

Phillips 66 Partners(PSXP)

\$27.53 (As of 08/18/20)

Price Target (6-12 Months): **\$29.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

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, the current market volatility did not affect its distribution, which stayed in line with the previous quarter. Importantly, it reported better-than-expected second-quarter results on higher storage and processing activities. Notably, its 900,000 bpd Gray Oak pipeline reached full service on Apr 1, which will boost profits in the coming days. However, declining crude transportation volumes affecting profits is a serious concern. Moreover, a rising debt load over the years reflects balance sheet weakness, which can restrict the partnership's financial flexibility. As such, the stock warrants a cautious stance.

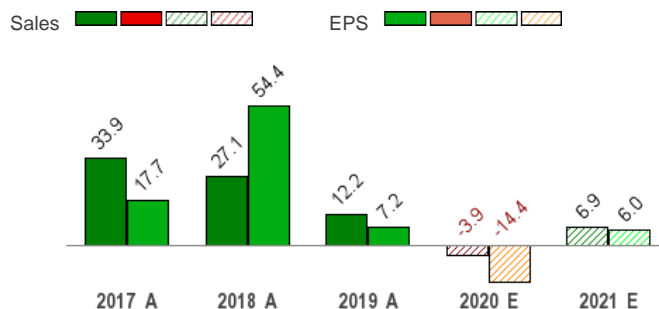
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$65.23 - \$19.00
20 Day Average Volume (sh)	817,354
Market Cap	\$6.3 B
YTD Price Change	-55.3%
Beta	1.24
Dividend / Div Yld	\$3.50 / 12.7%
Industry	Oil and Gas - Refining and Marketing - Master Limited Partnerships
Zacks Industry Rank	Top 44% (112 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.0%
Last Sales Surprise	17.2%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	10/23/2020
Earnings ESP	0.0%
P/E TTM	7.0
P/E F1	7.5
PEG F1	1.9
P/S TTM	3.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	421 E	440 E	450 E	461 E	1,712 E
2020	404 A	430 A	381 E	405 E	1,602 E
2019	423 A	401 A	423 A	432 A	1,667 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.91 E	\$0.97 E	\$1.00 E	\$1.02 E	\$3.89 E
2020	\$0.93 A	\$1.05 A	\$0.86 E	\$0.96 E	\$3.67 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 08/18/2020. The reports text is as of 08/19/2020.

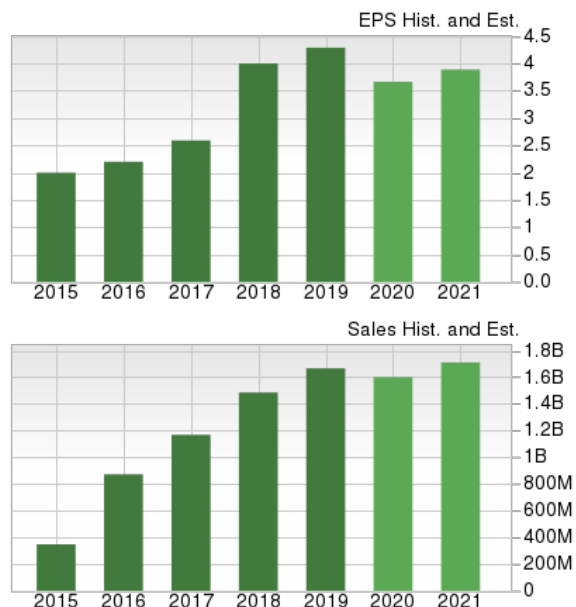
Overview

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 40.2% total operating revenues. Meanwhile, Terminals and Storage, processing businesses were responsible for 13.7% and 46.1% of total operating 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. Despite the current market volatility it kept the distribution in-line with first quarter level. The partnership is likely to continue to increase cash distributions once the market fundamentals improve since it has a solid backlog of organic growth projects.
- ▲ Phillips 66 Partners has completed its Lake Charles isomerization unit project and brought online the massive Gray Oak Pipeline in April. In 2020, the partnership plans to bring online two more organic projects, comprising Sweeny to Pasadena products expansion 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 \$3,707 million as of Jun 30, 2020, reflecting a massive surge over the years. At the second-quarter end, the partnership recorded cash and cash equivalents of \$7 million, down from \$92 million at the end of first-quarter 2020. Rising debt loads and declining cash balance reflect weakness in the balance sheet.
- ▼ The partnership will defer the Liberty Pipeline project and postpone FID on the ACE Pipeline project. It expects second-quarter adjusted EBITDA to be lower than the first-quarter reported level of \$321 million due to reduced domestic production and refinery utilization. Notably, the potential earnings growth from Gray Oak will likely be offset by lower quarterly throughput.
- ▼ 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 June quarter of 380 thousand barrel daily, suggesting sequential and year-over-year declines.

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

Last Earnings Report

Phillips 66 Partners Beats Q2 Earnings & Revenues Estimates

Phillips 66 Partners reported second-quarter 2020 earnings per unit of \$1.05, which beat the Zacks Consensus Estimate of 75 cents. However, earnings declined from \$1.15 per unit in the year-ago quarter.

Revenues of \$430 million increased from \$401 million in the year-ago quarter and beat the Zacks Consensus Estimate of \$367 million.

The better-than-expected results were owing to higher storage and processing activities, partially offset by lower pipeline volumes of crude oil and refined petroleum products and NGL.

Quarter Ending 06/2020

Report Date	Jul 31, 2020
Sales Surprise	17.20%
EPS Surprise	40.00%
Quarterly EPS	1.05
Annual EPS (TTM)	3.96

Operating Information

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

Pipeline: In second-quarter 2020, the partnership generated revenues of \$97 million, down from \$117 million in the prior-year period. The drop was due to lower pipeline volumes of crude oil and refined petroleum products and NGL. Notably, average pipeline revenues of 65 cents per barrel increased from 64 cents in the year-ago quarter.

Terminals: The partnership generated \$33 million revenues, down from \$39 million in the year-ago quarter due to lower throughput volumes of refined petroleum products and crude oil.

Notably, average terminalling revenue per barrel was 33 cents in the quarter, flat with the year-ago quarter.

Storage, Processing & Other activities: Through these activities, the partnership generated revenues of \$111 million, up from \$107 million in the year-ago quarter.

Costs & Expenses

In the June quarter of 2020, the partnership reported operating and maintenance expenses of \$84 million, down from \$85 million in the year-ago quarter. However, total costs and expenses increased to \$175 million in second-quarter 2020 from the year-ago \$167 million.

Balance Sheet & Capex

As of Jun 30, 2020, the partnership recorded cash and cash equivalents of \$7 million, down from \$92 million at the end of first-quarter 2020. Total debt at the end of the quarter under review was \$3,707 million, up from \$3,516 million in the March quarter. Notably, it has \$532 million available under the revolving credit facility.

Capital expenditure and investment in the second quarter totaled \$377 million.

Strategic Update & Outlook

Phillips 66 Partners hints at the possibility of a cut in capital expenditure if the court orders to shut the Dakota Access Pipeline.

Valuation

Units of Phillips 66 Partners are down 55.4% in the year-to-date period and 48.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 50.7% and 35.5%, in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 45.5% and 30%, respectively.

The S&P 500 index is up 5.2% in the year-to-date period and 17.2% in the past year.

The stock is currently trading at 3.76X forward 12-month sales, which compares to 0.65X for the Zacks sub-industry, 0.73X for the Zacks sector and 3.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.10X and as low as 3.01X, with a 5-year median of 4.78X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$29.00 price target reflects 3.96X 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	3.76	0.65	0.73	3.72
	5-Year High	15.1	1.12	1.47	3.72
	5-Year Low	3.01	0.37	0.59	2.53
	5-Year Median	4.78	0.74	0.99	3.05
EV/EBITDA TTM	Current	10.13	7.42	4.39	12.83
	5-Year High	38.16	17.34	10.48	12.85
	5-Year Low	9.82	6.75	3.05	8.25
	5-Year Median	15.91	13.36	6.49	10.91
P/B TTM	Current	2.55	1.32	1.07	4.55
	5-Year High	16.25	2.4	1.55	4.56
	5-Year Low	2.55	0.61	0.52	2.83
	5-Year Median	3.59	1.58	1.32	3.75

As of 08/18/2020

Industry Analysis Zacks Industry Rank: Top 44% (112 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Calumet Specialty Products Partners, L.P. (CLMT)	Outperform	2
Chevron Corporation (CVX)	Outperform	3
Delek US Holdings, Inc. (DK)	Neutral	4
HollyFrontier Corporation (HFC)	Neutral	4
Marathon Petroleum Corporation (MPC)	Neutral	3
PBF Energy Inc. (PBF)	Neutral	4
UGI Corporation (UGI)	Neutral	2
Valero Energy Corporation (VLO)	Neutral	3

Industry Comparison Industry: Oil And Gas - Refining And Marketing - Master Limited Partnerships

Industry Peers

	PSXP	X Industry	S&P 500	MPC	PBF	VLO
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	4	3
VGM Score	B	-	-	B	B	B
Market Cap	6.29 B	623.69 M	23.71 B	24.23 B	1.12 B	22.32 B
# of Analysts	2	2.5	14	9	8	9
Dividend Yield	12.71%	12.10%	1.63%	6.23%	0.00%	7.16%
Value Score	B	-	-	A	A	A
Cash/Price	0.00	0.02	0.07	0.04	1.08	0.10
EV/EBITDA	10.01	8.23	13.45	6.93	3.97	5.18
PEG Ratio	1.85	0.51	3.01	NA	NA	NA
Price/Book (P/B)	2.55	1.42	3.18	0.79	0.39	1.08
Price/Cash Flow (P/CF)	6.01	3.58	12.70	3.48	2.00	4.85
P/E (F1)	7.40	9.68	21.98	NA	NA	NA
Price/Sales (P/S)	3.72	0.33	2.46	0.24	0.05	0.25
Earnings Yield	13.29%	6.54%	4.33%	-7.98%	-82.13%	-3.64%
Debt/Equity	1.40	2.61	0.76	1.05	1.53	0.59
Cash Flow (\$/share)	4.58	3.07	6.94	10.70	4.65	11.28
Growth Score	C	-	-	B	D	B
Hist. EPS Growth (3-5 yrs)	21.93%	11.37%	10.44%	3.82%	-3.33%	-6.80%
Proj. EPS Growth (F1/F0)	-14.57%	5.14%	-5.97%	-160.05%	-947.36%	-134.85%
Curr. Cash Flow Growth	14.24%	-6.73%	5.22%	13.40%	-27.27%	-11.67%
Hist. Cash Flow Growth (3-5 yrs)	45.15%	12.58%	8.52%	12.38%	-2.24%	-2.48%
Current Ratio	0.28	0.95	1.33	1.27	1.66	1.75
Debt/Capital	51.72%	73.18%	44.50%	51.89%	60.47%	36.94%
Net Margin	55.30%	0.88%	10.13%	-7.55%	-2.70%	1.22%
Return on Equity	43.10%	13.80%	14.59%	3.04%	-11.97%	5.30%
Sales/Assets	0.24	1.01	0.51	1.11	2.20	1.74
Proj. Sales Growth (F1/F0)	-4.59%	-14.02%	-1.54%	-37.05%	-29.94%	-31.13%
Momentum Score	A	-	-	F	F	F
Daily Price Chg	-1.15%	-1.15%	-0.41%	-3.65%	-3.03%	-1.55%
1 Week Price Chg	-3.05%	0.50%	1.09%	4.58%	2.06%	3.42%
4 Week Price Chg	-11.96%	-6.06%	3.41%	-3.37%	5.57%	-4.93%
12 Week Price Chg	-39.52%	-0.63%	9.80%	1.11%	-19.15%	-20.32%
52 Week Price Chg	-48.79%	-48.04%	3.43%	-20.29%	-58.60%	-29.83%
20 Day Average Volume	817,354	340,435	1,894,669	7,867,810	3,897,634	4,132,862
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.07%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.68%	42.20%	1.86%	-27.08%	-12.46%	-19.84%
(F1) EPS Est 12 week change	-2.46%	38.42%	2.86%	-42.17%	-30.26%	-34.54%
(Q1) EPS Est Mthly Chg	-5.99%	9.76%	0.80%	-83.85%	-19.67%	-55.69%

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	C
Momentum Score	A
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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