

Magellan Midstream (MMP)

\$40.77 (As of 07/13/20)

Price Target (6-12 Months): **\$43.00**

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:B

Value: C

Growth: B

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-\$1.2 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.

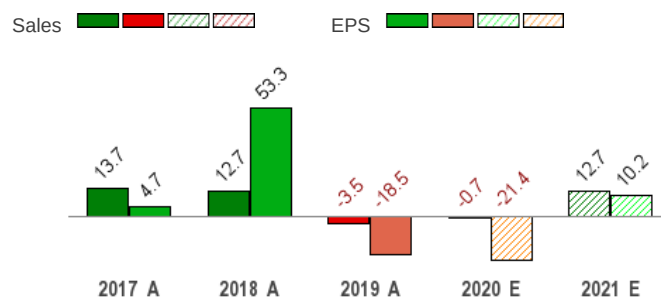
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$67.75 - \$22.02
20 Day Average Volume (sh)	1,370,549
Market Cap	\$9.2 B
YTD Price Change	-35.2%
Beta	1.05
Dividend / Div Yld	\$4.11 / 10.1%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Top 26% (65 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	24.3%
Last Sales Surprise	15.4%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	07/30/2020
Earnings ESP	1.6%
P/E TTM	8.2
P/E F1	10.9
PEG F1	1.8
P/S TTM	3.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	753 E	790 E	772 E	970 E	3,053 E
2020	783 A	628 E	622 E	724 E	2,709 E
2019	629 A	702 A	657 A	741 A	2,728 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.49 E	\$0.94 E	\$1.05 E	\$1.16 E	\$4.12 E
2020	\$1.28 A	\$0.74 E	\$0.85 E	\$0.95 E	\$3.74 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.

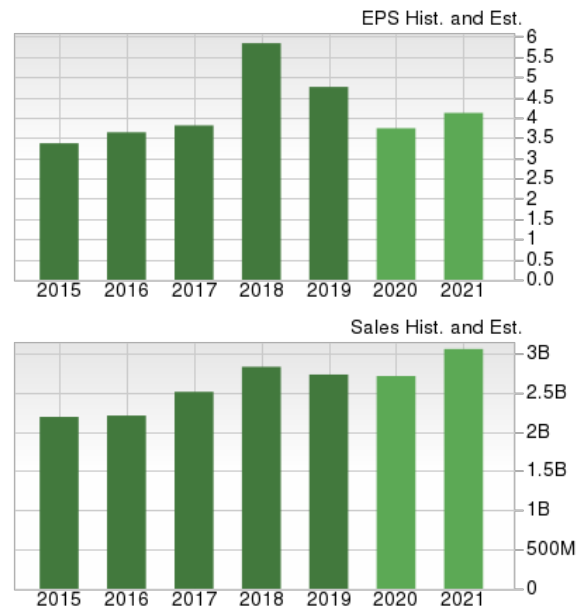
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/13/2020. The reports text is as of 07/14/2020.

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 1.15 times in 2020.

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

Reasons To Sell:

- ▼ Magellan Midstream's elevated debt burden is a concern for investors. The partnership has a total debt of around \$4.9 billion, with only \$139 million in cash & cash equivalents. Moreover, Magellan Midstream's debt-to-capitalization as of the end of first quarter 2020 was 65.7%, deteriorating significantly from 64.2% 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 \$4.8 billion restricts the financial flexibility of the firm and limits growth.

Last Earnings Report

Magellan Midstream Q1 Earnings Beat Estimates, DCF Falls

Magellan Midstream Partners reported first-quarter 2020 adjusted earnings per unit of \$1.28, surpassing the Zacks Consensus Estimate of \$1.03 as well as the year-ago profit of \$1.06. Strong contribution from Refined Products unit aided results.

Quarterly revenues of \$783 million not only rose from the year-ago level of \$629 million but also outpaced the Zacks Consensus Estimate of \$679 million.

Quarter Ending 03/2020

Report Date	May 01, 2020
Sales Surprise	15.35%
EPS Surprise	24.27%
Quarterly EPS	1.28
Annual EPS (TTM)	4.98

Segmental Performance

Refined Products: Revenues from the segment came in at \$629 million, up from \$468.5 million recorded in the year-ago period. Notably, total volumes shipped in the quarter under review were 119.8 million barrels compared with 116.1 million barrels a year ago. Operating margin from the segment expanded to \$305.8 million in the first quarter from \$207.4 million in the corresponding period of 2019. While depreciation costs increased year over year, general & administration expenses decreased. Operating profit of the segment increased 78.6% year over year to \$233 million.

Crude Oil: Quarterly revenues grossed \$164.5 million, up 6% year over year on the back of higher volumes. Total volumes shipped in the quarter were 75.1 million barrels, down from 79.4 million barrels a year ago. Operating margin decreased to \$119.9 million from \$142.8 million in the prior year. Operating profit of \$93.7 million declined 17.6% year over year due to lower volumes and margins.

DCF & Balance Sheet

Magellan Midstream reported that its distributable cash flow (DCF) for the first quarter summed \$306.5 million, dipping 3.6% from the year-ago level.

Notably, on Apr 23, the partnership announced first-quarter cash distribution of \$1.0275 per unit (\$4.11 on an annualized basis), representing 2% annual growth. The amount is payable May 15 to unitholders of record as of May 8.

As of Mar 31, 2020, the partnership had cash and cash equivalents worth \$139 million, and a long-term debt of \$4.75 billion.

2020 Outlook

As a result of the coronavirus-caused oil price plunge, management expects to generate distributable cash flows in the \$1,000-\$1,075 million range for the full year and is planning to retain the current level of cash distribution for the rest of the year. Magellan Midstream projected second-quarter 2020 earnings per unit between 35 cents and 50 cents while for the full year, earnings are estimated in the \$3.35-\$3.70 band.

The firm plans to spend \$400 million on completing certain expansion projects in the ongoing year. Additionally, Magellan Midstream continues to look out for more than \$500 million worth of potential organic growth projects in their nascent stages of development.

Valuation

Magellan Midstream units are down 35.1% in the year-to-date period and 38.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 44.7% and 38.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 51.1% and 41.8%, respectively.

The S&P 500 index is down 1.7% in the year-to-date period but up 5.5% in the past year.

The stock is currently trading at 8.84X trailing 12-month EV/EBITDA, which compares to 7.46X for the Zacks sub-industry, 3.91X for the Zacks sector and 11.72X 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 16.55X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$43 price target reflects 10.9X 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	8.84	7.46	3.91	11.72
	5-Year High	19.86	16.74	10.45	12.86
	5-Year Low	7.35	6.65	3.03	8.25
	5-Year Median	16.55	13.35	6.5	10.87
P/E F12M	Current	10.34	7.66	43.61	22.46
	5-Year High	21.82	21.24	62.23	22.46
	5-Year Low	6.31	5.55	11.34	15.25
	5-Year Median	16.66	14.68	18.59	17.52
P/S F12M	Current	3.17	0.59	0.72	3.51
	5-Year High	8.01	1.62	1.46	3.51
	5-Year Low	2.25	0.41	0.59	2.53
	5-Year Median	6.03	1.03	0.99	3.02

As of 07/13/2020

Industry Analysis Zacks Industry Rank: Top 26% (65 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
DCP Midstream Partners, LP (DCP)	Outperform	1
Enable Midstream Partners, LP (ENBL)	Neutral	3
Energy Transfer LP (ET)	Neutral	3
Kinder Morgan, Inc. (KMI)	Neutral	3
ONEOK, Inc. (OKE)	Neutral	3
Plains All American Pipeline, L.P. (PAA)	Neutral	3
Western Gas Equity Partners, LP (WES)	Neutral	3
NuStar Energy L.P. (NS)	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	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	B	-	-	B	D	A
Market Cap	9.18 B	1.25 B	21.41 B	17.11 B	32.09 B	1.42 B
# of Analysts	3	3	14	5	3	1
Dividend Yield	10.08%	12.33%	1.92%	19.18%	7.40%	12.33%
Value Score	C	-	-	A	D	B
Cash/Price	0.02	0.06	0.07	0.01	0.03	0.01
EV/EBITDA	9.07	7.03	12.70	6.39	8.39	8.98
PEG Ratio	1.81	0.69	2.87	NA	5.50	NA
Price/Book (P/B)	3.65	1.44	3.02	0.53	0.96	1.89
Price/Cash Flow (P/CF)	6.97	3.18	11.61	2.37	6.90	1.92
P/E (F1)	10.87	8.04	21.07	10.89	16.50	8.95
Price/Sales (P/S)	3.18	1.04	2.23	0.32	2.49	0.92
Earnings Yield	9.17%	9.17%	4.47%	9.12%	6.06%	-4.78%
Debt/Equity	1.69	1.44	0.76	1.57	0.94	4.49
Cash Flow (\$/share)	5.85	2.86	6.94	2.68	2.06	6.75
Growth Score	B	-	-	C	D	A
Hist. EPS Growth (3-5 yrs)	8.32%	5.73%	10.85%	5.73%	4.23%	-24.03%
Proj. EPS Growth (F1/F0)	-21.43%	-7.04%	-9.37%	-57.06%	-9.47%	-203.33%
Curr. Cash Flow Growth	8.14%	10.65%	5.51%	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	0.37	1.02	1.30	0.83	0.55	0.76
Debt/Capital	62.80%	61.11%	44.46%	61.11%	49.04%	61.70%
Net Margin	38.20%	14.24%	10.59%	3.54%	10.31%	1.59%
Return on Equity	43.14%	18.47%	15.75%	10.30%	6.24%	23.62%
Sales/Assets	0.35	0.35	0.55	0.56	0.17	0.25
Proj. Sales Growth (F1/F0)	-0.70%	-5.03%	-2.54%	-6.48%	-9.16%	-12.23%
Momentum Score	A	-	-	F	D	A
Daily Price Chg	-0.61%	-2.35%	-0.19%	-1.24%	-0.35%	-3.49%
1 Week Price Chg	-4.65%	-3.36%	-0.41%	-8.52%	-5.82%	-1.32%
4 Week Price Chg	-10.10%	-22.94%	-0.91%	-21.87%	-10.47%	-25.27%
12 Week Price Chg	2.72%	9.46%	10.22%	4.61%	-3.40%	40.17%
52 Week Price Chg	-38.27%	-57.34%	-7.40%	-57.34%	-33.19%	-54.30%
20 Day Average Volume	1,370,549	454,133	2,267,087	26,724,682	12,280,195	935,781
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.26%	0.00%	0.00%	-0.71%	0.00%	0.00%
(F1) EPS Est 12 week change	-0.92%	-2.50%	-6.60%	-7.53%	-9.83%	14.47%
(Q1) EPS Est Mthly Chg	-0.23%	0.00%	0.00%	-0.50%	0.00%	-16.44%

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	C
Growth Score	B
Momentum Score	A
VGM Score	B

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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