



USA Compression Partners, LP (NYSE: USAC)

Updated November 11th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$18.2	5 Year CAGR Estimate:	8.9%	Market Cap:	\$1.8 B
Fair Value Price:	\$15.8	5 Year Growth Estimate:	2.0%	Ex-Dividend Date¹:	01/21/2023
% Fair Value:	116%	5 Year Valuation Multiple Estimate:	-2.9%	Dividend Payment Date¹:	02/04/2023
Dividend Yield:	11.5%	5 Year Price Target	\$17.4	Years of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

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 \$633 million (in 2021) and a market capitalization of \$1.8 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 2022 results on November 1st. Revenues for the quarter rose to \$179.6 million compared to \$158.6 million in Q3 2021. Distributable cash flow increased from \$52.0 million to \$55.2 million in Q3. The distribution was held steady at \$0.525 per unit, in-line with last year. Distributable cash flow coverage was 1.07x for the third quarter, compared to 1.02x last year. Installed revenue generating horsepower was up year-over-year to \$3.1 billion.

Management narrowed its 2022 outlook for DCF and estimate \$215 million to \$225 million. As a result, we are anticipating DCF per unit of \$2.25 for the year. Net income is expected to be between \$30.0 million and \$40.0 million.

Growth on a Per-Unit Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
DCFU	---	\$2.92	\$2.99	\$3.47	\$2.18	\$1.87	\$2.39	\$2.39	\$2.22	\$2.15	\$2.25	\$2.48
DPU	---	\$1.25	\$1.98	\$2.08	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10	\$2.10
Units²	---	18.0	28.0	34.0	53.0	62.0	75.0	92.9	96.8	97.1	98.0	100.0

The partnership has had roughly stagnant growth on a per common unit basis for several years. In the past two years, DCFU retreated as the pandemic affected results. In 2022, we expect a modest return to growth. Due to a history of effectively shrinking distributable cash flow per unit over the long term, we conservatively estimate 2% growth in distributable cash flow in the intermediate term. Management expects increased activity and business in 2022, in part due to budget increases in the industry. The demand for energy and natural gas strengthened in 2021 and 2022, positioning the company for growth. At 2019-year end, virtually all issued units were outstanding, and management has indicated they intend to self-fund and not issue more equity but shares outstanding rose slightly amid the pandemic.

¹ Estimate based on last year.

² 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/DCFU	-	7.6	7.4	4.2	6.6	9	6.3	7.1	5.5	7.2	8.1	7.0
Avg. Yld.	-	5.5%	8.2%	11.3%	14.6%	12.5%	12.5%	12.7%	17.1%	13.6%	11.5%	12.1%

Units are slightly above their average P/DCFU at 8.1, with the 5-year average of 7.0. We estimate a fair-value P/DCFU of 7.0 as natural gas demands continue to grow in 2022 and beyond, which would result in a 2.9% annual loss due to multiple contraction. We see the yield as remaining strong, above 10%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	-	43%	66%	60%	96%	112%	88%	88%	95%	98%	93%	85%

The partnership has several competitive advantages. USAC is well established, with about 25% 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 92% 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.

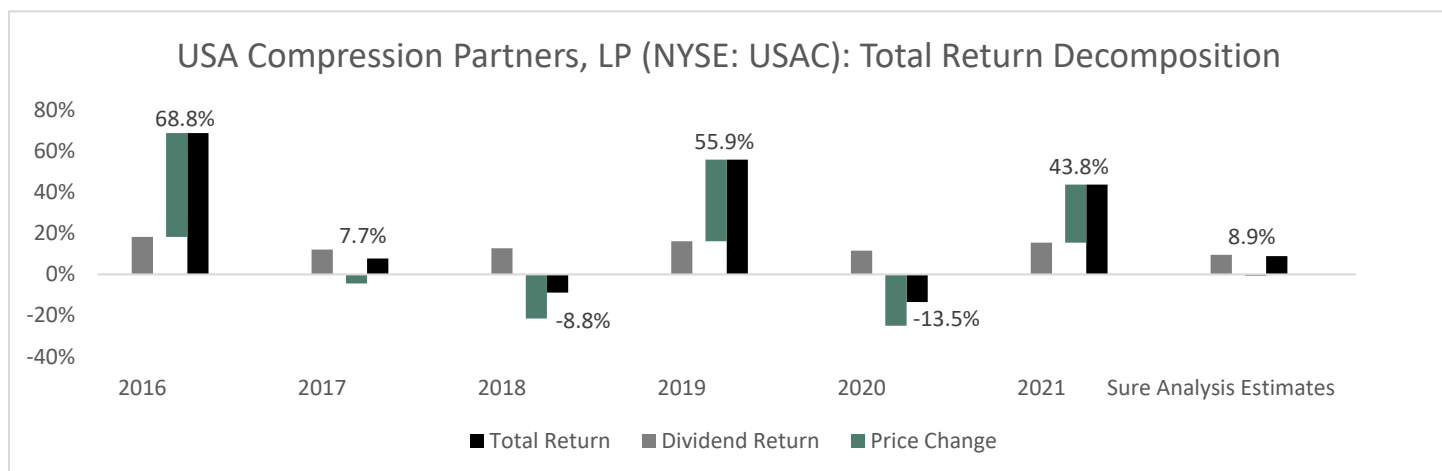
There are a number of favorable macro-factors that will accrue to the benefit of both USAC and its competitors: positive natural gas transport growth projections (per the U.S. EIA), an inherent benefit deriving from the shift toward gas production from shale (which comes in at lower pressure and therefore 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 39 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, but it has been creeping up in the last few years. Leadership indicates they are 'working to decrease leverage and build coverage'.

Final Thoughts & Recommendation

USAC provides an attractive yield of 11.5% 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 8.9% are fair, we rate USAC 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
Revenue	119	153	222	271	264	277	584	698	668	633
Gross Profit	39	52	76	104	-4	-15	156	240	223	199
Gross Margin	32.9%	33.9%	34.5%	38.4%	-1.6%	-5.5%	26.7%	34.3%	33.4%	31.5%
SG&A Exp.	18	28	39	41	23	25	69	64	60	56
D&A Exp.	42	53	71	85	155	167	214	231	239	239
Operating Profit	21	24	38	63	-27	-40	87	175	163	143
Operating Margin	17.5%	15.9%	17.0%	23.2%	-10.2%	-14.5%	14.9%	25.1%	24.4%	22.7%
Net Profit	0	11	25	-154	-27	-265	-11	39	-595	10
Net Margin	0.0%	6.9%	11.3%	-57.0%	-10.2%	-95.7%	-1.8%	5.6%	-89.1%	1.6%
Distr. Cash Flow	-138	-91	-280	-164	68	-21	-40	129	184	220
Income Tax	0	0	0	1	0	2	-2	2	1	1

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	873	1,186	1,516	1,510	1,472	1,719	3,775	3,730	2,949	2,768
Cash & Equivalents	0	0	0	0	0	4	0	0	0	0
Accounts Receivable	9	20	25	28	32	33	76	80	64	68
Inventories	4	10	9	19	30	33	89	92	85	86
Goodwill & Int. Ass.	239	294	290	115	111	452	1,012	983	334	304
Total Liabilities	529	478	677	791	743	54	1,918	2,073	2,134	2,190
Accounts Payable	11	35	45	24	13	1	24	22	14	23
Long-Term Debt	502	421	595	729	685	0	1,759	1,852	1,927	1,973
Partner's Equity	344	708	840	718	730	1665	1,856	1,658	815	578

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	0.0%	1.0%	1.8%	-10.2%	-1.8%	-16.6%	-0.4%	1.0%	-17.8%	0.4%
Return on Equity	0.0%	2.0%	3.2%	-19.8%	-3.7%	-22.1%	-0.6%	2.2%	-48.1%	1.5%
ROIC	0.0%	2.3%	4.9%	-23.3%	-3.8%	-77.3%	-1.2%	2.2%	-31.5%	0.5%
Units Out.		18.0	28.0	34.0	53.0	62.0	75.0	92.9	96.8	97.1
Revenue/Unit	4.08	4.76	5.25	5.62	4.35	4.45	7.23	7.23	6.90	6.52
DCF/Unit	-4.74	-2.84	-6.64	-3.40	1.13	-0.34	-0.50	1.34	1.90	2.27

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

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