

NuStar Energy L.P. (NS)

\$27.99 (As of 01/13/20)

Price Target (6-12 Months): **\$30.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

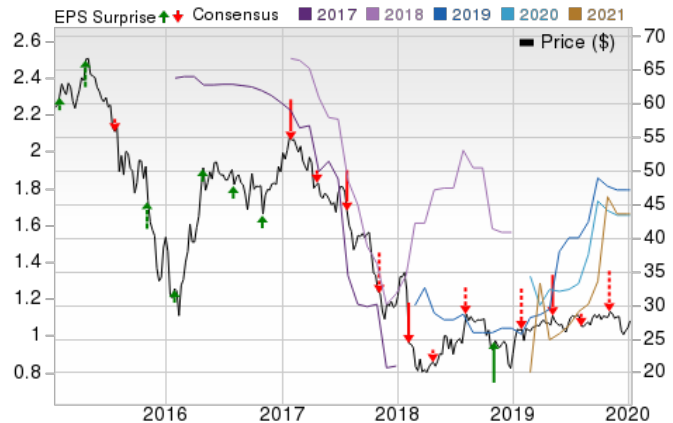
Growth: B

Momentum: D

Summary

NuStar'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's merger with its general partner, resulting in the elimination of IDRs is creating a more efficient and transparent structure along with boosting the prospects of the firm. NuStar's acquisition of Navigator Energy Services, marks its entry into the Permian Basin and is likely to boost its revenue. However, the partnership's high debt levels restrict its financial flexibility. Moreover, investor sentiment remains tepid since NuStar reduced its distribution as part of the merger with general partner. High capital expenditure for projects may further limit the earnings and cash flow. As such, the stock warrants a cautious stance.

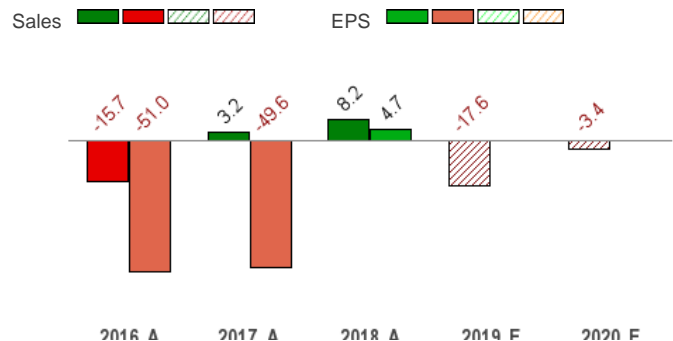
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.06 - \$24.48
20 Day Average Volume (sh)	1,120,729
Market Cap	\$3.0 B
YTD Price Change	8.3%
Beta	1.56
Dividend / Div Yld	\$2.40 / 8.6%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Top 33% (85 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-48.3%
Last Sales Surprise	-0.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	01/30/2020
Earnings ESP	0.0%
P/E TTM	50.0
P/E F1	17.0
PEG F1	17.0
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	385 E	394 E	400 E	405 E	1,562 E
2019	486 A	372 A	378 A	380 E	1,617 E
2018	476 A	486 A	490 A	509 A	1,962 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.39 E	\$0.40 E	\$0.43 E	\$0.46 E	\$1.65 E
2019	\$0.14 A	\$0.18 A	\$0.15 A	\$0.37 E	-\$1.26 E
2018	\$1.15 A	\$0.15 A	-\$3.49 A	\$0.09 A	\$0.67 A

*Quarterly figures may not add up to annual.

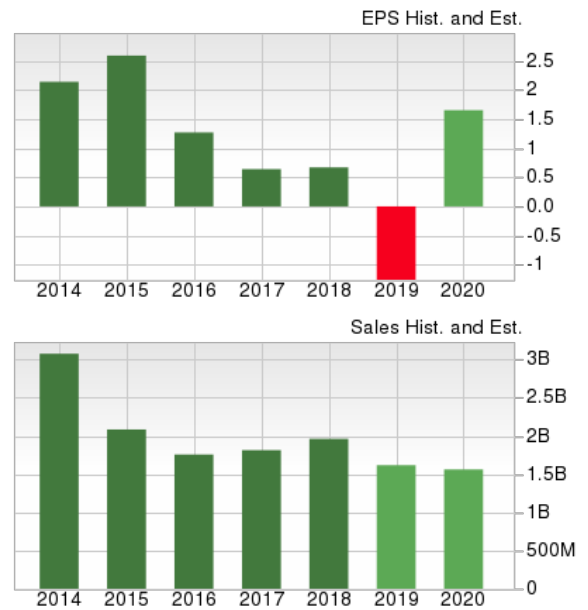
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

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 38% of the partnership's 2018 operating income) provides storage and handling services for petroleum products, specialty chemicals, crude oil, and other liquids.
- The **Pipeline** segment (57%) 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 \$2 billion from its operations last year, of which roughly 62% came from service offerings, while the partnership's net income was \$205.8 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.

Reasons To Sell:

- ▼ Energy infrastructure being a capital-intensive business, NuStar's high debt levels remain a cause of worry, which restricts its financial freedom to tap into growth opportunities. The partnership currently carries a debt of around \$2.8 billion, representing a debt-to-capitalization ratio of 62.08%. | NuStar's high debt levels remain a cause of worry.
 - ▼ NuStar has several ongoing projects which require large capital outlay. As it is, the company is bearing the brunt of higher costs since past several quarters. In 2019, the firm is likely to have incurred capex in the range \$485-\$515 million, higher than 2018's figure of around \$494 million. High capex and increasing costs may weigh on the firm's overall results. While the firm still maintains a safe payout, one can't overlook that NuStar has stopped hiking its payout since 2011 and has also slashed its distribution payment by 45% in 2018, dampening investors' confidence.
 - ▼ The ongoing softness in NuStar's storage business points to the weakness in some of the Gulf Coast terminals as well as the partnership's struggles in controlling operating costs. Further, the backwardation in the oil markets in 2019 can further limit the firm's storage segments profits.
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Last Earnings Report

NuStar Q3 Earnings & Sales Miss Estimates

NuStar Energy's third-quarter 2019 earnings and sales lagged the Zacks Consensus Estimate. The partnership posted adjusted earnings per unit of 15 cents, lower than the Zacks Consensus Estimate of 29 cents. Weaker storage terminal revenues and higher operating expenses of the storage unit can be attributed to the earnings miss.

Nonetheless, the bottom line reversed the year-ago loss of \$3.49 a unit on the back of solid operations from the Pipeline segment amid expanded throughput volumes from crude oil pipelines.

Quarterly revenues of \$378.1 million missed the Zacks Consensus Estimate of \$381 million. The top line was also below the year-ago level of \$380.1 million.

While the firm's revenues declined year over year, NuStar's operating income increased from \$89.1 million to \$99.9 million in the quarter under review. The rise in operating income was driven by lower costs and expenses, which totaled \$278.1 million compared with the year-earlier level of \$290.9 million. Notably, cost of product sales declined 23.5% from the prior-year quarter to \$80.8 million.

Segmental Performance

Pipeline: Total quarterly throughput volumes were 1,773,189 barrels per day (Bbl/d), up 19.6% from the year-ago period. While throughput volumes from crude oil pipelines jumped 33.3% (primarily owing to higher contribution from the Permian crude system) from the year-ago quarter to 1,218,913 Bbl/d, throughput from refined product pipelines witnessed a nominal decrease to 554,276 Bbl/d from 567,320 Bbl/d. As a result, the segment's revenues rose 10.02% year over year to \$179.2 million. Concurrently, operating income of \$87.8 million was up from the year-ago figure of \$77 million.

Storage: Throughput volumes rose to 438,999 Bbl/d from 335,118 Bbl/d in the prior-year quarter. The unit's quarterly revenues increased to \$113.7 million from \$110.2 a year ago owing to surging throughput terminal revenues (from \$21.1 million to \$26.3 million). However, operating expenses of the firm increased from \$47.6 million in the year-ago quarter to \$51.4 million. The segment's operating income came in at \$37.9 million compared with \$39.2 million in the corresponding quarter of 2018.

Fuels Marketing: Product sales decreased to \$85.1 million from \$107.1 million in the year-ago quarter. On a positive note, cost of goods and operating expenses declined 23.7% and 1.65% from the prior-year period to \$80 million and \$834,000, respectively. The segment recorded earnings of \$4.2 million in the quarter under review compared with \$1.3 million in third-quarter 2018.

Cash Flow, Debt and Guidance

Third-quarter 2019 distributable cash flow available to limited partners was \$88 million (providing 1.36x distribution coverage), higher than \$77 million (providing 1.19x distribution coverage) in the year-ago period.

As of Sep 30, the partnership's total debt was \$2898.4 million, representing a debt-to-capitalization ratio of 62.08%.

The firm continues to expect full-year adjusted EBITDA in the band of \$665-\$715 million. EBITDA from continuing operations for 2019 is expected in the range of \$625-\$675 million. Impairment charges and sale losses for 2019 are now forecast in the band of \$340-\$345 million. The partnership further anticipates full-year total capital spending between \$485 million and \$515 million.

For 2020, NuStar projects its EBITDA between \$715 million and \$765 million. It also estimates a 35% year-over-year reduction in its 2020 capital spending which is expected in the band of \$300-\$350 million.

Quarter Ending 09/2019

Report Date	Nov 05, 2019
Sales Surprise	-0.90%
EPS Surprise	-48.28%
Quarterly EPS	0.15
Annual EPS (TTM)	0.56

Valuation

NuStar Energy units are up 20.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 3.2% and down 0.8%, respectively.

The S&P 500 index is up 26.9% in the past year.

The stock is currently trading at 11.12X trailing 12-month EV/EBITDA, which compares to 9.93X 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 16.54X and as low as 6.29X, with a 5-year median of 11.37X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$30 price target reflects 2.07X 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	11.12	9.93	5.06	12.12
	5-Year High	16.54	18.25	10.22	12.86
	5-Year Low	6.29	9.44	4.56	8.48
	5-Year Median	11.37	13.62	6.49	10.67
P/S F12M	Current	1.93	0.96	0.89	3.5
	5-Year High	2.41	1.62	1.44	3.5
	5-Year Low	0.94	0.8	0.67	2.54
	5-Year Median	1.61	1.05	0.99	3
P/B TTM	Current	2.98	1.73	1.23	4.46
	5-Year High	3.59	2.94	1.59	4.47
	5-Year Low	0.74	1.28	1.02	2.85
	5-Year Median	2.28	1.9	1.31	3.61

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 33% (85 out of 254)



Top Peers

TC PipeLines, LP (TCP)	Outperform
Delek Logistics Partners, L.P. (DKL)	Neutral
Enable Midstream Partners, LP (ENBL)	Neutral
Magellan Midstream Partners, L.P. (MMP)	Neutral
Oasis Midstream Partners LP (OMP)	Neutral
PBF Logistics LP (PBFX)	Neutral
Shell Midstream Partners, L.P. (SHLX)	Neutral
Summit Midstream Partners, LP (SMLP)	Neutral

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb				Industry Peers		
	NS Neutral	X Industry	S&P 500	DKL Neutral	MMP Neutral	TCP Outperform
VGM Score	B	-	-	B	C	D
Market Cap	3.02 B	2.65 B	24.31 B	820.95 M	14.81 B	3.06 B
# of Analysts	2	3	13	1	5	2
Dividend Yield	8.57%	8.05%	1.76%	10.68%	6.29%	6.06%
Value Score	C	-	-	B	C	C
Cash/Price	0.01	0.02	0.04	0.01	0.01	0.03
EV/EBITDA	10.21	10.21	14.12	10.11	10.83	56.30
PEG Ratio	17.04	3.30	2.05	4.19	2.32	5.99
Price/Book (P/B)	2.98	2.48	3.34	NA	5.54	4.22
Price/Cash Flow (P/CF)	6.30	6.88	13.66	6.66	11.99	6.44
P/E (F1)	17.04	11.15	18.82	8.38	13.90	11.98
Price/Sales (P/S)	1.73	1.67	2.64	1.36	5.19	5.90
Earnings Yield	5.89%	8.97%	5.29%	11.93%	7.18%	8.36%
Debt/Equity	2.86	1.49	0.72	-6.00	1.81	2.58
Cash Flow (\$/share)	4.44	2.61	6.94	4.95	5.41	6.66
Growth Score	B	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	-27.45%	7.08%	10.56%	-1.63%	7.08%	8.74%
Proj. EPS Growth (F1/F0)	231.15%	0.96%	7.49%	36.46%	5.59%	1.85%
Curr. Cash Flow Growth	13.70%	33.78%	14.83%	33.78%	15.82%	35.33%
Hist. Cash Flow Growth (3-5 yrs)	10.66%	12.00%	9.00%	15.59%	11.13%	17.07%
Current Ratio	0.26	0.99	1.23	1.14	0.83	0.78
Debt/Capital	55.26%	55.26%	42.99%	NA	64.42%	72.04%
Net Margin	-10.42%	14.34%	11.08%	14.60%	36.75%	-40.46%
Return on Equity	10.82%	10.93%	17.16%	-62.69%	38.78%	40.25%
Sales/Assets	0.28	0.34	0.55	0.86	0.36	0.18
Proj. Sales Growth (F1/F0)	-3.42%	4.57%	4.23%	0.42%	4.57%	NA
Momentum Score	D	-	-	D	A	D
Daily Price Chg	1.23%	1.06%	0.73%	0.92%	1.14%	2.95%
1 Week Price Chg	3.83%	0.51%	0.39%	0.37%	2.20%	1.81%
4 Week Price Chg	6.43%	4.79%	1.84%	1.29%	2.51%	7.00%
12 Week Price Chg	-1.24%	0.14%	6.48%	5.04%	0.14%	10.08%
52 Week Price Chg	12.01%	4.83%	23.15%	13.58%	6.26%	37.29%
20 Day Average Volume	1,120,729	390,909	1,578,594	35,906	1,033,020	327,027
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.03%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.38%	0.00%
(F1) EPS Est 12 week change	-4.48%	-0.99%	-0.48%	0.26%	1.03%	-1.51%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	1.71%	NA

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	D
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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