

NuStar Energy L.P. (NS)

\$9.50 (As of 04/13/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/15/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

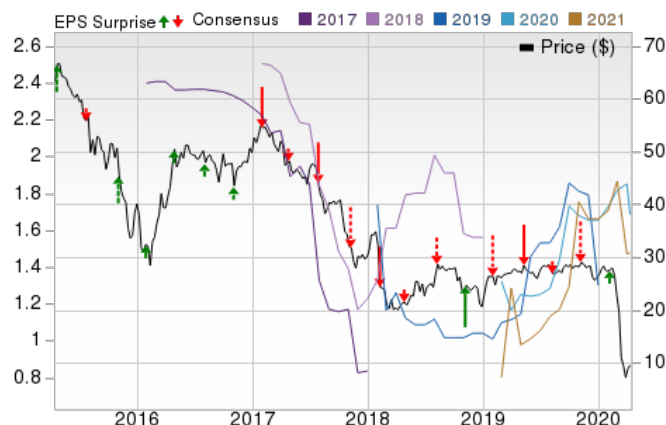
Growth: A

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'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. However, NuStar's high debt levels remain a cause of worry, which restricts its financial freedom to tap into growth opportunities. The 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. Hence, NuStar warrants a cautious stance.

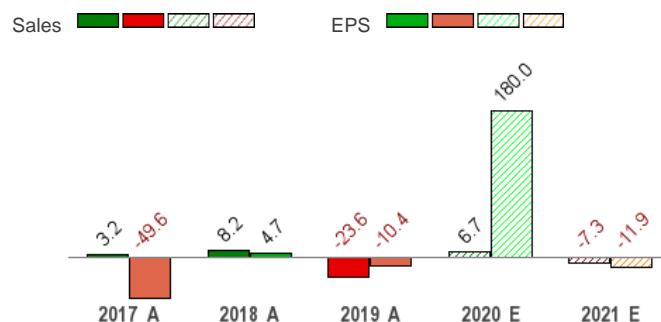
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.06 - \$4.98
20 Day Average Volume (sh)	1,945,433
Market Cap	\$1.0 B
YTD Price Change	-63.3%
Beta	2.20
Dividend / Div Yld	\$2.40 / 25.3%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Bottom 34% (166 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	2.0%
Expected Report Date	05/08/2020
Earnings ESP	0.0%
P/E TTM	10.9
P/E F1	5.7
PEG F1	5.7
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	359 E	363 E	367 E	369 E	1,482 E
2020	395 E	392 E	385 E	376 E	1,598 E
2019	486 A	372 A	378 A	400 A	1,498 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.47 E	\$0.48 E	\$0.49 E	\$0.52 E	\$1.48 E
2020	\$0.48 E	\$0.38 E	\$0.41 E	\$0.42 E	\$1.68 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.

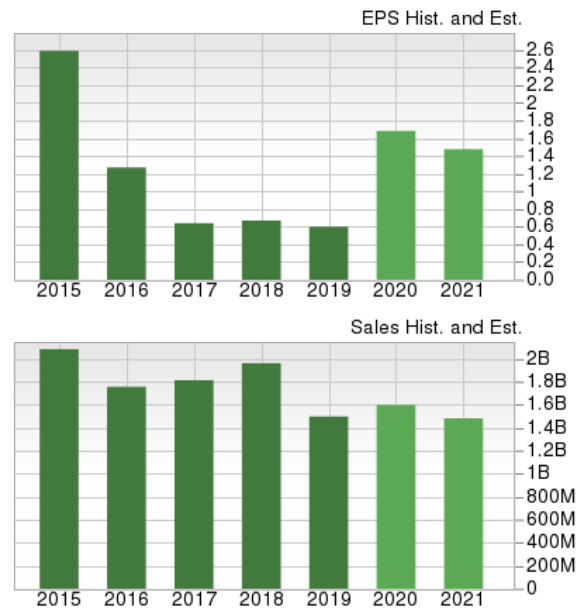
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/13/2020. The reports text is as of 04/14/2020.

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 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.

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 \$3360.6 million.
 - ▼ 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 incurred capex in the range \$467 million, higher than 2018's figure of around \$380.3 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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NuStar's high debt levels remain a cause of worry.

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 63.2% and 65.8% 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 49.6% and 40.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 54.8% and 46.2%, respectively.

The S&P 500 index is down 13.7% and 4.6% in the year-to-date period and over last year, respectively.

The stock is currently trading at 8.55X trailing 12-month EV/EBITDA, which compares to 7.43X for the Zacks sub-industry, 3.78X for the Zacks sector and 10.17X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.61X and as low as 5.94X, with a 5-year median of 11.31X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 0.82X 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	8.55	7.43	3.78	10.17
	5-Year High	16.61	18.25	10.37	12.87
	5-Year Low	5.94	6.65	3.05	8.27
	5-Year Median	11.31	13.45	6.5	10.78
P/S F12M	Current	0.65	0.48	0.65	3.07
	5-Year High	2.41	1.62	1.45	3.44
	5-Year Low	0.46	0.41	0.58	2.54
	5-Year Median	1.68	1.05	0.99	3.01
P/B TTM	Current	1.02	0.84	0.73	3.69
	5-Year High	3.59	2.94	1.6	4.55
	5-Year Low	0.72	0.61	0.51	2.84
	5-Year Median	2.2	1.88	1.31	3.63

As of 04/13/2020

Industry Analysis Zacks Industry Rank: Bottom 34% (166 out of 253)



Top Peers

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
TC PipeLines, LP (TCP)	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 Neutral	X Industry	S&P 500	DKL Underperform	SHLX Underperform	SMLP Neutral
VGM Score	A	-	-	A	D	D
Market Cap	1.04 B	1.02 B	19.08 B	241.01 M	2.58 B	74.41 M
# of Analysts	3	3	14	1	2	3
Dividend Yield	25.26%	20.47%	2.19%	36.61%	16.62%	62.90%
Value Score	A	-	-	A	F	A
Cash/Price	0.02	0.03	0.06	0.02	0.11	0.45
EV/EBITDA	7.77	6.27	11.58	5.95	7.30	11.33
PEG Ratio	5.83	4.34	2.06	NA	7.99	NA
Price/Book (P/B)	1.00	1.00	2.58	NA	NA	0.16
Price/Cash Flow (P/CF)	1.41	2.01	10.19	1.79	5.24	0.51
P/E (F1)	5.83	5.64	17.15	3.08	7.99	NA
Price/Sales (P/S)	0.63	0.57	2.07	0.41	5.13	0.17
Earnings Yield	17.68%	14.72%	5.67%	32.47%	12.47%	-17.72%
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	D
Hist. EPS Growth (3-5 yrs)	-26.85%	7.92%	10.92%	-0.07%	10.43%	0.98%
Proj. EPS Growth (F1/F0)	180.55%	-5.26%	-1.91%	20.31%	-17.07%	NA
Curr. Cash Flow Growth	52.91%	10.65%	5.93%	6.77%	-6.63%	-5.83%
Hist. Cash Flow Growth (3-5 yrs)	11.89%	9.39%	8.55%	9.06%	65.51%	1.92%
Current Ratio	0.28	1.02	1.24	0.96	7.80	1.66
Debt/Capital	55.45%	55.45%	42.36%	NA	NA	66.24%
Net Margin	-6.46%	14.59%	11.64%	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)	-2.34%	-1.57%	0.45%	-3.15%	26.50%	-12.08%
Momentum Score	A	-	-	A	A	F
Daily Price Chg	-0.42%	2.93%	-2.62%	5.34%	-1.77%	2.93%
1 Week Price Chg	8.41%	9.94%	16.01%	9.94%	22.50%	42.02%
4 Week Price Chg	0.96%	16.83%	14.48%	33.20%	23.00%	-11.76%
12 Week Price Chg	-66.44%	-63.32%	-21.69%	-70.59%	-50.20%	-77.42%
52 Week Price Chg	-65.80%	-61.32%	-14.14%	-70.69%	-46.00%	-91.75%
20 Day Average Volume	1,945,433	863,606	3,634,618	201,255	2,243,749	652,777
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	2.02%	-6.21%	-5.74%	0.00%	-6.21%	-133.33%
(F1) EPS Est 12 week change	1.87%	-9.10%	-8.41%	-20.10%	-19.16%	-140.39%
(Q1) EPS Est Mthly Chg	-20.28%	-3.99%	-10.28%	0.00%	0.00%	-83.33%

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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