

NuStar Energy L.P. (NS)

\$13.50 (As of 03/10/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 01/22/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

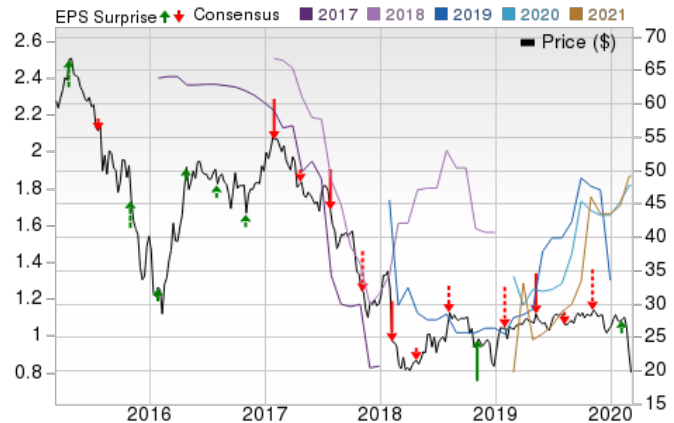
Growth: A

Momentum: A

Summary

NuStar Energy looks well positioned for further growth as it's diversified asset base, strong pipeline of organic growth projects and contribution from acquisitions bode well and have boosted its distributable cash flows of the partnership. NuStar Energy's merger with its general partner, resulting in the elimination of IDRs is creating a more efficient & transparent structure along with boosting the prospects of the firm. NuStar Energy's acquisition of Navigator Energy Services, marks its entry into the Permian Basin and will improve revenues further. The firm is also set to gain from pipeline expansion projects to boost exports of refined products to Mexico along with the completion of biofuels projects in the West Coast terminals. In a bid to reduce its debt-coverage ratio, the partnership is focused on selling its noncore assets.

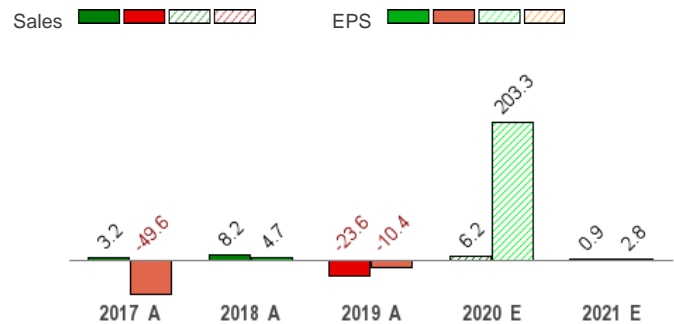
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$30.06 - \$10.40 |
| 20 Day Average Volume (sh) | 1,100,125 |
| Market Cap | \$1.5 B |
| YTD Price Change | -47.8% |
| Beta | 1.63 |
| Dividend / Div Yld | \$2.40 / 17.8% |
| Industry | Oil and Gas - Production Pipeline - MLB |
| Zacks Industry Rank | Top 33% (83 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 5.3% |
| Last Sales Surprise | 4.9% |
| EPS F1 Est- 4 week change | 0.0% |
| Expected Report Date | 05/08/2020 |
| Earnings ESP | 0.0% |
| P/E TTM | 15.5 |
| P/E F1 | 7.4 |
| PEG F1 | 7.4 |
| P/S TTM | 0.9 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 382 E | 389 E | 395 E | 401 E | 1,605 E |
| 2020 | 395 E | 398 E | 399 E | 398 E | 1,591 E |
| 2019 | 486 A | 372 A | 378 A | 400 A | 1,498 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.59 E | \$0.63 E | \$0.66 E | \$0.71 E | \$1.87 E |
| 2020 | \$0.49 E | \$0.51 E | \$0.52 E | \$0.55 E | \$1.82 E |
| 2019 | \$0.14 A | \$0.18 A | \$0.15 A | \$0.40 A | \$0.60 A |

*Quarterly figures may not add up to annual.

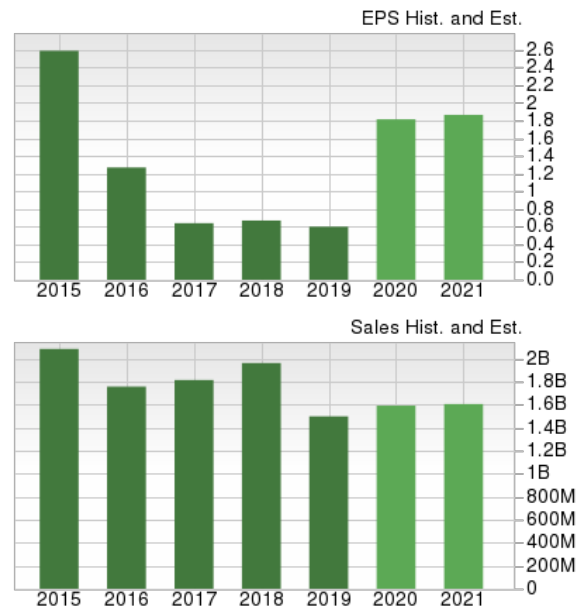
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/10/2020. The reports text is as of 03/11/2020.

Overview

San Antonio, TX-based NuStar Energy, L.P. is a master limited partnership ("MLP") that engages in the transportation and storage of crude oil as well as refined products in the U.S., the Netherlands Antilles, Canada, Mexico, and the U.K. The partnership went public in 2001 and is the second-largest independent liquids terminal operator in the nation. As of year-end 2018, NuStar's asset base included approximately 9,800 miles of pipelines and 75 terminal and crude oil storage tank facilities. The partnership's combined system has approximately 88 million barrels of storage capacity. NuStar's key assets are centered in the United States, Canada, Mexico, the Netherlands, St. Eustatius in the Caribbean and the United Kingdom. In July 2018, NuStar completed merger with its general partner ("GP") – NuStar GP Holdings LLC thereby creating a more efficient and transparent structure. NuStar reports its operation under three business segments: Storage, Pipeline and Fuels Marketing.

- The **Storage** segment (accounted for 30.4% of the partnership's 2019 operating income) provides storage and handling services for petroleum products, specialty chemicals, crude oil, and other liquids.
- The **Pipeline** segment (65.5%) carries crude oil and other feedstocks such as gas oil as well as refined petroleum products such as gasoline, diesel, jet fuel, natural gas liquids, blendstocks, and other products. It owns refined product pipelines, along with anhydrous ammonia pipelines. This segment also consists of crude oil pipelines, which transport crude oil and other feedstocks such as gas oil.
- The **Fuels Marketing** segment engages in buying crude oil and refined petroleum products for resale. This segment complements NuStar's storage and transportation operations.

One of the few midstream partnerships in the United States focused solely on the crude oil segment of the market, NuStar has a large presence in the low-cost Permian Basin – the hotbed of domestic shale activity. It generated revenues of around \$1.5 billion from its operations last year, of which roughly 76.6% came from service offerings, while the partnership's net loss was \$105.7 million.



Reasons To Buy:

- ▲ NuStar's diversified asset base and strong pipeline of organic growth projects have boosted its distributable cash flows. The majority of NuStar's business is derived from an attractive set of fee-based storage and transportation assets that support the U.S. and international energy infrastructure, which bodes well for its DCFs and revenues. With the buyout of Navigator Energy Services, NuStar has set foot in the lucrative Permian Basin.
- ▲ Apart from the Permian-related growth, the firm is also set to gain from pipeline expansion projects to boost exports of refined products to Mexico along with the completion of biofuels projects in the West Coast terminals.
- ▲ NuStar's merger with its general partner has resulted in the elimination of incentive distribution rights (IDRs). The elimination of IDRs and restructuring is likely to bolster the future growth prospects of the firm going forward along with lowering the cost of capital and improving the debt and leverage metrics and thereby creating a more efficient and transparent structure.
- ▲ In a bid to reduce its debt-coverage ratio, the partnership is focused on selling its noncore assets like the 2018 divestment of European assets or the latest deal to vend its St Eustatius Storage Terminal. The firm is using the proceeds to invest in high-return projects and boosting its foothold in the Permian Basin.

NuStar's diversified asset base and strong pipeline of organic expansion projects provide long-term growth opportunities for the firm.

Risks

- As is the case with other MLPs, the actual amount of cash distributed to NuStar Energy unitholders may fluctuate and are directly exposed to the partnership's future operating performance, which is susceptible to movements in margins and throughput volumes. Realized margins and/or volumes could differ significantly from our estimates, thereby affecting NuStar Energy's cash distributions.
 - Any unfavorable regulatory changes by the Federal Energy Regulatory Commission would affect the partnership's results. This will also increase NuStar's borrowing costs and decrease the market value of its limited partner units. This poses a risk to our bullish view.
 - Delays in NuStar's growth projects would lead to higher capital costs and lower returns.
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Last Earnings Report

NuStar Energy Q4 Earnings and Revenues Beat Estimates

NuStar Energy's fourth-quarter 2019 earnings and sales surpassed the Zacks Consensus Estimate. The partnership posted adjusted earnings per unit of 40 cents, higher than the Zacks Consensus Estimate of 38 cents. Strong contribution from pipeline and storage units can be attributed to the impressive performance.

Moreover, the bottom line skyrocketed 344.4% from the year-ago income of 9 cents a unit on the back of solid operations from the Pipeline segment amid expanded throughput volumes from crude oil pipelines.

Quarterly revenues of \$399.6 million outpaced the Zacks Consensus Estimate of \$381 million. However, the top line was 21.5% below the year-ago level of \$509 million due to lower fuel sales.

While the firm's revenues declined year over year, NuStar's operating income increased from \$86.6 million to \$124.05 million in the quarter under review. This upside was driven by lower costs and expenses amounting to \$275.6 million, down from the year-earlier level of \$287.4 million. Notably, cost of product sales fell 29.9% from the prior-year quarter to \$68.19 million.

Segmental Performance

Pipeline: Total quarterly throughput volumes were 2,064,289 barrels per day (Bbl/d), up 35.6% from the year-ago period. Throughput volumes from crude oil pipelines jumped 52.5% (primarily owing to higher contribution from the Permian crude system) from the year-ago quarter to 1,462,784 Bbl/d while throughput from refined product pipelines witnessed a nominal increase to 601,505 Bbl/d from 562,773 Bbl/d. As a result, the segment's revenues rose 20.32% year over year to \$194 million. Concurrently, operating income of \$98.6 million was up from the year-ago figure of \$74.9 million.

Storage: Throughput volumes rose to 656,000 Bbl/d from 354,567 Bbl/d in the prior-year quarter. The unit's quarterly revenues increased to \$126.3 million from \$107.4 a year ago owing to surging throughput terminal revenues (from \$21.8 million to \$43 million). However, operating expenses of the firm increased from \$49.1million in the year-ago quarter to \$55.4 million. The segment's operating income came in at \$45.8 million compared with \$34.6 million in the corresponding quarter of 2018.

Fuels Marketing: Product sales decreased to \$79.4 million from \$105.6 million in the year-ago quarter. On a positive note, cost of goods dropped 30.17% from the prior-year period to \$67.5 million. The segment recorded earnings of \$11.2 million in the quarter under review compared with \$8.3 million in fourth-quarter 2018.

Cash Flow, Debt and Guidance

Fourth-quarter 2019 distributable cash flow available to limited partners was \$107million (providing 1.33x distribution coverage), higher than \$84 million in the year-ago period.

As of Dec 31, the partnership's total consolidated debt was \$3360.6 million.

The firm continues to anticipate 2020 adjusted EBITDA in the band of \$715-\$765 million. Income from continuing operations for the full year is expected in the range of \$233-\$258 million. It expects to exit the ongoing year with approximately 550,000 bpd.

Quarter Ending 12/2019

| Report Date | Feb 05, 2020 |
|------------------|--------------|
| Sales Surprise | 4.86% |
| EPS Surprise | 5.26% |
| Quarterly EPS | 0.40 |
| Annual EPS (TTM) | 0.87 |

Valuation

NuStar Energy units are down 46.6% and 44.9% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 37% and 37.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 38.9% and 40.6%, respectively.

The S&P 500 index is down 10.2% in the year-to-date period and up 4.4% in the past year.

The stock is currently trading at 10.16X trailing 12-month EV/EBITDA, which compares to 8.92X for the Zacks sub-industry, 4.39X for the Zacks sector and 11.04X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.54X and as low as 6.12X, with a 5-year median of 11.37X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$16 price target reflects 1.09X F12M sales.

The table below shows summary valuation data for NS

| Valuation Multiples - NS | | | | | |
|--------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| EV/EBITDA TTM | Current | 10.16 | 8.92 | 4.39 | 11.04 |
| | 5-Year High | 16.54 | 18.25 | 10.26 | 12.87 |
| | 5-Year Low | 6.12 | 8.92 | 4.39 | 8.49 |
| | 5-Year Median | 11.37 | 13.5 | 6.53 | 10.79 |
| P/S F12M | Current | 0.92 | 0.57 | 0.53 | 2.91 |
| | 5-Year High | 2.41 | 1.62 | 1.45 | 3.44 |
| | 5-Year Low | 0.71 | 0.57 | 0.53 | 2.54 |
| | 5-Year Median | 1.66 | 1.05 | 0.99 | 3 |
| P/B TTM | Current | 1.43 | 0.99 | 0.75 | 3.69 |
| | 5-Year High | 3.59 | 2.94 | 1.6 | 4.56 |
| | 5-Year Low | 0.74 | 0.93 | 0.75 | 2.85 |
| | 5-Year Median | 2.28 | 1.89 | 1.31 | 3.63 |

As of 03/10/2020

Industry Analysis Zacks Industry Rank: Top 33% (83 out of 253)



Top Peers

| | |
|---|--------------|
| TC PipeLines, LP (TCP) | Outperform |
| BP Midstream Partners LP (BPMP) | Neutral |
| Magellan Midstream Partners, L.P. (MMP) | Neutral |
| Oasis Midstream Partners LP (OMP) | Neutral |
| PBF Logistics LP (PBFX) | Neutral |
| Summit Midstream Partners, LP (SMLP) | Neutral |
| Delek Logistics Partners, L.P. (DKL) | Underperform |
| Shell Midstream Partners, L.P. (SHLX) | Underperform |

| Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb | | | | Industry Peers | | |
|---|---------------|------------|-----------|------------------|-------------------|--------------|
| | NS Outperform | X Industry | S&P 500 | DKL Underperform | SHLX Underperform | SMLP Neutral |
| VGM Score | A | - | - | A | D | D |
| Market Cap | 1.47 B | 1.22 B | 20.21 B | 313.53 M | 2.92 B | 108.59 M |
| # of Analysts | 4 | 3 | 13 | 1 | 3 | 3 |
| Dividend Yield | 17.78% | 15.99% | 2.18% | 28.14% | 14.72% | 43.10% |
| Value Score | B | - | - | A | F | A |
| Cash/Price | 0.01 | 0.01 | 0.05 | 0.01 | 0.08 | 0.04 |
| EV/EBITDA | 8.40 | 6.69 | 12.36 | 6.36 | 7.78 | 8.34 |
| PEG Ratio | 7.42 | 7.44 | 1.78 | NA | 8.47 | NA |
| Price/Book (P/B) | 1.43 | 1.43 | 2.77 | NA | NA | 0.23 |
| Price/Cash Flow (P/CF) | 2.00 | 2.63 | 11.04 | 2.33 | 5.91 | 0.75 |
| P/E (F1) | 7.42 | 6.41 | 16.09 | 3.50 | 8.47 | 116.00 |
| Price/Sales (P/S) | 0.90 | 0.80 | 2.17 | 0.54 | 5.80 | 0.24 |
| Earnings Yield | 13.48% | 14.97% | 6.20% | 28.54% | 11.84% | 0.86% |
| Debt/Equity | 2.88 | 1.33 | 0.70 | -5.53 | -3.63 | 3.13 |
| Cash Flow (\$/share) | 6.75 | 2.86 | 7.01 | 5.39 | 2.11 | 1.55 |
| Growth Score | A | - | - | B | C | F |
| Hist. EPS Growth (3-5 yrs) | -26.85% | 7.92% | 10.85% | -0.07% | 10.43% | 0.98% |
| Proj. EPS Growth (F1/F0) | 202.50% | 0.00% | 6.14% | 37.55% | -11.57% | NA |
| Curr. Cash Flow Growth | 52.91% | 10.65% | 6.09% | 6.77% | -6.63% | -5.83% |
| Hist. Cash Flow Growth (3-5 yrs) | 11.89% | 9.39% | 8.52% | 9.06% | 65.51% | 5.48% |
| Current Ratio | 0.28 | 1.02 | 1.24 | 0.96 | 7.80 | 1.66 |
| Debt/Capital | 55.45% | 55.45% | 42.57% | NA | NA | 66.24% |
| Net Margin | -6.46% | 14.59% | 11.69% | 15.18% | 94.24% | -83.38% |
| Return on Equity | 16.14% | 16.14% | 16.74% | -61.17% | -75.03% | 5.56% |
| Sales/Assets | 0.26 | 0.34 | 0.54 | 0.80 | 0.25 | 0.16 |
| Proj. Sales Growth (F1/F0) | -2.80% | 3.63% | 3.71% | 2.35% | 26.50% | -9.08% |
| Momentum Score | A | - | - | A | A | F |
| Daily Price Chg | 29.56% | 4.21% | 4.87% | -16.13% | 13.95% | 16.00% |
| 1 Week Price Chg | -13.35% | -12.29% | -0.67% | -10.94% | -11.75% | -30.05% |
| 4 Week Price Chg | -51.37% | -41.92% | -15.65% | -58.50% | -38.39% | -50.43% |
| 12 Week Price Chg | -49.06% | -43.80% | -13.60% | -60.44% | -37.50% | -66.76% |
| 52 Week Price Chg | -49.51% | -49.51% | -2.27% | -62.15% | -34.25% | -88.77% |
| 20 Day Average Volume | 1,100,125 | 526,020 | 2,778,843 | 101,562 | 1,303,719 | 490,156 |
| (F1) EPS Est 1 week change | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| (F1) EPS Est 4 week change | 0.00% | 0.00% | -0.16% | -7.95% | -13.65% | -92.86% |
| (F1) EPS Est 12 week change | 9.83% | -0.58% | -0.57% | -8.65% | -13.81% | -98.28% |
| (Q1) EPS Est Mthly Chg | 0.00% | 0.00% | -0.49% | -14.46% | NA | -100.00% |

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 | 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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