

NuStar Energy L.P. (NS)

\$12.71 (As of 07/14/20)

Price Target (6-12 Months): **\$11.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/21/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: A

Summary

Over the past few months, NuStar Energy has seen its unit price decline precipitously. So far this year, units of the oil and refined products carrier have plunged around 50.8% with crude prices falling to lowest in two decades. While the partnership has announced several steps, including a cut in its 2020 budget for preserving liquidity, the spectacular oil crash is set to impact NuStar's fortunes by drastically lowering the volume of products delivered. NuStar's high debt levels also remain a cause of worry as it restricts its financial freedom to tap into growth opportunities. The softness in NuStar's pipeline business points to reduced transportation demand for the fuel and is likely to impact future cash flows. Given these headwinds, NuStar Energy is perceived as a risky bet that ordinary investors should exit.

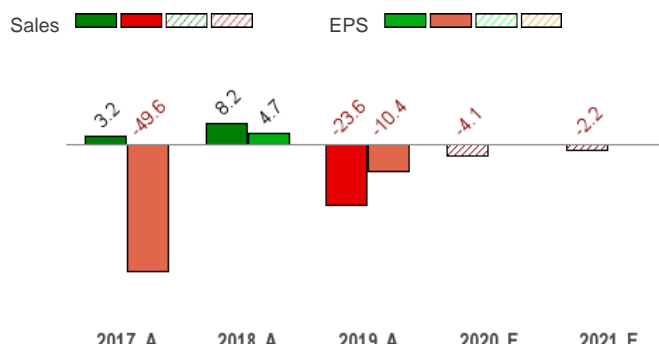
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.06 - \$4.98
20 Day Average Volume (sh)	887,725
Market Cap	\$1.4 B
YTD Price Change	-50.8%
Beta	2.51
Dividend / Div Yld	\$1.60 / 12.6%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Top 39% (97 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-15.2%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/04/2020
Earnings ESP	-106.7%
P/E TTM	11.4
P/E F1	8.8
PEG F1	NA
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	331 E	341 E	351 E	362 E	1,405 E
2020	393 A	350 E	348 E	346 E	1,436 E
2019	486 A	372 A	378 A	400 A	1,498 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.18 E	\$0.22 E	\$0.24 E	\$0.27 E	\$0.80 E
2020	\$0.39 A	\$0.15 E	\$0.15 E	\$0.20 E	-\$0.62 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.

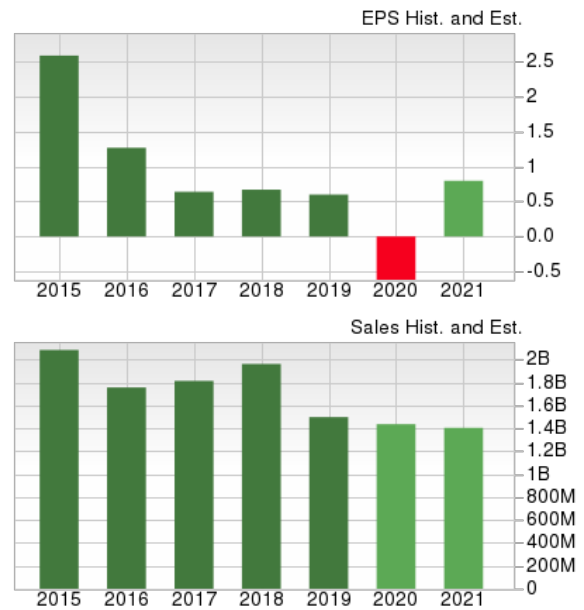
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/14/2020. The reports text is as of 07/15/2020.

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 Sell:

- ▼ Since the start of 2020, units of the oil and refined products carrier have plunged around 26% with crude prices extending its historic slide. While the partnership has announced several steps, including a cut in its 2020 budget for preserving liquidity, the spectacular oil crash is set to impact NuStar's fortunes by drastically lowering the volume of products delivered.
 - ▼ In particular, oil's steep slide and the massive capex cuts that followed leave us with the prospect of sharply lower production going forward. With oil or petroleum pipelines making up more than half of NuStar's operating income, segment earnings is likely to be under pressure in the near-to-medium term.
 - ▼ 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. NuStar Energy's total debt is currently around \$3.4 billion, with only \$18 million in cash & cash equivalents. Importantly, the partnership's debt-to-capitalization as of the end of the first quarter was 61.7%, deteriorating from 59% a quarter ago. Further, NuStar is set to face a debt maturity of \$450 million later this year.
 - ▼ 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 and 33% more recently, dampening investors' confidence.
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NuStar's high debt levels remain a cause of worry.

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.
 - 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.
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Last Earnings Report

NuStar Energy Q1 Earnings and Revenues Miss Estimates

NuStar Energy reported first-quarter adjusted earnings per unit of 39 cents, below the Zacks Consensus Estimate of 46 cents. The partnership's bottom line was unfavorably impacted by a non-cash impairment of \$225 million. However, NuStar's earnings compared favorably with the year-ago loss of 6 cents on the back of increased Permian Basin volumes.

Meanwhile, NuStar Energy reported revenues of \$392.8 million that missed the Zacks Consensus Estimate of \$400 million but rose 12.9% year over year.

NuStar recorded an operating loss of \$93.1 million compared to a profit of \$73.6 million in the last year's corresponding quarter. This downside could be attributed to non-cash impairment losses of \$225 million associated with its Pipeline unit, which drove costs and expenses 77.2% higher to \$485.9 million.

Segmental Performance

Pipeline: Total quarterly throughput volumes were 2,126,478 barrels per day (Bbl/d), up 39.7% from the year-ago period. Throughput volumes from crude oil pipelines jumped 50.4% from the year-ago quarter to 1,532,046 Bbl/d while throughput from refined product pipelines witnessed an increase to 594,432 Bbl/d from 503,485 Bbl/d. In particular, volume ramp up at NuStar's Permian crude system lrd to the big bump in pipeline throughputs. As a result, the segment's revenues rose 25.2% year over year to \$195.7 million. However, a \$225 million impairment charge meant that the partnership's Pipeline unit reported an operating loss of \$122.9 million compared to operating income of \$67.3 million in the year-ago period.

Storage: Throughput volumes soared to 678,830 Bbl/d from 364,854 Bbl/d in the prior-year quarter. The unit's quarterly revenues increased to \$123.2 million from \$103.5 a year ago owing to surging throughput terminal revenues (from \$21.7 million to \$38.7 million). NuStar's Storage segment benefited from a full quarter's contribution from the new Taft 30-inch pipeline and other expansion projects. Consequently, the segment's operating income came in at \$48.6 million compared with \$32.2 million in the corresponding quarter of 2019.

Fuels Marketing: Product sales decreased to \$73.9 million from \$88.1 million in the year-ago quarter. On a positive note, cost of goods dropped 21.7% from the prior-year period to \$67 million. Moreover, NuStar delivered strong margins from its bunkering business and robust performance from its butane blending and transmix operations. The segment recorded earnings of \$6.4 million in the quarter under review compared with \$1.9 million in first-quarter 2019.

Cash Flow, Debt and Guidance

First-quarter 2020 distributable cash flow available to limited partners was \$122.3 million (providing 2.80x distribution coverage), significantly higher than \$67.4 million (1.04x) in the year-ago period. A coverage ratio far in excess of 1 implies that the partnership is generating more than enough cash in the period to cover its distribution.

As of Mar 31, the partnership's total consolidated debt was \$3.4 billion.

Taking into account the impact of the historic oil market crash and the coronavirus-induced demand destruction for the fuel, NuStar now anticipates 2020 adjusted EBITDA in the band of \$665-735 million, around 6% lower at the midpoint of its previous guidance. The partnership also announced a cut to its 2020 capital spending plan by 45% from its prior projection, to a range of \$165 to \$195 million. NuStar expects distribution coverage ratio for the year to come in between 1.6x to 1.8x.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	-1.77%
EPS Surprise	-15.22%
Quarterly EPS	0.39
Annual EPS (TTM)	1.12

Valuation

NuStar Energy units are down 50.8% and 55.5% 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 44.7% and 38.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 51.2% and 41.1%, respectively.

The S&P 500 index is down 1.7% in the year-to-date period but up 5.8% in the past year.

The stock is currently trading at 8.64X trailing 12-month EV/EBITDA, which compares to 7.46X for the Zacks sub-industry, 3.91X for the Zacks sector and 11.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.98X and as low as 5.94X, with a 5-year median of 11.15X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$11 price target reflects 0.85X 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	8.64	7.46	3.91	11.72
	5-Year High	14.98	16.6	10.45	12.86
	5-Year Low	5.94	6.65	3.03	8.25
	5-Year Median	11.15	13.35	6.5	10.87
P/S F12M	Current	0.98	0.59	0.72	3.51
	5-Year High	2.41	1.62	1.46	3.51
	5-Year Low	0.46	0.41	0.59	2.53
	5-Year Median	1.59	1.03	0.99	3.02
P/B TTM	Current	1.85	0.93	0.87	4.32
	5-Year High	3.59	2.54	1.54	4.56
	5-Year Low	0.72	0.61	0.52	2.83
	5-Year Median	2.03	1.87	1.31	3.7

As of 07/14/2020

Industry Analysis Zacks Industry Rank: Top 39% (97 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Delek Logistics Partners, L.P. (DKL)	Outperform	3
Oasis Midstream Partners LP (OMP)	Outperform	1
PBF Logistics LP (PBFX)	Outperform	3
TC PipeLines, LP (TCP)	Outperform	1
BP Midstream Partners LP (BPMP)	Neutral	2
Magellan Midstream Partners, L.P. (MMP)	Neutral	3
Shell Midstream Partners, L.P. (SHLX)	Neutral	4
Summit Midstream Partners, LP (SMLP)	Neutral	4

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb				Industry Peers		
	NS	X Industry	S&P 500	DKL	SHLX	SMLP
Zacks Recommendation (Long Term)	Underperform	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	3	4	4
VGM Score	A	-	-	A	C	A
Market Cap	1.39 B	1.24 B	21.89 B	686.67 M	4.29 B	80.37 M
# of Analysts	1	3	14	1	3	2
Dividend Yield	12.59%	12.59%	1.86%	15.57%	16.86%	0.00%
Value Score	B	-	-	B	D	A
Cash/Price	0.01	0.06	0.07	0.01	0.06	0.86
EV/EBITDA	8.94	7.13	12.84	9.03	9.78	11.30
PEG Ratio	NA	0.71	2.92	NA	NA	NA
Price/Book (P/B)	1.85	1.43	3.06	NA	NA	0.18
Price/Cash Flow (P/CF)	1.88	3.23	11.89	4.24	5.16	0.55
P/E (F1)	8.77	8.23	21.54	7.40	8.77	NA
Price/Sales (P/S)	0.90	1.03	2.27	1.15	8.70	0.19
Earnings Yield	-4.88%	9.20%	4.38%	13.51%	11.37%	-17.65%
Debt/Equity	4.49	1.44	0.76	-21.22	-3.51	3.26
Cash Flow (\$/share)	6.75	2.86	6.94	5.39	2.11	1.55
Growth Score	A	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	-24.03%	5.73%	10.85%	2.04%	9.80%	-11.07%
Proj. EPS Growth (F1/F0)	-203.33%	-7.04%	-9.64%	18.39%	-25.55%	NA
Curr. Cash Flow Growth	52.91%	10.65%	5.51%	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	0.76	1.02	1.30	1.00	8.77	2.03
Debt/Capital	61.70%	61.11%	44.46%	NA	NA	67.22%
Net Margin	1.59%	14.24%	10.54%	16.27%	97.36%	-78.56%
Return on Equity	23.62%	18.47%	15.75%	-80.26%	-63.01%	6.45%
Sales/Assets	0.25	0.35	0.54	0.74	0.25	0.15
Proj. Sales Growth (F1/F0)	-12.23%	-5.03%	-2.52%	10.93%	19.52%	-12.05%
Momentum Score	A	-	-	D	A	B
Daily Price Chg	-2.08%	0.00%	1.60%	0.18%	-0.64%	-1.13%
1 Week Price Chg	-1.32%	-3.36%	-0.41%	1.69%	-3.30%	-12.46%
4 Week Price Chg	-23.66%	-22.91%	-0.71%	-16.56%	-20.60%	-40.97%
12 Week Price Chg	26.09%	9.34%	15.18%	159.59%	-1.71%	10.56%
52 Week Price Chg	-55.48%	-57.46%	-6.45%	-28.80%	-49.26%	-88.83%
20 Day Average Volume	887,725	420,662	2,246,780	90,443	1,273,395	420,662
(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%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	14.47%	-2.50%	-6.22%	-1.59%	-15.80%	-3.57%
(Q1) EPS Est Mthly Chg	-16.44%	0.00%	0.00%	0.00%	0.00%	0.00%

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	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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