

NuStar Energy L.P. (NS)

\$14.35 (As of 08/19/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/23/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: A

Growth: D

Momentum: B

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. 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.. Hence, NuStar warrants a cautious stance.

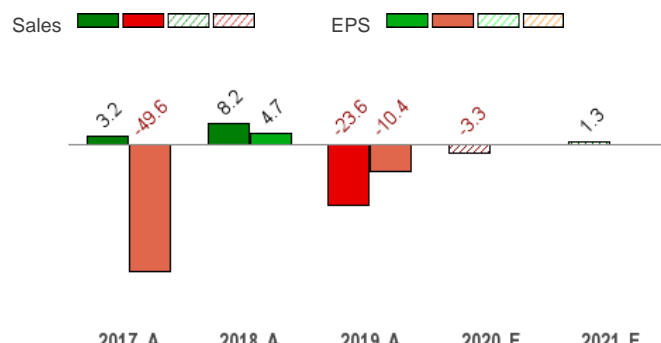
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$30.06 - \$4.98
20 Day Average Volume (sh)	631,276
Market Cap	\$1.6 B
YTD Price Change	-44.5%
Beta	2.47
Dividend / Div Yld	\$1.60 / 11.1%
Industry	Oil and Gas - Production Pipeline - MLB
Zacks Industry Rank	Bottom 26% (187 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-62.5%
Last Sales Surprise	-3.3%
EPS F1 Est- 4 week change	9.0%
Expected Report Date	11/03/2020
Earnings ESP	17.5%
P/E TTM	14.4
P/E F1	9.1
PEG F1	NA
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	352 E	355 E	360 E	363 E	1,467 E
2020	393 A	340 A	357 E	359 E	1,448 E
2019	486 A	372 A	378 A	400 A	1,498 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.22 E	\$0.24 E	\$0.24 E	\$0.25 E	\$0.87 E
2020	\$0.39 A	\$0.06 A	\$0.13 E	\$0.21 E	-\$0.49 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.

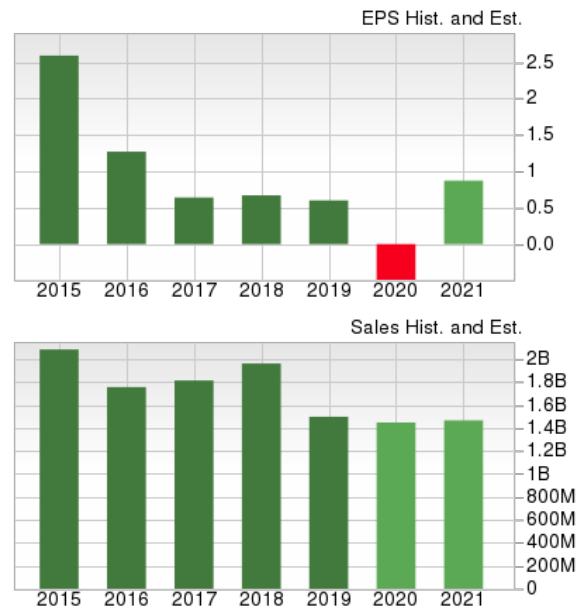
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/19/2020. The reports text is as of 08/20/2020.

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:

- ▼ Since the start of 2020, units of the oil and refined products carrier have plunged around 44.5% amid the crude price slump. 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 second quarter was 62.5%, deteriorating from 61.7% 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.
-

NuStar's high debt levels remain a cause of worry.

Last Earnings Report

NuStar Energy's Q2 Earnings and Revenues Miss Estimates

Oil pipeline operator NuStar Energy reported second-quarter adjusted earnings per unit of 6 cents, below the Zacks Consensus Estimate of 16 cents. The partnership's bottom line also fell from the year-ago earnings of 10 cents. Quarterly performance was impacted by lower-than-anticipated operating income from the pipeline segment. Notably, the partnership's Pipeline unit reported an operating income of \$72 million, missing the Zacks Consensus Estimate of \$84 million.

Moreover, NuStar Energy reported revenues of \$339.5 million, lagging the Zacks Consensus Estimate of \$351 million and also declining 8.6% year over year.

Also, the company recorded an operating income of \$92.7 million, marginally lower than the profit of \$93.2 million in the corresponding quarter of last year.

Segmental Performance

Pipeline: Total quarterly throughput volumes were 1,516,417 barrels per day (Bbl/d), down 8.6% from the year-ago period. Throughput volumes from crude oil pipelines fell 2.4% from the year-ago quarter to 1,063,739Bbl/d while throughput from refined product pipelines witnessed a decrease to 452,678Bbl/d from 569,820Bbl/d. Precisely, the volume slump at NuStar Energy's Permian crude system contracted pipeline throughputs. As a result, the segment's revenues dipped 3.7% year over year to \$166.1 million. Moreover, the firm's Pipeline unit reported an operating income of \$72 million compared with the operating income of \$78.7 million in the year-ago period.

Storage: Throughput volumes plummeted to 348,189Bbl/d from 395,512Bbl/d in the prior-year quarter. However, the unit's quarterly revenues increased to \$119.4 million from \$110.4 a year ago owing to surging throughput terminal revenues (from \$23.2 million to \$32.2 million). Further, NuStar Energy's Storage segment benefited from a full-quarter contribution from the new Taft 30-inch pipeline and other expansion projects. Evidently, the segment's operating income summed \$43.2 million in the June quarter compared with \$38.1 million in the comparable period last year.

Fuels Marketing: Product sales decreased to \$54 million from \$89.5 million in the year-ago quarter. On a positive note, cost of goods dropped 41.6% from the prior-year period to \$50.1 million. Moreover, NuStar Energy delivered strong margins from its bunkering business. The segment recorded earnings of \$3.3 million in the quarter under review compared with \$3.2 million in second-quarter 2019.

Cash Flow, Debt and Guidance

Second-quarter 2020 distributable cash flow available to limited partners was \$62.5 million, lower than \$82.9 million in the year-ago period. However, distribution coverage improved to 1.43X from 1.28X in the second quarter of 2019. 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 Jun 30, 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 woes for the fuel, NuStar Energy reiterates its 2020 adjusted EBITDA guidance in the band of \$665-735 million. This is around 6% lower at the midpoint than its projection provided before the coronavirus pandemic.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	-3.32%
EPS Surprise	-62.50%
Quarterly EPS	0.06
Annual EPS (TTM)	1.00

Valuation

NuStar Energy units are down 44.5% and 48.5% 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 41.3% and 35.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 45.3% and 31.3%, respectively.

The S&P 500 index is up 4.7% in the year-to-date period and up 15.7% in the past year.

The stock is currently trading at 9.04X trailing 12-month EV/EBITDA, which compares to 7.93X for the Zacks sub-industry, 4.37X for the Zacks sector and 12.76X for the S&P 500 index.

Over the past five years, the stock has traded as high as 14.48X and as low as 5.94X, with a 5-year median of 11.08X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$15 price target reflects 1.12X 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	9.04	7.93	4.37	12.76
	5-Year High	14.48	15.84	10.48	12.85
	5-Year Low	5.94	6.65	3.05	8.25
	5-Year Median	11.08	13.25	6.49	10.91
P/S F12M	Current	1.07	0.65	1.06	4.53
	5-Year High	2.41	1.62	1.55	4.56
	5-Year Low	0.46	0.41	0.52	2.83
	5-Year Median	1.56	1.02	1.32	3.75
P/B TTM	Current	2.22	1.01	1.06	4.53
	5-Year High	3.59	2.35	1.55	4.56
	5-Year Low	0.72	0.61	0.52	2.83
	5-Year Median	2.04	1.86	1.32	3.75

As of 08/19/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 252)



Top Peers

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

Industry Comparison Industry: Oil And Gas - Production Pipeline - Mlb				Industry Peers		
	NS	X Industry	S&P 500	DKL	SHLX	SMLP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	2	3	3
VGM Score	B	-	-	C	C	B
Market Cap	1.57 B	1.41 B	23.61 B	1.03 B	4.47 B	48.22 M
# of Analysts	1	3	14	1	3	1
Dividend Yield	11.15%	10.46%	1.65%	10.46%	16.20%	0.00%
Value Score	A	-	-	C	C	A
Cash/Price	0.01	0.03	0.07	0.02	0.07	0.79
EV/EBITDA	9.29	7.82	13.36	11.26	8.44	11.66
PEG Ratio	NA	0.79	2.99	NA	NA	NA
Price/Book (P/B)	2.22	1.85	3.16	NA	6.57	0.08
Price/Cash Flow (P/CF)	2.13	3.90	12.71	6.39	5.38	0.56
P/E (F1)	9.08	8.82	21.82	8.37	8.72	NA
Price/Sales (P/S)	1.04	1.21	2.47	1.85	9.08	0.12
Earnings Yield	-3.41%	8.65%	4.37%	11.94%	11.44%	-12.79%
Debt/Equity	4.85	1.65	0.76	-12.87	4.00	3.16
Cash Flow (\$/share)	6.75	2.86	6.94	5.39	2.11	1.55
Growth Score	D	-	-	B	B	F
Hist. EPS Growth (3-5 yrs)	-21.31%	4.72%	10.44%	4.72%	8.95%	-24.46%
Proj. EPS Growth (F1/F0)	-181.67%	-5.37%	-5.97%	57.47%	-21.96%	NA
Curr. Cash Flow Growth	52.91%	10.65%	5.22%	6.77%	-6.63%	-5.83%
Hist. Cash Flow Growth (3-5 yrs)	11.89%	9.39%	8.52%	9.06%	65.51%	1.92%
Current Ratio	0.95	1.10	1.33	2.42	5.40	1.09
Debt/Capital	62.53%	61.32%	44.50%	NA	NA	67.08%
Net Margin	0.55%	13.61%	10.13%	20.59%	102.85%	-67.01%
Return on Equity	23.17%	16.58%	14.67%	-110.23%	-126.50%	7.23%
Sales/Assets	0.25	0.33	0.51	0.65	0.23	0.15
Proj. Sales Growth (F1/F0)	-11.51%	-9.82%	-1.54%	-8.70%	-5.35%	-12.05%
Momentum Score	B	-	-	F	C	A
Daily Price Chg	-3.69%	-0.54%	-0.38%	1.77%	-2.41%	-3.58%
1 Week Price Chg	6.21%	1.38%	1.09%	8.34%	1.02%	-1.38%
4 Week Price Chg	0.42%	-0.98%	2.23%	33.42%	-4.14%	-1.94%
12 Week Price Chg	-16.23%	-5.88%	6.91%	39.03%	-19.83%	-7.20%
52 Week Price Chg	-48.53%	-48.43%	2.28%	12.49%	-46.06%	-81.91%
20 Day Average Volume	631,276	520,760	1,899,976	130,932	804,754	520,760
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	33.33%
(F1) EPS Est 4 week change	8.97%	2.02%	1.70%	33.01%	4.83%	33.33%
(F1) EPS Est 12 week change	8.97%	5.94%	3.08%	33.01%	4.83%	24.14%
(Q1) EPS Est Mthly Chg	-12.13%	0.00%	0.83%	27.71%	40.74%	14.29%

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	A
Growth Score	D
Momentum Score	B
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.