

Murphy USA Inc. (MUSA)

\$97.02 (As of 04/06/20)

Price Target (6-12 Months): **\$112.00**

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:B

Value: B

Growth: B

Momentum: F

Summary

Murphy USA shares have outperformed the Zacks Oil Refining & Marketing industry over the past year (-18.9% vs. -58.1%) and looks well positioned for further 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.

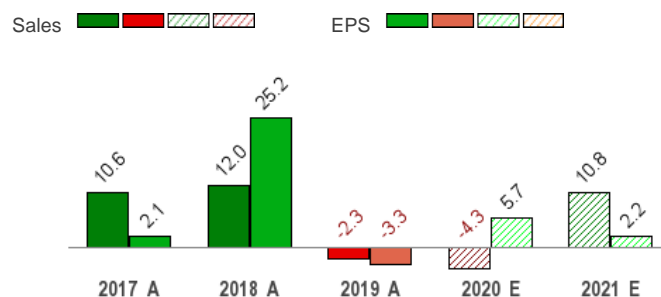
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$121.24 - \$78.75
20 Day Average Volume (sh)	683,400
Market Cap	\$2.9 B
YTD Price Change	-17.1%
Beta	0.82
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Oil and Gas - Refining and Marketing
Zacks Industry Rank	Bottom 31% (175 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.2%
Last Sales Surprise	-3.1%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	04/17/2020
Earnings ESP	81.0%
P/E TTM	18.4
P/E F1	17.5
PEG F1	5.3
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,531 E	3,941 E	4,004 E	3,784 E	14,878 E
2020	3,315 E	3,132 E	3,522 E	3,459 E	13,428 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	\$0.34 E	\$1.35 E	\$2.31 E	\$1.88 E	\$5.65 E
2020	\$1.05 E	\$0.80 E	\$2.04 E	\$1.52 E	\$5.53 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 04/06/2020. The reports text is as of 04/07/2020.

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.

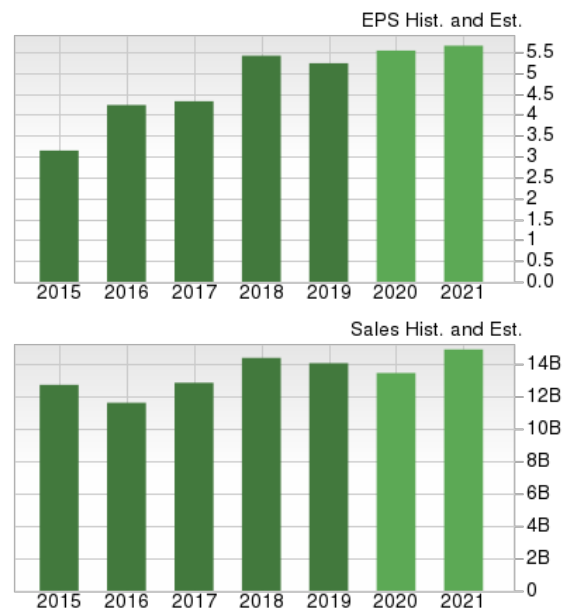
The company, which caters to approximately 1.6 million customers daily, also owns a dedicated line space on the Colonial Pipeline - the largest refined products system in the country and the biggest gasoline mover.

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 78% of its capital budget through 2014 to 2018 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 \$2.30 per gallon, falling from \$2.34 per gallon a year ago.
 - We remain concerned about Murphy USA' high debt levels, which leave it vulnerable to any volatility in commodity prices. As of Dec 31, 2019, the company had long-term debt of \$999.3 million, which represents a debt-to-capitalization ratio of above 55%. The high leverage restricts the financial flexibility of the firm and limits growth.
 - 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 Q4 Earnings Beat, Revenues Miss

Murphy USA reported fourth-quarter 2019 earnings per share of \$1.54, beating the Zacks Consensus Estimate of \$1.45. The outperformance could be attributed to robust contribution from the motor fuel retailer's merchandise unit.

However, the bottom line was below the year-earlier quarter's earnings of \$2.38 per share due to weak retail gallons and margins, which fell 1.6% and 34.6% year over year, respectively.

Murphy USA's operating revenues of \$3.5 billion fell 1.2% year over year and missed the Zacks Consensus Estimate by \$111 million, primarily hurt by lower retail gasoline prices and fuel volumes. To be precise, average retail gasoline prices during the quarter were \$2.30 per gallon, falling from \$2.34 per gallon a year ago. Meanwhile, monthly fuel gallons fell 3.4%.

Revenues from petroleum product sales came in at \$2.8 billion, down 3.4% from the fourth quarter of 2018. However, merchandise sales, at \$674 million rose 9.5% year over year.

Key Takeaways

The company's total fuel contribution was down 16% year over year to \$183.1 million, impacted by volume and margin contraction. Total fuel contribution (including retail fuel margin plus product supply and wholesale results) came in at 17.1 cents per gallon, deteriorating from 20 cents per gallon in the fourth quarter of 2018.

Retail fuel contribution slumped 35.9% year over year to \$159.5 million as margins decreased to 14.9 cents per gallon (from 22.8 cents in the corresponding period of 2018). Retail gallons edged down 1.6% from the year-ago period to 1,071.9 million in the quarter under review. Volumes on an SSS basis (or, fuel gallons per month) fell 3.4% from the fourth quarter of 2018.

Contribution from Merchandise increased 3% to \$105.2 million on higher sales and strong performance from new stores even as unit margins, at 15.6%, fell from the year-ago period's 16.6%. On SSS basis, total merchandise contribution was up 2.1% year over year in the quarter under review on the back of higher tobacco margins that increased 8.1%. Meanwhile, merchandise sales rose 7.4% on SSS basis.

Fuel gallons fell 3% while merchandise sales increased 7.9% on average per store month (or APSM) basis.

Balance Sheet

As of Dec 31, Murphy USA — which opened 10 new retail location to bringing its store count to 1,489 — had cash and cash equivalents of \$280.3 million, and long-term debt (including lease obligations) of \$999.3 million, with a debt-to-capitalization ratio of 55.4%.

During the quarter, the company bought back shares worth \$26.6 million.

Guidance

Murphy USA's 2020 guidance assumes certain cost headwinds. SG&A expenses (at the midpoint of the projected range) are expected to be up more than 3% versus 2019. Meanwhile, operating costs per store is projected to increase between 1% to 3%. Assuming a fuel margin of 16.2 cents per gallon, management sees adjusted EBITDA at \$440 million – up from \$423 million reported last year. Further, the company's 2020 guidance include 30 new stores and up to 25 raze-and-rebuilds, \$430-\$435 million in merchandise margin contribution, and \$225-\$275 million in capital expenditures.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	-3.12%
EPS Surprise	6.21%
Quarterly EPS	1.54
Annual EPS (TTM)	5.26

Valuation

Murphy USA shares are down 17% in the year-to-date period and 18.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 59.1% and 45.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 58.1% and 51.5%, respectively.

The S&P 500 index is down 22.6% in the year-to-date period and 14.2% in the past year.

The stock is currently trading at 8.56X trailing 12-month EV/EBITDA, which compares to 4.66X for the Zacks sub-industry, 3.64X for the Zacks sector and 9.1X 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 9.06X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$112 price target reflects 19.64X 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	8.56	4.66	3.64	9.1
	5-Year High	12.38	16.47	10.37	12.87
	5-Year Low	5.91	4.3	3.1	8.27
	5-Year Median	9.06	7.39	6.51	10.78
P/E F12M	Current	17.02	9.22	23.37	15.73
	5-Year High	25.62	15.83	32.31	19.34
	5-Year Low	11.73	8.02	11.27	15.19
	5-Year Median	16.48	10.9	18.55	17.44
P/S F12M	Current	0.2	0.16	0.6	2.72
	5-Year High	0.25	0.37	1.45	3.44
	5-Year Low	0.14	0.16	0.58	2.54
	5-Year Median	0.19	0.29	0.99	3

As of 04/06/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 253)



Top Peers

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

Industry Comparison Industry: Oil And Gas - Refining And Marketing				Industry Peers		
	MUSA Outperform	X Industry	S&P 500	AAP Neutral	CASY Neutral	SUN Neutral
VGM Score	B	-	-	A	B	A
Market Cap	2.94 B	788.18 M	18.06 B	6.62 B	5.00 B	1.60 B
# of Analysts	4	5	13	9	7	5
Dividend Yield	0.00%	0.00%	2.34%	1.04%	0.94%	20.56%
Value Score	B	-	-	B	B	A
Cash/Price	0.11	0.16	0.06	0.07	0.01	0.01
EV/EBITDA	8.94	3.73	11.15	9.79	10.07	7.03
PEG Ratio	5.32	1.96	1.87	0.94	2.64	NA
Price/Book (P/B)	3.72	0.84	2.46	1.87	3.15	2.11
Price/Cash Flow (P/CF)	9.36	3.46	9.59	8.08	11.11	3.49
P/E (F1)	17.54	13.17	15.66	11.52	21.53	5.30
Price/Sales (P/S)	0.21	0.17	1.92	0.68	0.52	0.10
Earnings Yield	5.70%	7.57%	6.30%	8.68%	4.65%	18.87%
Debt/Equity	1.24	0.62	0.70	0.78	0.45	4.04
Cash Flow (\$/share)	10.36	4.65	7.01	11.86	12.24	4.60
Growth Score	B	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	7.46%	11.39%	10.92%	-2.00%	1.13%	NA
Proj. EPS Growth (F1/F0)	5.78%	-6.58%	0.33%	1.59%	14.65%	7.45%
Curr. Cash Flow Growth	2.05%	2.05%	5.93%	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	1.41	1.29	1.24	1.27	0.35	1.24
Debt/Capital	55.45%	39.06%	42.36%	43.79%	31.04%	80.15%
Net Margin	1.10%	1.93%	11.64%	5.01%	2.38%	1.89%
Return on Equity	20.84%	10.31%	16.74%	16.41%	15.01%	34.36%
Sales/Assets	5.41	1.63	0.54	0.87	2.49	3.04
Proj. Sales Growth (F1/F0)	-4.32%	-2.18%	1.00%	0.00%	0.21%	-17.42%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	14.53%	8.99%	7.93%	13.18%	12.78%	9.10%
1 Week Price Chg	1.99%	-3.47%	-4.40%	-11.45%	-8.82%	-5.76%
4 Week Price Chg	-13.20%	-7.52%	-6.89%	-26.50%	-20.94%	-27.00%
12 Week Price Chg	-14.20%	-49.83%	-24.81%	-34.04%	-19.50%	-49.06%
52 Week Price Chg	18.90%	-48.06%	-17.63%	-46.05%	4.64%	-48.18%
20 Day Average Volume	683,400	987,126	4,147,873	1,474,182	575,535	1,282,910
(F1) EPS Est 1 week change	0.87%	-4.36%	0.00%	-3.02%	-1.47%	0.00%
(F1) EPS Est 4 week change	0.26%	-32.38%	-4.97%	-8.07%	1.05%	-3.81%
(F1) EPS Est 12 week change	-1.87%	-38.79%	-6.79%	-8.22%	0.20%	3.48%
(Q1) EPS Est Mthly Chg	-46.53%	-46.53%	-7.32%	-11.71%	5.37%	-6.55%

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	B
Momentum Score	F
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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