

Murphy USA Inc. (MUSA)

\$113.30 (As of 01/14/20)

Price Target (6-12 Months): **\$120.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/15/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: C

Summary

Murphy USA is a low-cost, high-volume fuel seller, its stations are located near Walmart supercenters enabling the firm to attract relatively more transactions than its peers. The firm's access to pipelines & product distribution terminals is another competitive advantage, helping to keep costs down in the fiercely competitive retail space. Discount pricing & shareholder friendly capital allocations are other positives in the Murphy USA story. However, gasoline prices have been weak recently. The lower profitability for the most widely used petroleum product have hurt firm's revenues. The firm's high debt levels is also a cause of concern leaving it vulnerable to any volatility in commodity prices. The high leverage restricts the financial flexibility of the firm & limits growth. Hence, the stock warrants a cautious stance.

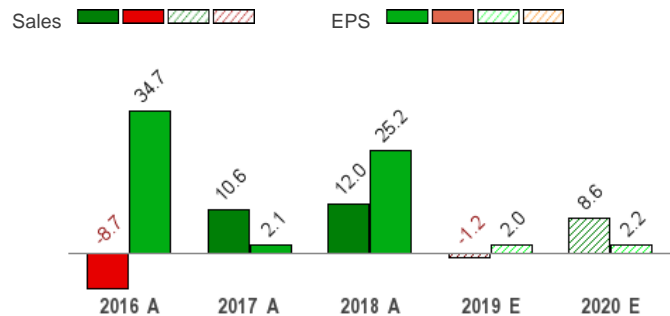
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$121.24 - \$72.07 |
| 20 Day Average Volume (sh) | 315,091 |
| Market Cap | \$3.5 B |
| YTD Price Change | -3.2% |
| Beta | 0.71 |
| Dividend / Div Yld | \$0.00 / 0.0% |
| Industry | Oil and Gas - Refining and Marketing |
| Zacks Industry Rank | Bottom 26% (188 out of 254) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 68.9% |
| Last Sales Surprise | -0.2% |
| EPS F1 Est- 4 week change | -1.5% |
| Expected Report Date | 01/29/2020 |
| Earnings ESP | -4.8% |
| P/E TTM | 18.6 |
| P/E F1 | 20.1 |
| PEG F1 | 6.1 |
| P/S TTM | 0.3 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|----------|
| 2020 | 3,624 E | 4,071 E | 4,092 E | 4,093 E | 15,404 E |
| 2019 | 3,116 A | 3,800 A | 3,658 A | 3,613 E | 14,187 E |
| 2018 | 3,244 A | 3,829 A | 3,788 A | 3,502 A | 14,363 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2020 | \$0.21 E | \$1.39 E | \$2.39 E | \$2.00 E | \$5.64 E |
| 2019 | \$0.16 A | \$1.01 A | \$2.55 A | \$1.59 E | \$5.52 E |
| 2018 | \$0.12 A | \$1.58 A | \$1.38 A | \$2.38 A | \$5.41 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 01/14/2020. The reports text is as of 01/15/2020.

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, 2018, the company had 1,472 retail fuel stations – under Murphy USA and Murphy Express brands – encompassing 26 states. Of the total, 1,160 stores are branded Murphy USA, while the remaining 312 are standalone Murphy Express locations. Apart from the retail outlets, Murphy USA operates certain product distribution terminals and ethanol production plants.

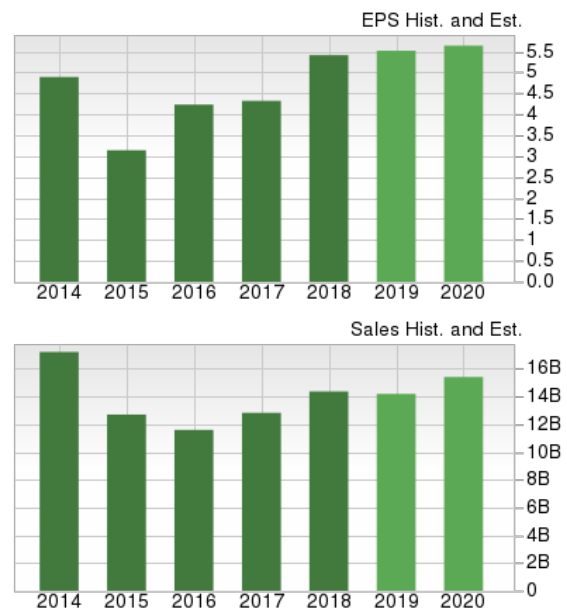
The company, which caters to approximately 1.6 million customers daily, also owns a dedicated line space on the Colonial Pipeline - the largest refined products system in the country and the biggest gasoline mover.

Meanwhile, Murphy USA's revenue was up 12% year over year to \$14.4 billion in 2018, while the company's income was \$213.6 million (or \$6.48 per diluted share), down 13% year over year. Operating cash flow rose to \$399 million in 2018 from \$284 million in 2017, averaging \$317 million over the past six years (2013-2018).

Murphy USA remains committed to returning excess cash to shareholders through continued share buyback programs. As part of this initiative, the fuel retailer repurchased \$144 million of its common stock through 2018. 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 2018 were \$2.48 versus \$2.19 in 2017. Total retail gallons grew 2.2% to 4.2 billion gallons for the full year but same-store sales (SSS) volumes edged down 0.6%.

In 2019, Murphy USA plans to keep its capital expenditures between \$225 million and \$275 million versus \$194 million incurred last year.



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.

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.

Reasons To Sell:

- ▼ 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 \$2.38 per gallon, falling from \$2.61 per gallon a year ago.
- ▼ We remain concerned about Murphy USA's high debt levels, which leave it vulnerable to any volatility in commodity prices. As of Sep 30, 2019, the company had long-term debt of \$966.4 million, which represents a debt-to-capitalization ratio of above 55%. The high leverage restricts the financial flexibility of the firm and limits growth.
- ▼ Murphy USA derives a substantial portion of its profits from selling RINs (Renewable Identification Numbers) – environmental credits to comply with new cleaner gasoline production rules – to refiners. Of late, the exemption of dozens of refiners from compliance obligations sent RIN biofuel credit prices tumbling to multi-year lows. This is likely to exert downward pressure on Murphy USA's earnings.
- ▼ 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.

Decline in gasoline and RIN prices are likely to weigh on Murphy USA earnings.

Last Earnings Report

Murphy USA Q3 Earnings Beat, Revenues Miss

Murphy USA reported third-quarter 2019 earnings per share of \$2.55, comprehensively beating the Zacks Consensus Estimate of \$1.51 and the year-ago period profit of \$1.38. The strength in bottom line could be attributed to robust retail gallons and same-store sales (SSS) volumes, which rose 5.3% and 2.7% year over year, respectively.

Murphy USA's operating revenues of \$3.7 billion fell 3.4% year over year and missed the Zacks Consensus Estimate by \$44 million, hurt by lower retail gasoline prices. To be precise, average retail gasoline prices during the quarter were \$2.38 per gallon, falling from \$2.61 per gallon a year ago.

Revenues from petroleum product sales came in at \$3 billion, down 5.9% from the third quarter of 2018 and below the Zacks Consensus Estimate of \$3.3 billion. However, merchandise sales, at \$681.1 million bettered our estimate of \$666 million and rose 9.2% year over year.

Key Takeaways

The company's total fuel contribution was up 30.6% year over year to \$225.6 million, driven by volume and margin expansion. Total fuel contribution (including retail fuel margin plus product supply and wholesale results) came in at 20.1 cents per gallon, improving from 16.2 cents per gallon in the third quarter of 2018.

Retail fuel contribution rose 36.3% year over year to \$206.4 million as margins increased to 18.4 cents per gallon (from 14.2 cents in the corresponding period of 2018). Retail gallons were up 5.3% from the year-ago period to 1,120.6 million in the quarter under review. Volumes on an SSS basis (or, fuel gallons per month) rose 2.7% from the third quarter of 2018.

Contribution from Merchandise increased 6.4% to \$111.2 million on higher sales and strong performance from new stores even as unit margins, at 16.3%, fell from the year-ago period's 16.8%. On SSS basis, total merchandise contribution was up 5.3% year over year in the quarter under review on the back of higher tobacco margins that increased 10.8%. Meanwhile, merchandise sales rose 7.2% on SSS basis.

Fuel gallons rose 3.6% and merchandise sales increased 7.4% on average per store month (or APSM) basis.

Balance Sheet

As of Sep 30, Murphy USA — which opened five new retail location to bringing its store count to 1,479 — had cash and cash equivalents of \$247.7 million, and long-term debt (including lease obligations) of \$966.4 million, with a debt-to-capitalization ratio of 55.4%.

During the quarter, the company bought back shares worth \$109 million.

Quarter Ending 09/2019

| | |
|------------------|--------------|
| Report Date | Oct 30, 2019 |
| Sales Surprise | -0.18% |
| EPS Surprise | 68.87% |
| Quarterly EPS | 2.55 |
| Annual EPS (TTM) | 6.10 |

Valuation

Murphy USA shares are up 42.4% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are down 0.1% and 0.6%, respectively.

The S&P 500 index is up 27.3% in the past year.

The stock is currently trading at 8.89X trailing 12-month EV/EBITDA, which compares to 7.19X 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 12.03X and as low as 5.97X, with a 5-year median of 8.99X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$120 price target reflects 21.23X 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 | 8.89 | 7.19 | 5.06 | 12.12 |
| | 5-Year High | 12.03 | 16.37 | 10.22 | 12.86 |
| | 5-Year Low | 5.97 | 4.44 | 4.56 | 8.48 |
| | 5-Year Median | 8.99 | 7.4 | 6.49 | 10.67 |
| P/E F12M | Current | 20.05 | 9.76 | 14.59 | 18.96 |
| | 5-Year High | 25.62 | 15.83 | 32.45 | 19.34 |
| | 5-Year Low | 11.73 | 8.59 | 11.28 | 15.17 |
| | 5-Year Median | 16.5 | 11.09 | 18.69 | 17.44 |
| P/S F12M | Current | 0.22 | 0.29 | 0.89 | 3.52 |
| | 5-Year High | 0.25 | 0.37 | 1.44 | 3.52 |
| | 5-Year Low | 0.14 | 0.24 | 0.67 | 2.54 |
| | 5-Year Median | 0.19 | 0.29 | 0.99 | 3 |

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (188 out of 254)



Top Peers

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

| Industry Comparison Industry: Oil And Gas - Refining And Marketing | | | | Industry Peers | | |
|--|--------------|------------|-----------|----------------|--------------|-------------|
| | MUSA Neutral | X Industry | S&P 500 | AAP Neutral | CASY Neutral | SUN Neutral |
| VGM Score | A | - | - | A | B | A |
| Market Cap | 3.49 B | 2.77 B | 24.31 B | 10.31 B | 6.19 B | 3.18 B |
| # of Analysts | 2 | 4 | 13 | 9 | 6 | 3 |
| Dividend Yield | 0.00% | 0.47% | 1.76% | 0.16% | 0.76% | 10.28% |
| Value Score | B | - | - | B | B | A |
| Cash/Price | 0.07 | 0.08 | 0.04 | 0.06 | 0.01 | 0.00 |
| EV/EBITDA | 9.12 | 7.61 | 14.08 | 14.69 | 12.17 | 15.92 |
| PEG Ratio | 6.03 | 1.57 | 2.06 | 1.52 | 2.93 | NA |
| Price/Book (P/B) | 4.47 | 1.74 | 3.33 | 3.08 | 3.96 | 4.18 |
| Price/Cash Flow (P/CF) | 11.70 | 8.11 | 13.62 | 14.17 | 13.74 | 6.49 |
| P/E (F1) | 19.88 | 11.18 | 18.86 | 16.50 | 26.69 | 11.17 |
| Price/Sales (P/S) | 0.25 | 0.36 | 2.65 | 1.06 | 0.66 | 0.19 |
| Earnings Yield | 4.98% | 8.82% | 5.27% | 6.06% | 3.75% | 8.97% |
| Debt/Equity | 1.24 | 0.63 | 0.72 | 0.79 | 0.46 | 4.70 |
| Cash Flow (\$/share) | 9.69 | 3.93 | 6.94 | 10.51 | 12.24 | 4.95 |
| Growth Score | A | - | - | A | A | B |
| Hist. EPS Growth (3-5 yrs) | 5.51% | 7.18% | 10.56% | -3.47% | 0.83% | NA |
| Proj. EPS Growth (F1/F0) | 2.23% | 20.74% | 7.52% | 13.61% | 14.31% | 3.29% |
| Curr. Cash Flow Growth | 14.29% | 14.29% | 14.88% | 18.30% | 22.43% | -7.02% |
| Hist. Cash Flow Growth (3-5 yrs) | 6.57% | 9.89% | 9.00% | 4.14% | 11.03% | 60.44% |
| Current Ratio | 1.29 | 1.29 | 1.23 | 1.31 | 0.36 | 1.21 |
| Debt/Capital | 55.37% | 38.51% | 42.99% | 44.27% | 31.41% | 82.46% |
| Net Margin | 1.31% | 1.93% | 11.14% | 4.58% | 2.51% | 0.96% |
| Return on Equity | 24.55% | 9.55% | 17.16% | 15.61% | 16.06% | 31.52% |
| Sales/Assets | 5.60 | 1.68 | 0.55 | 0.91 | 2.49 | 3.08 |
| Proj. Sales Growth (F1/F0) | 8.58% | 6.32% | 4.18% | 2.31% | 4.95% | 2.37% |
| Momentum Score | C | - | - | B | F | A |
| Daily Price Chg | 0.19% | 0.00% | 0.08% | 2.51% | -0.47% | 1.84% |
| 1 Week Price Chg | -2.17% | -0.53% | 0.39% | -6.53% | 4.46% | 1.03% |
| 4 Week Price Chg | -4.32% | -2.55% | 1.93% | -5.75% | 7.22% | 3.21% |
| 12 Week Price Chg | 25.50% | -2.20% | 6.50% | -10.29% | 2.57% | -0.62% |
| 52 Week Price Chg | 42.91% | 0.00% | 22.56% | -7.10% | 26.70% | 10.84% |
| 20 Day Average Volume | 315,091 | 462,533 | 1,571,506 | 816,698 | 291,967 | 269,238 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | -0.47% | -0.09% | 0.00% |
| (F1) EPS Est 4 week change | -1.48% | -1.89% | 0.00% | -0.47% | -1.24% | 0.97% |
| (F1) EPS Est 12 week change | 17.56% | -2.69% | -0.52% | 0.45% | -0.16% | -0.46% |
| (Q1) EPS Est Mthly Chg | 7.69% | -5.64% | 0.00% | 0.00% | -3.98% | 4.55% |

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 | A |
| Momentum Score | C |
| 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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