

Phillips 66 Partners(PSXP)

\$61.59 (As of 02/18/20)

Price Target (6-12 Months): **\$67.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: F

Summary

Phillips 66 Partners is least exposed to fluctuations in commodity prices since it generates stable fee-based revenues under long-term contracts from diverse midstream energy assets across various areas of the United States. Notably, it raised distributions for the December quarter, marking the 25th straight quarter of a dividend hike since its initial public offering in 2013. Moreover, Phillips 66 Partners continues to gain on rising terminal throughput volumes of refined petroleum products. Notably, it beat the earnings estimates in the fourth-quarter 2019 on the back of rising terminal volumes. However, declining crude transportation volumes affecting profits is a serious concern. Moreover, rising debt load over the years reflects balance sheet weakness, which can restrict financial flexibility. As such the stock warrants a cautious stance.

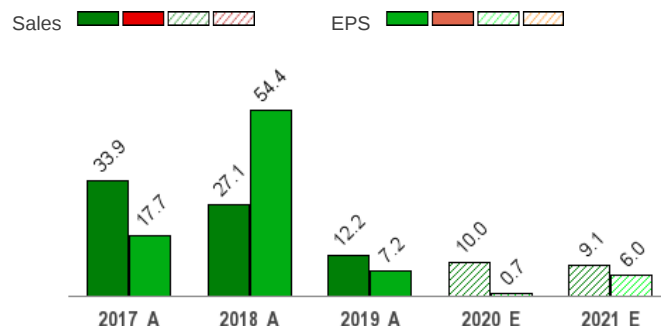
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$65.23 - \$47.34
20 Day Average Volume (sh)	392,901
Market Cap	\$14.0 B
YTD Price Change	-0.1%
Beta	1.01
Dividend / Div Yld	\$3.50 / 5.7%
Industry	Oil and Gas - Refining and Marketing - Master Limited Partnerships
Zacks Industry Rank	Bottom 15% (218 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.1%
Last Sales Surprise	3.1%
EPS F1 Est- 4 week change	2.6%
Expected Report Date	04/29/2020
Earnings ESP	-1.7%
P/E TTM	15.2
P/E F1	14.3
PEG F1	3.6
P/S TTM	8.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	479 E	491 E	501 E	507 E	1,999 E
2020	427 E	452 E	471 E	483 E	1,833 E
2019	423 A	401 A	423 A	432 A	1,667 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.15 E	\$1.19 E	\$1.23 E	\$1.24 E	\$4.58 E
2020	\$1.01 E	\$1.09 E	\$1.15 E	\$1.18 E	\$4.32 E
2019	\$0.92 A	\$1.15 A	\$0.92 A	\$1.06 A	\$4.29 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 02/18/2020. The reports text is as of 02/19/2020.

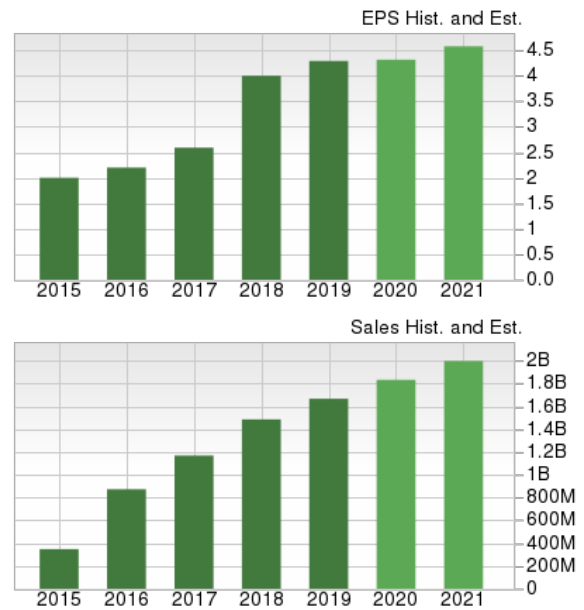
Overview

Phillips 66 Partners – headquartered in Houston, TX – is a master limited partnership (MLP), being involved in operating and developing midstream energy infrastructures. The MLP was created by Phillips 66 Partners GP LLC and Phillips 66 Company in 2013. Phillips 66 Partners GP LLC is the general partner of the partnership. Notably, both the general partners and Phillips 66 Company are the wholly owned affiliates of Phillips 66 — a leading refining player in the global market. The midstream assets, being operated by the partnership, include terminals and pipelines for transporting oil, natural gas liquid and refined petroleum products. The partnership, founded on 2013, generates stable fee-based revenues from the midstream infrastructures that are located across the Gulf Coast, Central, Western and Atlantic areas of the United States.

Importantly, a significant part of the partnership's stable fee-based revenues is being generated from long-term midstream contracts with Phillips 66. The midstream services that are being provided to Phillips 66 include pipeline transportation, processing, fractionation and storage of commodities. The contracts also provide safe guards with commitments for minimum volume. If the company fails to commit with minimum transportation volumes, the partnership will get deficiency payments.

Moreover, from fourth-quarter 2013 to fourth-quarter 2018, Phillips 66 Partners has raised its quarterly cash distributions by 30% at a compound annual growth rate. The partnership also raised distributions for the December quarter of 2019, marking the 25th straight quarter of a dividend raise since its initial public offering in 2013. The partnership is likely to continue to increase cash distributions since it has a solid backlog of organic growth projects.

Phillips 66 Partners primarily conducts operations through Pipelines, Terminals and Storage, processing activities. In the last reported quarter, Pipelines were responsible for the partnership's 43.3% revenues. Meanwhile, Terminals and Storage, processing businesses were responsible for 16.2% and 40.5% of revenues, respectively.



Reasons To Buy:

▲ Phillips 66 Partners is least exposed to fluctuations in commodity prices since it generates stable fee-based revenues under long-term contracts from diverse midstream energy assets across the Gulf Coast, Central, Western and Atlantic areas of the United States. Thus, by providing transportation services to third parties and Phillips 66, the partnership's cashflows are highly stable and predictable.

▲ From fourth-quarter 2013 to fourth-quarter 2018, Phillips 66 Partners has raised its quarterly cash distributions by 30% at a compound annual growth rate. The partnership also raised distributions for the December quarter of 2019, marking the 25th straight quarter of a dividend raise since its initial public offering in 2013. The partnership is likely to continue to increase cash distributions since it has a solid backlog of organic growth projects.

▲ Phillips 66 Partners has completed its Lake Charles isomerization unit project and is planning to bring online the massive Gray Oak Pipeline in the December quarter of 2019. In 2020, the partnership plans to bring online three more organic projects, comprising Sweeny to Pasadena products expansion, South Texas Gateway Terminal and Clemens Caverns expansion.

The partnership generates stable fee-based revenues under long-term contracts.

Reasons To Sell:

- ▼ As compared to only \$430 million in total debt as of 2014-end, the partnership's debt load is recorded at \$3.5 billion as of Dec 31, 2019, reflecting a massive surge over the years. Rising debt loads reflect weakness in the balance sheet.
- ▼ Rising expenses are a cause of concern for the partnership. Notably, in the fourth-quarter 2019, its earnings deteriorated from year-ago level due to higher expenses. This can affect the partnership's bottom line in the future as well.
- ▼ Lower pipeline throughput volumes of crude oil have been hurting the partnership's bottom line. Notably, the partnership reported pipeline throughput volumes of crude oil in the December quarter of 459 thousand barrel daily, suggesting a sequential and year-over-year decline.

Rising debt level can affect the partnership's financial flexibility.

Last Earnings Report

Phillips 66 Partners' Q4 Earnings & Sales Beat Estimates

Phillips 66 Partners' fourth-quarter 2019 earnings per unit came in at \$1.06, which beat the Zacks Consensus Estimate of 99 cents owing to increased volumes on the partnership's terminals and a full quarter contribution from the isomerization unit at the Lake Charles Refinery. However, earnings deteriorated from the year-ago quarter's figure of \$1.09 due to higher expenses.

Revenues of \$432 million rose from \$393 million in the year-ago quarter and also beat the Zacks Consensus Estimate of \$419 million. The upside can be attributed to higher volumes and average realizations.

Quarter Ending **12/2019**

Report Date	Jan 31, 2020
Sales Surprise	3.08%
EPS Surprise	7.07%
Quarterly EPS	1.06
Annual EPS (TTM)	4.05

Operating Information

The partnership provides services through Pipelines, Terminals and Storage as well as Processing & Other activities.

Pipeline: In fourth-quarter 2019, the partnership generated revenues of \$126 million, up from \$118 million in the prior-year quarter. The uptick was led by higher average pipeline revenues of 67 cents per barrel compared with 61 cents per barrel in the year-ago quarter.

Terminals: The partnership generated \$47 million, up \$43 million from the year-ago quarter. The upside came on the back of higher throughput volumes of refined petroleum products.

Storage, Processing & Other activities: Through these activities, the partnership generated revenues of \$118 million, up from \$109 million in the year-ago quarter.

Operating and Maintenance Expenses

In the December quarter of 2019, the partnership reported operating and maintenance expenses of \$90 million, up from \$88 million in the year-ago quarter.

Balance Sheet

As of Dec 31, 2019, the partnership recorded cash and cash equivalents of \$286 million. Also, total debt at the end of the quarter under review was \$3,516 million.

Strategic Update & Outlook

Phillips 66 Partners has various ongoing projects that are backed by long-term volume commitments and expected to deliver typical midstream returns.

Gray Oak pipeline is operating in sync with expectations and expected to reach full service in the second quarter of 2020. It commenced initial operations on the 900,000 barrels per day (BPD). It will transport crude oil from the Permian and Eagle Ford to Texas Gulf Coast destinations. Phillips 66 Partners has a 42.25% ownership in the pipeline.

Sweeny to Pasadena capacity expansion project will add 80,000 BPD of pipeline capacity, providing additional naphtha offtake from the Sweeny fractionators. In addition, product storage capacity will increase by 300,000 barrels at the Pasadena Terminal. The project is expected to start by second-quarter 2020.

South Texas Gateway Terminal, in which Phillips 66 Partners owns a 25% interest, is expected to be completed by third-quarter 2020. The marine export terminal will have two deep-water docks, with storage capacity of 8.5 million barrels and up to 800,000 BPD of throughput capacity.

Clemens Caverns storage capacity expansion from 9 million barrels to 16.5 million barrels is expected to be completed in fourth-quarter 2020 while C2G Pipeline, which is a 16-inch ethane pipeline that will connect Clemens Caverns to petrochemical facilities in Gregory, Texas, near Corpus Christi. The unit is likely to commence operations by mid-2021.

The partnership has earmarked total capex of \$867 million for 2020, which includes \$734 million for growth projects and \$133 million of maintenance capital. It expects to exit 2020 with EBITDA run rate of \$1.5 billion.

Valuation

Units of Phillips 66 Partners are up 21% over the trailing 12-month period. Over the past year, the Zacks sub-industry and Zacks Oils-Energy sector are down 14.6% and 19%, respectively.

The S&P 500 index is up 20.4% in the past year.

The stock is currently trading at 7.55X forward 12-month sales, which compares to 0.85X for the Zacks sub-industry, 0.81X for the Zacks sector and 3.57X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.25X and as low as 3.46X, with a 5-year median of 5.30X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$67 price target reflects 8.21X F12M sales.

The table below shows summary valuation data for PSXP.

Valuation Multiples - PSXP					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	7.55	0.85	0.81	3.57
	5-Year High	28.25	1.18	1.45	3.57
	5-Year Low	3.46	0.46	0.67	2.54
	5-Year Median	5.3	0.77	0.99	3
EV/EBITDA TTM	Current	17.01	12.09	4.72	12.31
	5-Year High	71.45	21.85	10.26	12.85
	5-Year Low	9.77	9.84	4.59	8.47
	5-Year Median	18.98	13.9	6.54	10.7
P/B TTM	Current	6.98	2.06	1.11	4.35
	5-Year High	123.03	3	1.6	4.35
	5-Year Low	2.65	0.86	1.03	2.85
	5-Year Median	3.65	1.61	1.31	3.6

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (218 out of 255)



Top Peers

Chevron Corporation (CVX)	Outperform
Calumet Specialty Products Partners, L.P. (CLMT)	Neutral
Delek US Holdings, Inc. (DK)	Neutral
Marathon Petroleum Corporation (MPC)	Neutral
PBF Energy Inc. (PBF)	Neutral
UGI Corporation (UGI)	Neutral
Valero Energy Corporation (VLO)	Neutral
HollyFrontier Corporation (HFC)	Underperform

Industry Comparison Industry: Oil And Gas - Refining And Marketing - Master Limited Partnerships				Industry Peers		
	PSXP Neutral	X Industry	S&P 500	MPC Neutral	PBF Neutral	VLO Neutral
VGM Score	D	-	-	A	A	A
Market Cap	14.02 B	1.22 B	24.50 B	36.67 B	3.27 B	33.89 B
# of Analysts	4	2	13	10	14	9
Dividend Yield	5.68%	11.25%	1.78%	4.11%	4.40%	4.75%
Value Score	D	-	-	A	A	A
Cash/Price	0.05	0.02	0.04	0.04	0.15	0.06
EV/EBITDA	19.56	11.89	14.25	9.17	6.66	6.04
PEG Ratio	3.56	3.57	2.08	0.77	0.83	1.12
Price/Book (P/B)	6.98	2.63	3.28	0.87	0.92	1.57
Price/Cash Flow (P/CF)	8.35	5.82	13.68	5.30	27.20	14.04
P/E (F1)	14.25	14.27	19.12	8.35	5.92	8.97
Price/Sales (P/S)	8.35	0.29	2.67	0.29	0.13	0.31
Earnings Yield	7.01%	4.67%	5.23%	11.97%	16.87%	11.15%
Debt/Equity	1.91	2.32	0.70	0.71	0.65	0.42
Cash Flow (\$/share)	7.37	3.07	6.93	10.65	1.00	5.88
Growth Score	D	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	23.91%	-8.51%	10.84%	4.56%	-11.97%	-5.36%
Proj. EPS Growth (F1/F0)	0.58%	21.20%	7.11%	36.82%	411.27%	61.36%
Curr. Cash Flow Growth	58.23%	9.69%	7.81%	12.86%	-84.31%	-53.81%
Hist. Cash Flow Growth (3-5 yrs)	64.85%	11.90%	8.25%	12.28%	-28.06%	-14.34%
Current Ratio	1.51	0.96	1.24	1.25	1.56	1.40
Debt/Capital	58.17%	72.45%	42.37%	42.25%	39.46%	29.81%
Net Margin	52.65%	0.96%	11.76%	2.11%	1.30%	2.24%
Return on Equity	46.65%	18.21%	16.86%	7.42%	3.19%	10.36%
Sales/Assets	0.25	1.20	0.55	1.29	2.74	2.09
Proj. Sales Growth (F1/F0)	9.19%	3.60%	4.05%	6.76%	10.37%	9.84%
Momentum Score	F	-	-	B	A	D
Daily Price Chg	2.04%	-1.03%	-0.38%	-3.19%	-6.23%	-0.15%
1 Week Price Chg	-1.16%	-0.58%	1.65%	6.66%	6.52%	-1.67%
4 Week Price Chg	-1.00%	-8.35%	0.39%	0.52%	-8.89%	-8.57%
12 Week Price Chg	9.84%	-5.77%	4.84%	-8.43%	-13.57%	-15.31%
52 Week Price Chg	19.94%	-17.10%	14.99%	-13.14%	-22.60%	-2.68%
20 Day Average Volume	392,901	295,820	1,996,897	5,946,181	2,080,954	3,101,571
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.13%	3.29%	0.00%
(F1) EPS Est 4 week change	2.62%	-5.67%	-0.01%	-5.16%	7.11%	-2.75%
(F1) EPS Est 12 week change	1.95%	-14.75%	-0.21%	-9.80%	1.91%	-4.42%
(Q1) EPS Est Mthly Chg	1.17%	-6.98%	-0.26%	-23.88%	-16.67%	-21.79%

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	D
Growth Score	D
Momentum Score	F
VGM Score	D

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.