

## Magellan Midstream (MMP)

**\$64.13** (As of 01/10/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 07/27/17)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: A

### 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 \$1.26 billion this year, targeting annual distribution growth of 5%. Magellan has also revised up its full-year earnings forecast on expectations of higher volumes from its Longhorn, Saddlehorn and Bridge Tex projects. However, 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 debt burden, which restricts its financial freedom. As such, investors are advised to wait for a better entry point.

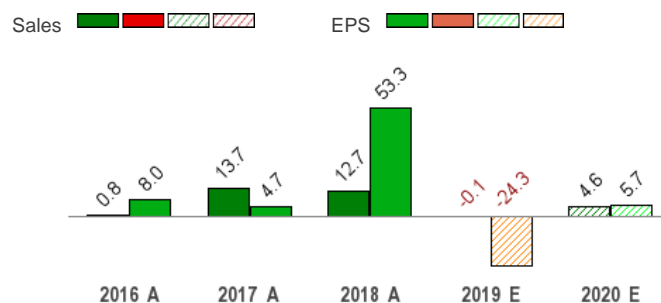
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$67.75 - \$56.75
20 Day Average Volume (sh)	1,008,483
Market Cap	\$14.6 B
YTD Price Change	2.0%
Beta	0.71
Dividend / Div Yld	\$4.08 / 6.4%
Industry	<a href="#">Oil and Gas - Production Pipeline - MLB</a>
Zacks Industry Rank	Top 28% (70 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.2%
Last Sales Surprise	-2.7%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	01/30/2020
Earnings ESP	2.0%
P/E TTM	14.3
P/E F1	13.8
PEG F1	2.3
P/S TTM	5.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	704 E	676 E	682 E	930 E	2,953 E
2019	629 A	702 A	657 A	853 E	2,824 E
2018	679 A	644 A	638 A	866 A	2,827 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.14 E	\$1.10 E	\$1.16 E	\$1.35 E	\$4.67 E
2019	\$1.06 A	\$1.20 A	\$1.19 A	\$1.18 E	\$4.42 E
2018	\$1.05 A	\$1.05 A	\$1.10 A	\$1.03 A	\$5.84 A

\*Quarterly figures may not add up to annual.

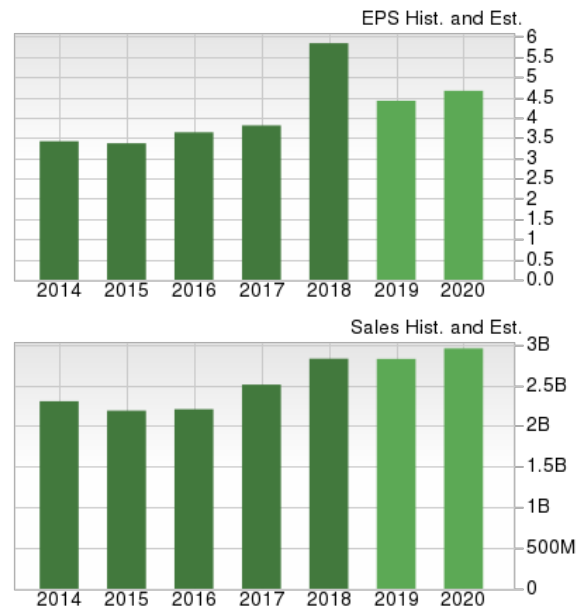
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

## 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 three segments: Refined Products, Crude Oil, and Marine Storage.

- Refined Products:** This unit (accounting for 59% of the partnership's 2018 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.
- Crude Oil:** The division (34%) 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.
- Marine Storage:** This (7%) contains six marine terminals that are spread along coastal waterways with a collective storage capacity of approximately 27 million barrels and another 1.5million barrels per day in spare dock capacity. Magellan Midstream owns five of these facilities and 25 million barrels of storage, while the remainder are joint ventures.



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## 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 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 generate DCF of around \$1.26 billion this year (versus the prior forecast of \$1.22 billion) and is targeting annual distribution growth of 5%.
- ▲ The firm forecasts higher volumes from its Longhorn, Saddlehorn and Bridge Tex projects is likely to have fuelled its earnings in 2019. As such, the firm has also revised up its full-year earnings forecast from \$4.20 a unit to \$4.34, boosting investors' confidence. Further, large-scale expansion projects like Pasadena marine terminal and Houston-to-Hearne pipeline are also likely to buoy the firm's results in the upcoming quarters.

Magellan Midstream's extensive refined products footprint and solid DCF growth bode well.

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## Reasons To Sell:

- ▼ Magellan's stretched balance sheet remains a major headwind. Carrying a huge debt load of around \$4.7 billion, representing leverage of nearly 64% restricts the financial flexibility of the firm and limits growth. Further, while the partnership has slashed its capex from \$1.3 billion to \$1 billion, the amount will still be the firm's biggest capital spending in a single year so far, which may limit the cash flows.
- ▼ 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.
- ▼ The Federal Energy Regulatory Commission's ('FERC') ruling that the interstate oil and natural gas pipelines owned by MLPs can no longer avail a credit for income taxes they do not pay have sparked concerns of lower tariffs and cash flows. Though a number of MLPs (including Magellan Midstream) came out with press releases claiming negligible or no material impact from the FERC ruling, the tax policy change has gripped the sector with wide-ranging concerns and uncertainty. With the new rule expected to be adopted only by 2020, the issue may remain a thorn in the flesh for the foreseeable future.

Magellan Midstream's high leverage of 63% and high capital expenditure forecast of \$1.1 billion in 2019 remain major headwinds.

## Last Earnings Report

### Magellan Midstream Q3 Earnings Beat, Revenue Misses

Magellan Midstream Partners reported third-quarter 2019 adjusted earnings per unit of \$1.19, surpassing the Zacks Consensus Estimate of \$1.09 and the year-ago quarter profit of \$1.10. Strong contribution from Refined Products unit aided the results.

Quarterly revenues of \$656.6 million was higher than the year-ago level of \$638 million but missed the Zacks Consensus Estimate of \$675 million on

Quarter Ending 09/2019

Report Date	Oct 31, 2019
Sales Surprise	-2.73%
EPS Surprise	9.17%
Quarterly EPS	1.19
Annual EPS (TTM)	4.48

### Segmental Performance

Operating margin from the Refined Products segment was \$240.1 million compared with \$214.7 million in the year-ago quarter.

Magellan Midstream's Crude Oil unit generated \$154.4 million of operating margin in the quarter compared to \$153.9 million for the same period in 2018.

For the Marine Storage division, operating margin was \$32.4 million, 11.6% higher than the \$26.1 million earned in the year-ago period.

### DCF & Balance Sheet

Magellan Midstream reported that its distributable cash flow (DCF) for third-quarter 2019 came in at \$306.8 million, up 8.9% from the year-ago quarter.

Notably, on Oct 24, the partnership announced third-quarter cash distribution of \$1.02 per unit (\$4.08 on an annualized basis), representing 4% and 1% annual and sequential growth, respectively. This represents the 70<sup>th</sup> distribution hike since the partnership became public.

As of Sep 30, the partnership had cash and cash equivalents of \$135.5 million, and a long-term debt of \$4.7 billion (with a debt-to-capital ratio of 63.8%).

### Guidance Up

For full-year 2019, management now expects to generate distributable cash flow of approximately \$1.26 billion, up from the prior forecast of \$1.22 billion. Also, it is targeting annual distribution growth of 5%. Magellan projects fourth-quarter earnings per unit to be \$1.13. Projection for full-year earnings per unit has been revised upward to \$4.34 from the previous guidance of \$4.20. The partnership plans to spend approximately \$1 billion on expansion projects in 2019, with expenditures of \$400 million thereafter required to complete these projects. Additionally, the partnership continues to look out for more than \$500 million of potential organic growth projects in the earlier stages of development.

## Valuation

Magellan Midstream units are up 12.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 4.3% and down 0.3%, respectively.

The S&P 500 index is up 28.4% in the past year.

The stock is currently trading at 13.03X trailing 12-month EV/EBITDA, which compares to 9.93X for the Zacks sub-industry, 5.06X for the Zacks sector and 12.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.6X and as low as 12.16X, with a 5-year median of 17.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$68 price target reflects 14.54X 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	13.03	9.93	5.06	12.12
	5-Year High	21.6	18.25	10.22	12.86
	5-Year Low	12.16	9.44	4.56	8.48
	5-Year Median	17.1	13.62	6.49	10.67
P/E F12M	Current	13.72	11.67	14.77	18.88
	5-Year High	25.37	23.71	32.45	19.34
	5-Year Low	12.62	10.66	11.28	15.17
	5-Year Median	17.51	15.45	18.69	17.44
P/S F12M	Current	4.96	0.96	0.89	3.5
	5-Year High	8.34	1.62	1.44	3.5
	5-Year Low	4.51	0.8	0.67	2.54
	5-Year Median	6.37	1.05	0.99	3

As of 01/10/2020

## Industry Analysis Zacks Industry Rank: Top 28% (70 out of 254)



## Top Peers

DCP Midstream Partners, LP (DCP)	Outperform
Enable Midstream Partners, LP (ENBL)	Neutral
EQT Midstream Partners, LP (EQM)	Neutral
Energy Transfer LP (ET)	Neutral
Kinder Morgan, Inc. (KMI)	Neutral
NuStar Energy L.P. (NS)	Neutral
Plains All American Pipeline, L.P. (PAA)	Neutral
Western Gas Equity Partners, LP (WES)	Underperform

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb				Industry Peers		
	MMP Neutral	X Industry	S&P 500	ET Neutral	KMI Neutral	NS Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>A</b>	<b>F</b>	<b>C</b>
Market Cap	14.65 B	2.62 B	24.03 B	34.86 B	48.72 B	2.98 B
# of Analysts	5	3	13	6	6	2
Dividend Yield	6.36%	8.13%	1.78%	9.19%	4.65%	8.68%
<b>Value Score</b>	<b>C</b>	-	-	<b>A</b>	<b>D</b>	<b>C</b>
Cash/Price	0.01	0.02	0.04	0.01	0.01	0.01
EV/EBITDA	10.74	10.16	14.04	9.17	11.82	10.16
PEG Ratio	2.30	3.26	2.02	NA	4.37	16.73
Price/Book (P/B)	5.48	2.44	3.32	1.09	1.41	2.94
Price/Cash Flow (P/CF)	11.85	6.78	13.52	6.97	10.52	6.22
P/E (F1)	13.77	11.04	18.82	9.35	21.84	16.73
Price/Sales (P/S)	5.13	1.64	2.63	0.64	3.57	1.71
Earnings Yield	7.27%	9.06%	5.31%	10.70%	4.60%	5.97%
Debt/Equity	1.81	1.49	0.72	1.49	0.93	2.86
Cash Flow (\$/share)	5.41	2.61	6.94	1.90	2.04	4.44
<b>Growth Score</b>	<b>C</b>	-	-	<b>A</b>	<b>D</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	7.08%	7.08%	10.56%	11.68%	-1.89%	-27.45%
Proj. EPS Growth (F1/F0)	5.59%	0.96%	7.49%	5.71%	2.15%	231.15%
Curr. Cash Flow Growth	15.82%	33.78%	14.83%	-0.02%	18.89%	13.70%
Hist. Cash Flow Growth (3-5 yrs)	11.13%	12.00%	9.00%	14.15%	8.20%	10.66%
Current Ratio	0.83	0.99	1.23	1.00	0.35	0.26
Debt/Capital	64.42%	55.26%	42.99%	59.79%	48.84%	55.26%
Net Margin	36.75%	14.34%	11.08%	5.94%	15.21%	-10.42%
Return on Equity	38.78%	10.93%	17.16%	10.93%	6.25%	10.82%
Sales/Assets	0.36	0.34	0.55	0.60	0.18	0.28
Proj. Sales Growth (F1/F0)	4.57%	4.57%	4.20%	6.03%	2.33%	-3.42%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>B</b>	<b>F</b>	<b>F</b>
Daily Price Chg	0.75%	-0.19%	-0.33%	-1.19%	-0.19%	0.95%
1 Week Price Chg	1.57%	0.78%	-0.30%	4.31%	0.57%	1.72%
4 Week Price Chg	2.67%	2.83%	1.71%	4.98%	6.75%	2.14%
12 Week Price Chg	-1.32%	1.17%	6.05%	5.65%	7.17%	-0.82%
52 Week Price Chg	2.72%	0.96%	22.39%	-12.12%	23.91%	10.82%
20 Day Average Volume	1,008,483	426,863	1,580,816	14,264,547	10,199,742	1,201,703
(F1) EPS Est 1 week change	0.08%	0.00%	0.00%	0.26%	-0.28%	0.00%
(F1) EPS Est 4 week change	0.54%	0.00%	0.00%	-0.70%	0.33%	0.00%
(F1) EPS Est 12 week change	0.92%	-0.99%	-0.50%	-3.59%	-0.50%	-4.48%
(Q1) EPS Est Mthly Chg	1.71%	0.00%	0.00%	-0.31%	0.00%	0.00%

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## 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.

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### 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	C
Growth Score	C
Momentum Score	A
VGM Score	C

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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