
SG&A Exp.	109	132	148	150	147	166	194	197	173
D&A Exp.	128	142	162	167	178	197	265	246	259
Operating Profit	549	699	955	901	858	932	1,013	1,035	881
Operating Margin	31.0%	35.9%	40.5%	41.2%	38.9%	37.2%	35.9%	37.9%	36.3%
Net Profit	436	582	840	819	803	870	1,334	1,021	817
Net Margin	24.6%	29.9%	35.6%	37.4%	36.4%	34.7%	47.2%	37.4%	33.7%
Free Cash Flow	292	352	744	449	299	573	801	377	668
Income Tax	3	5	5	2	3	4	0	1	3

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,420	4,821	5,501	6,042	6,772	7,394	7,748	8,438	8,197
Cash & Equivalents	328	25	17	29	15	161	218	58	13
Accounts Receivable	91	116	84	84	106	139	104	125	109
Inventories	222	187	158	131	134	182	186	184	167
Goodwill & Int. Ass.	67	61	58	55	105	106	104	101	98
Total Liabilities	2,904	3,173	3,633	4,020	4,680	5,265	5,104	5,723	5,893
Accounts Payable	112	76	97	104	77	105	139	151	100
Long-Term Debt	2,393	2,685	2,967	3,440	4,087	4,524	4,271	4,706	4,979
Shareholder's Equity	1,516	1,647	1,868	2,022	2,092	2,130	2,643	2,715	2,304

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.3%	12.6%	16.3%	14.2%	12.5%	12.3%	17.6%	12.6%	9.8%
Return on Equity	29.2%	36.8%	47.8%	42.1%	39.0%	41.2%	55.9%	38.1%	32.6%
Units Out.	226.2	226.7	226.7	227.4	227.8	228.0	229.1	228.7	225.5
Revenue/Share	7.82	8.58	10.37	9.60	9.67	10.98	12.37	11.92	10.76
FCF/Share	1.29	1.55	3.27	1.97	1.31	2.51	3.50	1.65	2.96

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

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