

Murphy USA Inc. (MUSA)

\$102.47 (As of 05/01/20)

Price Target (6-12 Months): **\$118.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**
(Since: 04/01/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5) **2-Buy**

Zacks Style Scores: VGM:A

Value: A | Growth: A | Momentum: A

Summary

Murphy USA shares have outperformed the Zacks Oil Refining & Marketing industry over the past year (-18.8% vs. -39.4%) and looks well positioned for future price appreciation. A low-cost, high-volume fuel seller, Murphy USA's stations are located near Walmart supercenters. This enables the company to attract significantly more transactions than its peers. The company's access to pipelines and product distribution terminals is another key competitive advantage, helping to keep costs down in the fiercely competitive retail space. Discount pricing and shareholder friendly capital allocations are other positives in the Murphy USA story while the successful rollout of the Murphy Drive Rewards program led to a surge in new customers. Consequently, Murphy USA is expected to offer substantial upside potential from the current price levels.

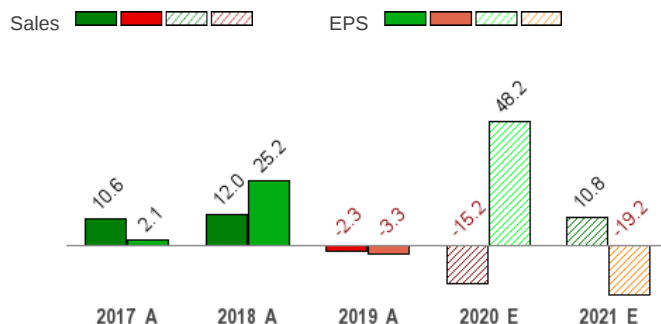
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$121.24 - \$78.75
20 Day Average Volume (sh)	387,521
Market Cap	\$3.1 B
YTD Price Change	-12.4%
Beta	1.00
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Bottom 26% (188 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.3%
Last Sales Surprise	4.7%
EPS F1 Est- 4 week change	30.3%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	12.8
P/E F1	13.2
PEG F1	4.0
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,031 E	3,193 E	3,308 E	3,221 E	13,188 E
2020	3,185 A	2,606 E	3,044 E	3,068 E	11,902 E
2019	3,116 A	3,800 A	3,658 A	3,460 A	14,035 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.80 E	\$1.52 E	\$2.26 E	\$1.73 E	\$6.26 E
2020	\$2.92 A	\$2.53 E	\$1.64 E	\$1.41 E	\$7.75 E
2019	\$0.16 A	\$1.01 A	\$2.55 A	\$1.54 A	\$5.23 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 05/01/2020. The reports text is as of 05/04/2020.

Overview

Murphy USA Inc. is a leading independent retailer of motor fuel and convenience merchandise in the United States. The El Dorado, AR-based company, in its current form, came into existence following the 2013 spin-off of Murphy Oil Corporation's downstream business into a separate, independent and publicly-traded entity.

Murphy USA markets refined products through a chain of retail stations, almost all of which are located near a Walmart supercenter, primarily in the Southeast, Southwest and Midwest United States.

As of Dec 31, 2019, the company had 1,489 retail fuel stations – under Murphy USA and Murphy Express brands – encompassing 26 states. Of the total, 1,161 stores are branded Murphy USA, while the remaining 328 are standalone Murphy Express locations. Apart from the retail outlets, Murphy USA operates certain product distribution terminals and ethanol production plants.

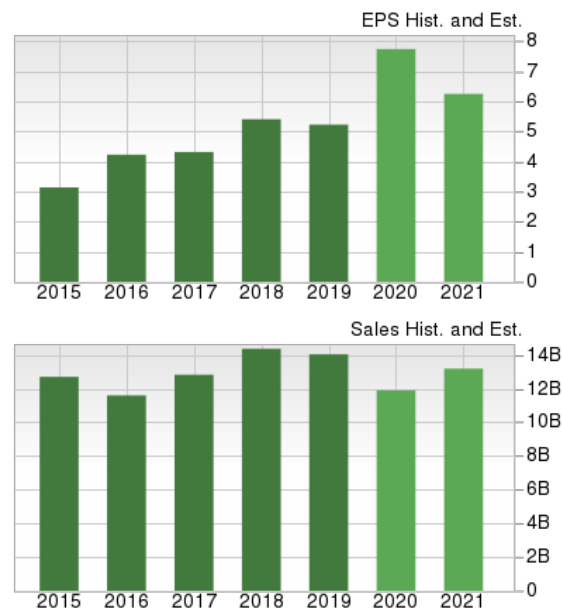
The company, which caters to approximately 1.6 million customers daily, also owns a dedicated line space on the Colonial Pipeline - the largest refined products system in the country and the biggest gasoline mover.

Meanwhile, Murphy USA's revenue was down 2.3% year over year to \$14 billion in 2019, while the company's income was \$154.8 million (or \$4.86 per diluted share), down 27.5% year over year. Operating cash flow fell to \$313.3 million in 2019 from \$398.7 million in 2018.

Murphy USA remains committed to returning excess cash to shareholders through continued share buyback programs. As part of this initiative, the fuel retailer repurchased \$165.8 million of its common stock through 2019. For the record, over the past five years, management has returned around \$950 million to shareholders in the form of stock buybacks.

Average retail gasoline prices per gallon during 2019 were \$2.33 versus \$2.48 in 2018. Total retail gallons grew 3.4% to 4.4 billion gallons for the full year while same-store sales (SSS) volumes edged up 1.2%.

In 2020, Murphy USA plans to keep its capital expenditures between \$225 million and \$275 million versus \$215 million incurred last year. Further, the company's 2020 guidance include 30 new stores and up to 25 raze-and-rebuilds.



Reasons To Buy:

- ▲ Murphy USA's unique high-volume low-cost business model helps it retain high profitability even in the fiercely competitive retail environment. The company, which sells more than 4 billion gallons of retail fuel annually, owns more than 90% of its gasoline stations. This allows Murphy USA to keep its operating expenses low. The proximity of Murphy USA's fuel stations to Walmart supercenters helps the company to leverage the strong and consistent traffic that these stores attract, thereby driving above-average fuel sales volume.
- ▲ Murphy USA's sourcing infrastructure is another key competitive advantage for the company. With access to pipelines and product distribution terminals, Murphy USA is able to access fuel at a cost lower than most of its peers, which allows it to sell retail gasoline at a discount.
- ▲ Through its shareholder-friendly capital allocations, Murphy USA is committed to return a part of its free cash flow to shareholders through continued and ongoing share repurchases. As a proof, the company spend 48% of its capital budget through 2015 to 2019 on stock buybacks.
- ▲ The successful pilot launch of its loyalty program Murphy Drive Rewards in 2018 bodes well. The customer appreciation program, whose rollout should be complete by the second quarter, analyzes customer behavior and is likely to attract new customers and thereby position it for higher profits.

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Risks

- Gasoline prices have been weak recently. The lower profitability for the most widely used petroleum product have hurt Murphy USA's revenues. To be precise, average retail gasoline prices during the most recent quarter were \$2.14 per gallon, falling slightly from \$2.15 per gallon a year ago.
 - We remain concerned about Murphy USA' high debt levels, which leave it vulnerable to any volatility in commodity prices. Its total debt is currently more than \$1 billion, with only \$200 million in cash & cash equivalents. Importantly, the company's debt-to-capitalization as of the end of first-quarter, 2020 was 58.2%, deteriorating from 56.4% from the prior quarter.
 - Being in the convenience store business, Murphy USA is highly dependent on tobacco sales. With smoking rates falling, the company's tobacco comps continue to remain under pressure. The tepid tobacco sales not only affect top line performance but also limits margin growth.
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Last Earnings Report

Murphy USA Q1 Earnings & Revenues Top

Shares of Murphy USA Inc. rallied after it reported earnings and sales that were better than expectations even as it withdrew full-year retail fuel volume guidance for 2020 amid coronavirus uncertainty.

The company reported first-quarter 2020 earnings per share of \$2.92, beating the Zacks Consensus Estimate of \$2.80 and significantly higher than the year-earlier quarter's bottom line of 16 cents.

The outperformance could be attributed to strong retail margin of 26.9 cents per gallon, which soared 220% year over year and also breezed past the Zacks Consensus Estimate of 9.7 cents.

Murphy USA's operating revenues of \$3.2 billion rose 2.2% year over year and beat the Zacks Consensus Estimate by \$142.7 million due to higher merchandise sales.

Revenues from petroleum product sales came in at \$2.5 billion, down 1% from the first quarter of 2019. However, merchandise sales, at \$687.5 million, rose 13.4% year over year.

The beat on the top and bottom lines sent Murphy USA stock up more than 5% to change hands at \$108.22 a share on Friday. Yet, shares are about 7.6% lower year to date.

Key Takeaways

The company's total fuel contribution surged 84.9% year over year to \$237 million, primarily on the back of margin expansion. Total fuel contribution (including retail fuel margin plus product supply and wholesale results) came in at 22.5 cents per gallon, improving from 12.3 cents per gallon in the first quarter of 2019.

Retail fuel contribution more than tripled year over year to \$283 million driven by soaring margins, which jumped to 26.9 cents per gallon from 8.4 cents in the corresponding period of 2019. While retail gallons edged up 1.2% from the year-ago period to 1,053.7 million in the quarter under review, it failed to beat the Zacks Consensus Estimate of \$1,081 million. Volumes on an SSS basis (or, fuel gallons per month) fell 1% from the first quarter of 2019. Meanwhile, average retail gasoline prices during the quarter were \$2.14 per gallon, essentially flat from a year ago.

Contribution from Merchandise increased 10.3% to \$107.5 million on higher sales even as unit margins, at 15.6%, fell from the year-ago period's 16.1%. On SSS basis, total merchandise contribution was up 9.4% year over year in the quarter under review on the back of higher tobacco margins that increased 17.2%. Meanwhile, merchandise sales rose 11.8% on SSS basis.

Fuel gallons were down slightly (by 0.2%) while merchandise sales increased 11.8% on average per store month (or APSM) basis.

Balance Sheet

As of Mar 31, Murphy USA — which opened two new retail locations in the quarter to bring its store count to 1,491 — had cash and cash equivalents of \$200.3 million, and long-term debt (including lease obligations) of \$987.4 million, with a debt-to-capitalization ratio of 56.9%.

During the quarter, the company bought back shares worth \$140.6 million.

Guidance

Notwithstanding Murphy USA's stellar first-quarter performance, the coronavirus outbreak and efforts to stem the contagion's spread are likely to throw up significant challenges to the business. As it is, the motor fuel retailer is facing lower customer demand since mid-March, while store wise average retail fuel volumes on APSM basis are currently trending below the earlier 2020 projection of 250-255 thousand gallons. This has prompted the El Dorado, AR-based company to take back its retail fuel volume expectation for this year. But Murphy USA is still maintaining its guidance for organic growth, fuel break-even, corporate costs and capital spending.

Quarter Ending 03/2020

Report Date	Apr 17, 2020
Sales Surprise	4.68%
EPS Surprise	4.29%
Quarterly EPS	2.92
Annual EPS (TTM)	8.02

Valuation

Murphy USA shares are down 12.4% in the year-to-date period and 18.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 44.1% and 41% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 39.4% and 44.5%, respectively.

The S&P 500 index is down 12% in the year-to-date period and 3.7% in the past year.

The stock is currently trading at 7.03X trailing 12-month EV/EBITDA, which compares to 5.52X for the Zacks sub-industry, 3.72X for the Zacks sector and 10.36X for the S&P 500 index.

Over the past five years, the stock has traded as high as 12.38X and as low as 5.91X, with a 5-year median of 8.52X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$118 price target reflects 16.3X F12M earnings.

The table below shows summary valuation data for MUSA

Valuation Multiples - MUSA					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	7.03	5.52	3.72	10.36
	5-Year High	12.38	16.48	10.4	12.87
	5-Year Low	5.91	4.15	3.02	8.27
	5-Year Median	8.52	7.31	6.53	10.78
P/E F12M	Current	14.15	89.54	56.2	20.18
	5-Year High	25.62	89.54	56.2	20.18
	5-Year Low	11.73	8.02	11.25	15.19
	5-Year Median	16.45	11.12	18.43	17.44
P/S F12M	Current	0.24	0.24	0.67	3.19
	5-Year High	0.27	0.37	1.46	3.44
	5-Year Low	0.14	0.17	0.58	2.54
	5-Year Median	0.19	0.29	0.99	3.01

As of 05/01/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
TravelCenters of America LLC (TA)	Outperform	2
Advance Auto Parts, Inc. (AAP)	Neutral	4
CrossAmerica Partners LP (CAPL)	Neutral	3
Caseys General Stores, Inc. (CASY)	Neutral	3
Delek US Holdings, Inc. (DK)	Neutral	3
Global Partners LP (GLP)	Neutral	3
NGL Energy Partners LP (NGL)	Neutral	3
Sunoco LP (SUN)	Neutral	3

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	MUSA	X Industry	S&P 500	AAP	CASY	SUN
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	4	3	3
VGM Score	A	-	-	A	A	A
Market Cap	3.11 B	1.37 B	20.61 B	8.06 B	5.51 B	2.41 B
# of Analysts	4	5	14	9	7	5
Dividend Yield	0.00%	0.00%	2.11%	0.86%	0.85%	13.61%
Value Score	A	-	-	B	B	A
Cash/Price	0.06	0.15	0.06	0.05	0.01	0.01
EV/EBITDA	9.83	4.56	11.87	11.68	11.08	8.36
PEG Ratio	4.01	4.38	2.47	1.54	2.99	NA
Price/Book (P/B)	4.16	0.94	2.67	2.28	3.47	3.18
Price/Cash Flow (P/CF)	10.31	4.71	10.66	10.19	12.37	5.40
P/E (F1)	13.22	20.45	19.01	16.20	24.83	8.94
Price/Sales (P/S)	0.22	0.23	2.10	0.83	0.58	0.15
Earnings Yield	7.56%	-0.09%	5.05%	6.18%	4.03%	11.17%
Debt/Equity	1.32	0.62	0.72	0.78	0.45	4.04
Cash Flow (\$/share)	10.36	4.65	7.01	11.86	12.24	4.60
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	12.51%	11.57%	10.88%	-2.00%	1.13%	NA
Proj. EPS Growth (F1/F0)	48.14%	-64.40%	-7.32%	-12.13%	-5.99%	-3.76%
Curr. Cash Flow Growth	2.05%	2.05%	5.92%	7.27%	22.43%	-6.73%
Hist. Cash Flow Growth (3-5 yrs)	0.79%	10.33%	8.55%	-0.81%	11.03%	46.38%
Current Ratio	1.32	1.29	1.23	1.27	0.35	1.24
Debt/Capital	56.94%	39.06%	43.84%	43.79%	31.04%	80.15%
Net Margin	1.69%	1.69%	11.08%	5.01%	2.38%	1.89%
Return on Equity	31.86%	10.26%	16.44%	16.41%	15.01%	34.36%
Sales/Assets	5.39	1.63	0.54	0.87	2.49	3.04
Proj. Sales Growth (F1/F0)	-15.19%	-15.40%	-1.42%	-3.88%	0.00%	-14.59%
Momentum Score	A	-	-	C	A	C
Daily Price Chg	-2.08%	-0.45%	-2.39%	-3.20%	-2.74%	0.12%
1 Week Price Chg	1.60%	1.68%	-1.74%	-1.07%	-0.11%	12.17%
4 Week Price Chg	26.66%	41.47%	17.07%	36.76%	20.12%	67.59%
12 Week Price Chg	1.40%	-26.66%	-18.53%	-10.02%	-7.33%	-20.83%
52 Week Price Chg	25.80%	-30.23%	-9.82%	-27.50%	15.38%	-20.40%
20 Day Average Volume	387,521	1,165,524	2,641,413	912,004	275,288	1,027,811
(F1) EPS Est 1 week change	0.00%	-18.77%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	30.26%	-57.97%	-6.62%	-16.11%	0.07%	-10.43%
(F1) EPS Est 12 week change	36.70%	-70.44%	-13.28%	-20.22%	2.18%	-10.67%
(Q1) EPS Est Mthly Chg	134.99%	-89.19%	-11.97%	-29.17%	-3.68%	-32.99%

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	A
Growth Score	A
Momentum Score	A
VGM Score	A

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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