



Shell Midstream Partners L.P. (SHLX)

Published August 16th, 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$15.8	5 Year CAGR Estimate:	6.7%	Market Cap:	\$6.2 B
Fair Value Price:	\$14.4	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	10/31/2022 ¹
% Fair Value:	110%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date:	11/11/2022
Dividend Yield:	7.6%	5 Year Price Target	\$15.9	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Sell

Overview & Current Events

Shell Midstream Partners L.P. (SHLX) is a Master Limited Partnership (MLP) that was founded in 2014 and is headquartered in Houston, Texas. It owns, operates, develops and acquires pipelines and other midstream assets in the U.S. Its network of pipelines and terminals is used in the transportation and storage of crude oil, refined products and natural gas in the Gulf Coast and in the Midwest refining markets. SHLX has a market capitalization of \$6.2 billion.

SHLX faced a strong headwind due to the pandemic in 2020. U.S. oil production decreased -7.4%, from 12.2 million barrels per day in 2019 to 11.3 million barrels per day in 2020, while the utilization of U.S. refineries plunged from 91% in 2019 to 79% in 2020. These were strong headwinds for SHLX, whose cash flows depend on the volumes of crude oil and refined products transported and stored through its network. However, volumes have begun to recover in recent months.

In late July, SHLX reported (7/28/22) financial results for the second quarter of fiscal 2022. Cash available for distribution grew sequentially from \$157 million to \$164 million thanks to continued recovery in Zydec volumes. All assets have returned to normal operation and volumes have returned to normal levels. Despite the -35% distribution cut last year amid the pandemic, the stock still offers a 7.6% yield, with a coverage ratio of 1.4. We applaud SHLX for having a strong balance sheet.

On February 11th, 2022, SHLX received a non-binding proposal from parent Shell Pipeline Company to be acquired at \$12.89 per share. On July 25th, 2022, the transaction price was raised to \$15.85 per share. Given our experience from other midstream companies, we expect SHLX to be acquired by its parent company later this year. Management expects the deal to materialize during the fourth quarter of the year.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
CAFDPS²	---	---	\$0.12	\$1.30	\$1.61	\$2.00	\$2.43	\$2.70	\$2.04	\$1.95	\$2.00	\$2.21
DPS	---	---	---	\$0.67	\$0.97	\$1.18	\$1.43	\$1.69	\$1.84	\$1.52	\$1.20	\$1.20
Shares³	---	---	135.0	140.9	169.4	180.4	220.3	229.2	320.3	320.3	320.3	320.3

SHLX greatly benefited from the booming U.S. oil production, which climbed to new all-time highs every year in the last decade, until the pandemic struck. The MLP has been severely hurt by the pandemic. However, thanks to the massive distribution of vaccines worldwide and huge fiscal stimulus packages offered by governments, the pandemic has subsided. We thus expect SHLX to grow its cash available for distribution per share by 2.0% per year on average over the next five years.

We have not assumed a full recovery to the pre-COVID level of cash flows in order to be on the safe side in the adverse scenario of a prolonged pandemic. This scenario would severely hurt the cash flows of SHLX if it materialized. Such an adverse scenario may also accelerate the secular shift from oil to renewable energy, which should not be a concern for the next decade under normal conditions, in the absence of the pandemic.

¹ Estimated date.

² CAFDPS stands for Cash Available For Distribution Per Share.

³ 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/CAFD	---	---	---	30.2	20.0	14.8	9.3	7.5	11.9	6.6	7.9	7.2
Avg. Yld.	---	---	---	1.7%	3.0%	4.0%	6.3%	8.4%	14.6%	11.8%	7.6%	7.5%

Excluding the first two years of SHLX, which were marked by abnormally high price-to-cash flow ratios, SHLX has traded at an average price-to-cash flow ratio of 10.0. Given the aforementioned price of \$15.85 in the pending acquisition proposal, we assume a fair cash flow multiple of 7.2. If the stock trades at our fair value estimate in five years, it will incur a -1.8% annualized drag due to the contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

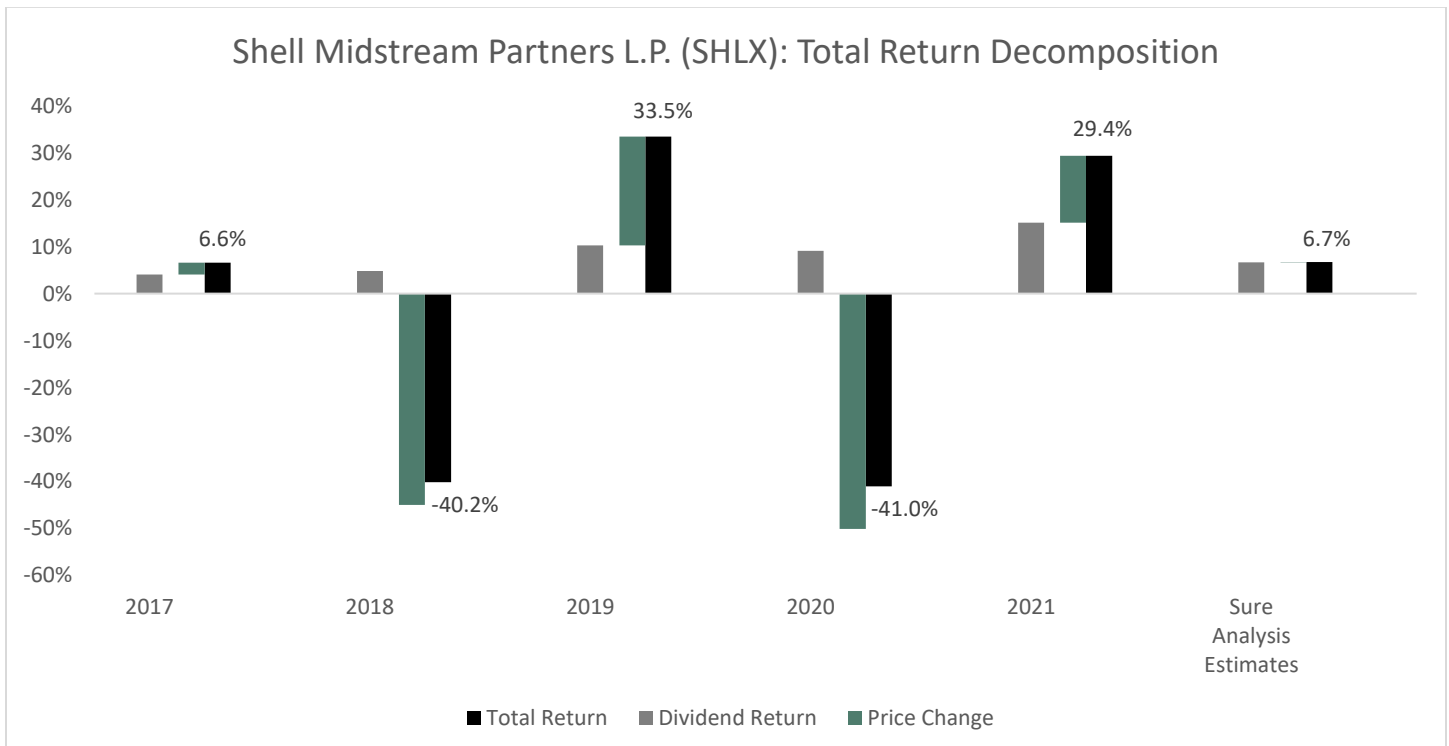
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	0.0%	52%	60%	59%	59%	63%	90%	78%	60%	54%

SHLX is less cyclical and more resilient to downturns in the energy sector than most oil stocks thanks to the secular growth of U.S. oil production in the absence of the pandemic. The results of SHLX are greatly affected by the pandemic but SHLX has one of the strongest balance sheets in the MLP universe, with net debt of \$2.3 billion, which is only 37% of the market cap and less than four times the annual cash flow available for distribution. As a result, SHLX can endure a downturn in its business more readily than most energy companies.

Final Thoughts & Recommendation

We would find SHLX highly attractive but its aforementioned pending acquisition from its parent company has limited the potential for future returns. The stock has an attractive annualized distribution yield but its acquisition may materialize before the normal time of the next distribution payment. As a result, the stock receives a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	115	148	250	486	453	470	525	503	481	556
Gross Profit	109	134	232	448	410	425	447	418	407	477
Gross Margin	94.9%	90.7%	92.6%	92.2%	90.5%	90.4%	85.1%	83.1%	84.6%	85.8%
SG&A Exp.	10	15	20	56	53	58	60	60	56	51
D&A Exp.	6	14	18	38	43	45	46	49	50	50
Operating Profit	48	50	142	253	224	200	212	215	169	235
Operating Margin	42.1%	33.7%	56.7%	52.1%	49.3%	42.6%	40.4%	42.7%	35.1%	42.3%
Net Profit	47	71	13	167	245	295	464	528	543	556
Net Margin	40.9%	47.7%	5.4%	34.4%	54.1%	62.8%	88.4%	105%	113%	100.0 %
Free Cash Flow	47	(34)	98	344	383	374	458	559	623	601
Income Tax	---	---	---	---	---	---	1	---	---	---

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	135	252	730	715	1,304	1,367	1,914	2,019	2,347	2,318
Cash & Equivalents	---	---	150	93	122	138	208	290	320	361
Accounts Receivable	21	17	34	29	42	41	48	41	41	56
Total Liabilities	17	38	48	508	770	1,932	2,171	2,768	2,805	2,811
Accounts Payable	4	8	12	10	13	16	13	15	21	21
Long-Term Debt	---	---	---	458	686	1,844	2,091	2,692	2,692	2,692
Shareholder's Equity	119	215	520	99	513	(589)	(282)	(775)	(481)	(494)

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	36.4%	2.7%	23.1%	24.3%	22.1%	28.3%	26.8%	24.9%	23.8%
Return on Equity	---	42.3%	3.6%	54.0%	80.1%	---	---	---	---	---
Shares Out.	---	---	135.0	140.9	169.4	180.4	220.3	229.2	320.3	320.3
Revenue/Share	0.85	1.10	1.85	3.45	2.67	2.61	2.38	2.19	1.23	1.25
FCF/Share	0.35	(0.25)	0.73	2.44	2.26	2.07	2.08	2.44	1.59	1.35

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

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