

Magellan Midstream (MMP)

\$40.99 (As of 08/10/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/15/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: D

Momentum: D

Summary

Magellan Midstream boasts of an attractive portfolio of energy infrastructure assets, including the country's largest petroleum infrastructure network, which generate stable and recurring fee and tariff-based revenues. The partnership, which displays an impressive history of rewarding investors, expects to generate DCF of around \$1-\$1.05 billion this year even amid the industry slump. However, Magellan Midstream is grappling with weak refined products demand on account of the worldwide coronavirus-induced lockdown. The recent spate of project cancellations have made investors worried about the partnership's growth prospects. As it is, Magellan Midstream is reeling under high and deteriorating leverage, which restricts its financial freedom. As such, investors interested in the partnership are advised to wait for a better entry point.

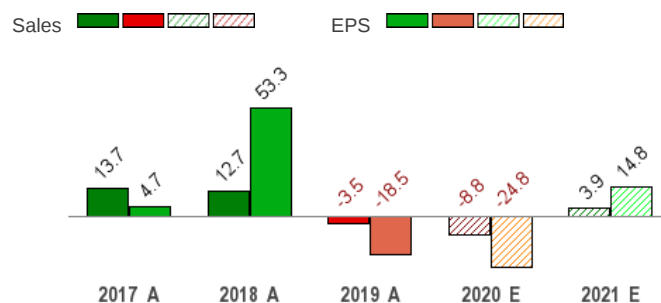
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.75 - \$22.02
20 Day Average Volume (sh)	1,163,212
Market Cap	\$9.2 B
YTD Price Change	-34.8%
Beta	1.01
Dividend / Div Yld	\$4.11 / 10.0%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Top 45% (115 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-11.0%
Last Sales Surprise	-22.7%
EPS F1 Est- 4 week change	-2.7%
Expected Report Date	10/29/2020
Earnings ESP	0.0%
P/E TTM	9.3
P/E F1	11.5
PEG F1	1.9
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	665 E	561 E	611 E	700 E	2,585 E
2020	783 A	460 A	567 E	654 E	2,488 E
2019	629 A	702 A	657 A	741 A	2,728 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.01 E	\$0.98 E	\$1.01 E	\$1.11 E	\$4.11 E
2020	\$1.28 A	\$0.65 A	\$0.84 E	\$0.98 E	\$3.58 E
2019	\$1.06 A	\$1.20 A	\$1.19 A	\$1.31 A	\$4.76 A

*Quarterly figures may not add up to annual.

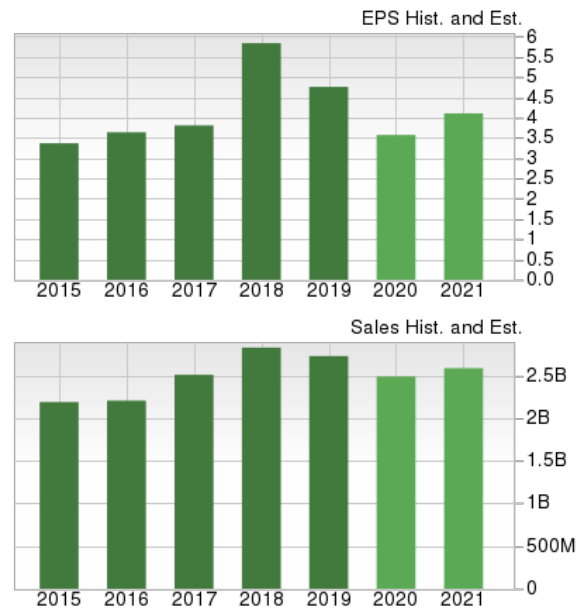
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

Tulsa, OK-based Magellan Midstream Partners, L.P. is a master limited partnership (MLP) that owns and operates a diversified portfolio of energy infrastructure assets. The partnership primarily transports, stores, and distributes refined petroleum products and, to a lesser extent, ammonia. Magellan Midstream has the longest refined petroleum pipeline system in the U.S. with access to almost half of the total domestic refining capacity.

Magellan Midstream conducts its operations in two segments: Refined Products and Crude Oil.

- Refined Products:** This unit (accounting for 71% of the partnership's first quarter 2020 operating profit) primarily comprises Magellan's approximately 9,700-mile pipeline system primarily transporting gasoline and diesel fuel, with 53 integrated terminals, 26 independent terminals (not linked to Magellan's pipeline infrastructure), and 45 million barrels of storage. Additionally, the segment looks after the partnership's 1,100-mile ammonia pipeline system – with 6 Magellan-owned terminals – that extends from Texas and Oklahoma to Minnesota, and caters to the mid-continent region. The unit also consists Magellan Midstream's Galena Park marine terminal, and its interest in the Pasadena marine terminal joint venture.
- Crude Oil:** The division (29%) includes roughly 2,200 miles of pipelines (primarily located in Permian, Rocky Mountain, Midcontinent and Gulf Coast markets), a condensate splitter, as well as storage services with a total storage capacity of approximately 33 million barrels (21 million barrels for contract storage). The partnership has 100% interest in 1,000 miles of these pipelines, the condensate splitter and 28 million barrels of this storage capacity (including 19 million barrels for contract storage). Majority of Magellan Midstream's crude oil pipelines are backed by long-term throughput commitments. This unit also includes the partnership's Corpus Christi Terminal.



Reasons To Buy:

- ▲ Magellan Midstream owns an attractive portfolio of energy infrastructure assets that generate stable and recurring fee- and tariff-based revenues. This includes the firm's extensive refined products footprint with access to almost 50% of refining capacity in the continental U.S. along with imports, and 85 petroleum terminals with around 100 million barrels of storage.
- ▲ Magellan Midstream's crude oil business is often secured by long-term contracts with creditworthy partners. Moreover, the partnership's revenues are supported by 'take-or-pay' contracts where customers book pipeline capacity, while the midstream operator receives the fees irrespective of any product movement.
- ▲ Magellan Midstream boasts of an impressive history of rewarding its investors. The company has notably increased its payout every quarter since its IPO in 2001. Magellan's consecutive annual hike for 18 years is certainly a booster for its unitholders. Based on continued strength in earnings expectations, management expects to have a healthy distribution coverage of about 1.1 to 1.14 times in 2020.

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Reasons To Sell:

- ▼ Magellan Midstream's elevated debt burden is a concern for investors. The partnership has a total debt of around \$4.79 billion, with only \$2.86 million in cash & cash equivalents. Moreover, Magellan Midstream's debt-to-capitalization as of the end of second quarter 2020 was 66.9%, deteriorating significantly from 65.7% a quarter ago. Moreover, the partnership's debt-to-capitalization is quite high compared to the sub industry to which it belongs.
- ▼ The economic disruption caused by the coronavirus outbreak and the associated demand destruction for refined products and transportation fuels on account of widespread lockdown is set to hurt earnings and cash flows of midstream operators like Magellan Midstream over the next few quarters.
- ▼ Magellan Midstream's spate of project cancellations is a cause of concern. After the cancellation of the Wink-to-Crane, Texas, pipeline and shut down of its ammonia pipeline, it also backed away from developing the Permian-Gulf Coast pipeline. As the company has scrapped off a number of projects, investors are worried about its growth prospects, going forward.

Magellan's huge debt load of around \$4.79 billion restricts the financial flexibility of the firm and limits growth.

Last Earnings Report

Magellan Midstream Q2 Earnings and Revenues Miss Estimates

Magellan Midstream Partners, L.P. reported second-quarter 2020 adjusted earnings per unit of 65 cents, missing the Zacks Consensus Estimate of 73 cents as well as the year-ago profit of \$1.20. Lower refined products transportation volumes and a decline in crude oil shipments due to coronavirus-induced shutdowns and disruptions hampered results.

Moreover, quarterly revenues of \$460.4 million not only fell from the year-ago sales of \$701.7 million but also lagged the Zacks Consensus Estimate of \$596 million.

Quarter Ending 06/2020

Report Date	Jul 30, 2020
Sales Surprise	-22.72%
EPS Surprise	-10.96%
Quarterly EPS	0.65
Annual EPS (TTM)	4.43

Segmental Performance

Refined Products: Revenues of \$315.7 million were down from the year-ago period's \$534 million. Notably, total volumes shipped in the quarter under review were 105.3 million barrels compared with 132.4 million barrels a year ago. Operating margin from the segment declined to \$171.4 million in the second quarter from \$251 million in the corresponding period of 2019. The segment's depreciation costs and general & administration expenses decreased year over year. Operating profit plunged 40.9% year over year to \$99.8 million.

Crude Oil: Quarterly revenues grossed \$146.2 million, down 13.5% year over year on the back of lower volumes. Total volumes shipped in the quarter were 47.7 million barrels, down from 80.5 million barrels a year ago. Operating margin contracted to \$128.3 million from \$163.2 million in the prior year. Operating profit of \$100.9 million declined 23.5% year over year due to depressed volumes and margins.

DCF & Balance Sheet

Magellan Midstream's distributable cash flow (DCF) for the second quarter summed \$209.5 million, dropping 33.4% from the year-ago level.

Notably, on Jul 23, the partnership announced second-quarter cash distribution of \$1.0275 per unit (\$4.11 on an annualized basis), representing 1% annual growth. The amount is payable Aug 14 to its unitholders of record as of Aug 7.

As of Jun 30, 2020, the firm had cash and cash equivalents worth \$2.86 million, and a long-term debt of \$4.79 billion.

2020 Outlook

As a result of the coronavirus-caused oil price crash, management expects to generate distributable cash flows in the \$1,000-\$1,050 million range for the full year and plans to retain the current level of cash distribution for the rest of the year. Magellan Midstream projected third-quarter 2020 earnings per unit between 75 cents and 85 cents while the same for the full year is estimated in the \$3.50-\$3.70 band.

The firm plans to spend \$400 million in the ongoing year and \$40 million in 2021 on completing certain expansion projects. Further, Magellan Midstream has stated that they intend to maintain a 1.1-1.14 times distribution coverage for 2020.

Refined products pipeline volumes are anticipated to be persistently affected by the ongoing pandemic woes with average base business volumes — excluding the impact of expansion projects — declining 6% for gasoline, 12% for distillate and 40% for aviation fuel during the second half of 2020, indicating a downside from the levels recorded in the same period of 2019.

Valuation

Magellan Midstream units are down 34.8% in the year-to-date period and 36.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 41.9% and 35.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 44% and 31.4%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and up 16.4% in the past year.

The stock is currently trading at 9.71X trailing 12-month EV/EBITDA, which compares to 7.96X for the Zacks sub-industry, 4.66X for the Zacks sector and 12.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.86X and as low as 7.35X, with a 5-year median of 16.53X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 11.3X F12M earnings.

The table below shows summary valuation data for MMP

Valuation Multiples - MMP					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	9.71	7.96	4.66	12.62
	5-Year High	19.86	16.22	10.47	12.84
	5-Year Low	7.35	6.65	3.04	8.24
	5-Year Median	16.53	13.27	6.49	10.9
P/E F12M	Current	10.52	7.95	29.69	22.75
	5-Year High	21.82	20.17	61.21	22.75
	5-Year Low	6.31	5.55	11.32	15.25
	5-Year Median	16.56	14.58	18.71	17.58
P/S F12M	Current	3.62	0.64	0.71	3.66
	5-Year High	8.01	1.62	1.46	3.66
	5-Year Low	2.25	0.41	0.59	2.53
	5-Year Median	5.97	1.02	0.99	3.05

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Top 45% (115 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
DCP Midstream Partners, LP (DCP)	Neutral	3
Energy Transfer LP (ET)	Neutral	4
Kinder Morgan, Inc. (KMI)	Neutral	3
NuStar Energy L.P. (NS)	Neutral	3
Plains All American Pipeline, L.P. (PAA)	Neutral	3
Western Gas Equity Partners, LP (WES)	Neutral	3
Enable Midstream Partners, LP (ENBL)	Underperform	5
ONEOK, Inc. (OKE)	Underperform	5

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb				Industry Peers		
	MMP	X Industry	S&P 500	ET	KMI	NS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	4	3	3
VGM Score	D	-	-	B	C	A
Market Cap	9.23 B	1.46 B	23.56 B	17.55 B	32.91 B	1.70 B
# of Analysts	2	3	14	4	4	1
Dividend Yield	10.03%	10.25%	1.71%	18.74%	7.22%	10.25%
Value Score	B	-	-	A	B	B
Cash/Price	0.00	0.03	0.07	0.01	0.02	0.01
EV/EBITDA	9.62	7.72	13.39	6.53	8.55	9.40
PEG Ratio	1.91	0.78	2.92	NA	5.59	NA
Price/Book (P/B)	3.76	1.90	3.18	0.53	1.02	2.27
Price/Cash Flow (P/CF)	7.01	4.06	12.69	2.43	7.07	2.31
P/E (F1)	11.45	9.02	22.16	17.96	16.76	9.88
Price/Sales (P/S)	3.49	1.25	2.55	0.38	2.69	1.13
Earnings Yield	8.73%	8.73%	4.33%	5.53%	5.98%	-3.14%
Debt/Equity	2.01	1.65	0.77	1.59	0.98	4.49
Cash Flow (\$/share)	5.85	2.86	6.94	2.68	2.06	6.75
Growth Score	D	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	7.97%	4.72%	10.41%	2.79%	6.33%	-21.31%
Proj. EPS Growth (F1/F0)	-24.89%	-5.26%	-6.51%	-73.35%	-8.68%	-181.67%
Curr. Cash Flow Growth	8.14%	10.65%	5.26%	41.31%	3.20%	52.91%
Hist. Cash Flow Growth (3-5 yrs)	7.30%	9.39%	8.55%	22.26%	6.59%	11.89%
Current Ratio	0.61	1.18	1.34	1.03	0.48	0.76
Debt/Capital	66.75%	61.32%	44.59%	61.32%	50.07%	61.70%
Net Margin	37.15%	13.61%	10.13%	2.90%	1.41%	0.55%
Return on Equity	38.93%	16.58%	14.59%	8.64%	6.02%	21.79%
Sales/Assets	0.32	0.33	0.51	0.48	0.17	0.25
Proj. Sales Growth (F1/F0)	-8.79%	-9.82%	-1.54%	-10.84%	-9.19%	-11.51%
Momentum Score	D	-	-	C	C	A
Daily Price Chg	0.71%	1.40%	0.91%	1.24%	1.54%	4.21%
1 Week Price Chg	0.52%	4.17%	2.30%	-1.83%	1.56%	4.17%
4 Week Price Chg	0.54%	12.89%	8.54%	2.36%	2.47%	20.26%
12 Week Price Chg	-4.90%	5.00%	13.68%	-16.65%	-6.13%	11.34%
52 Week Price Chg	-36.94%	-42.39%	3.71%	-51.35%	-28.52%	-42.39%
20 Day Average Volume	1,163,212	473,370	2,015,804	22,708,436	12,066,578	655,327
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-19.56%	0.00%	2.60%
(F1) EPS Est 4 week change	-2.66%	0.07%	1.67%	-19.34%	0.87%	8.97%
(F1) EPS Est 12 week change	-1.36%	4.86%	2.27%	-24.58%	5.79%	8.97%
(Q1) EPS Est Mthly Chg	-1.07%	1.29%	0.67%	-12.94%	4.44%	4.92%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	D
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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