

## Phillips 66 Partners(PSXP)

**\$63.96** (As of 01/17/20)

Price Target (6-12 Months): **\$68.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/30/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

### 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 the Gulf Coast, Central, Western and Atlantic areas of the United States. Notably, the partnership raised distributions for the September quarter, marking the 24th 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. However, declining crude transportation volumes is a serious concern. Moreover, rising debt load over the years reflects balance sheet weakness, which can restrict financial flexibility. Also, a significant reduction in the 2019 capital budget might hurt the partnership's pipeline throughput volume.

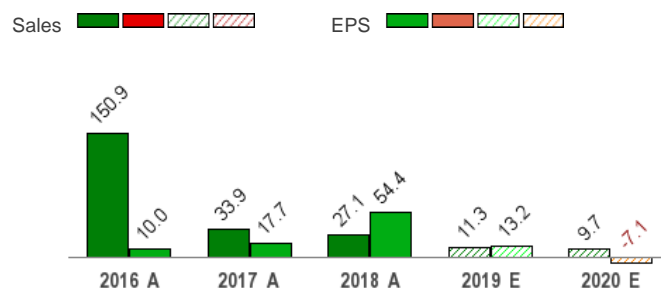
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$65.23 - \$47.34
20 Day Average Volume (sh)	578,869
Market Cap	\$14.6 B
YTD Price Change	3.8%
Beta	0.95
Dividend / Div Yld	\$3.46 / 5.4%
Industry	<a href="#">Oil and Gas - Refining and Marketing - Master Limited Partnerships</a>
Zacks Industry Rank	Bottom 26% (187 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.0%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	-0.6%
Expected Report Date	01/31/2020
Earnings ESP	-1.3%
P/E TTM	15.7
P/E F1	15.2
PEG F1	3.8
P/S TTM	8.9

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	432 E	451 E	474 E	484 E	1,814 E
2019	423 A	401 A	423 A	419 E	1,654 E
2018	355 A	354 A	384 A	393 A	1,486 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.00 E	\$1.06 E	\$1.13 E	\$1.16 E	\$4.21 E
2019	\$0.92 A	\$1.15 A	\$0.92 A	\$0.99 E	\$4.53 E
2018	\$0.87 A	\$0.94 A	\$1.10 A	\$1.09 A	\$4.00 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 01/17/2020. The reports text is as of 01/20/2020.

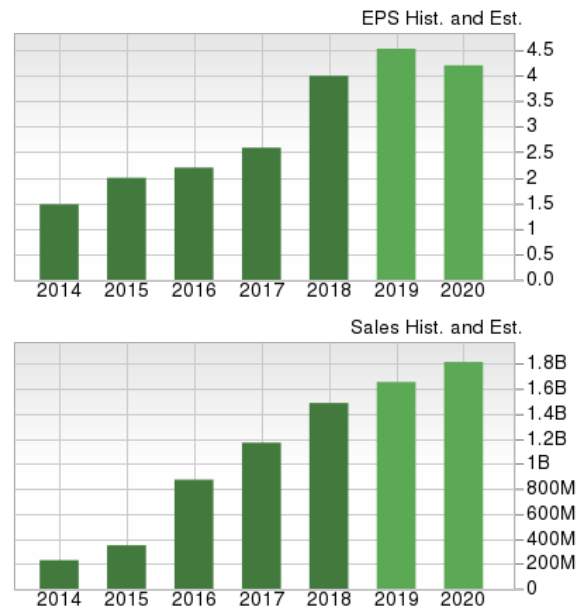
## Overview

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 September quarter of 2019, marking the 24th 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 45% revenues. Meanwhile, Terminals and Storage, processing businesses were responsible for 15% and 40% of revenues, respectively.



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## 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 September quarter of 2019, marking the 24th 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.

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

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### Reasons To Sell:

- ▼ As compared to only \$430 million in total debt as of 2014-end, the partnership's debt load is recorded at \$3.8 billion as of Sep 30, 2019, reflecting a massive surge over the years. Rising debt loads reflect weakness in the balance sheet.
- ▼ Phillips 66 Partners earlier projected 2019 capital spending of \$1.2 billion. However, for financing part of the \$2.2-billion Gray Oak pipeline project, the partnership has halved its capital budget through 2019 to \$601 million. The significant reduction in capital spending may hurt the partnership's pipeline and terminal throughput volume.
- ▼ 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 September quarter of 998 thousand barrel daily, suggesting a sequential and year-over-year decline.

The significant reduction in capital spending may hurt the partnership's pipeline and terminal throughput volume.

## Last Earnings Report

### Phillips 66 Partners Q3 Earnings Miss, Revenues Beat Estimates

Phillips 66 Partners' third-quarter 2019 earnings per unit came in at 92 cents, missing the Zacks Consensus Estimate of \$1 and deteriorating from the year-ago \$1.10. A decline in crude oil transported volumes led to the underperformance.

Revenues of \$411 million rose from \$384 million in the year-ago quarter and also beat the Zacks Consensus Estimate of \$407 million, thanks to higher terminal throughput volumes.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	2.94%
EPS Surprise	-8.00%
Quarterly EPS	0.92
Annual EPS (TTM)	4.08

### Operating Information

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

*Pipeline:* In third-quarter 2019, the partnership generated revenues of \$121 million, down marginally from \$123 million a year ago owing to a drop in transported crude oil volumes.

*Terminals:* The partnership generated \$41 million, reflecting an improvement from \$37 million a year ago, thanks to higher throughput volumes of crude oil and refined petroleum products.

*Storage, Processing & Other activities:* Through these activities, the partnership generated revenues of \$108 million, up from \$105 million in the year-ago quarter.

### Operating and Maintenance Expenses

In the September quarter of 2019, the company reported operating and maintenance expenses of \$91 million, showing a rise from \$84 million in the year-ago period.

### Balance Sheet

As of Sep 30, 2019, the partnership recorded cash and cash equivalents of \$655 million. Also, total debt at the end of the quarter under review was \$3,815 million.

## Valuation

Units of Phillips 66 Partners are up 38.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up 12.6%, but the sector is down 3.5%.

The S&P 500 index is up 26.5% in the past year.

The stock is currently trading at 7.97X forward 12-month sales, which compares to 0.87X for the Zacks sub-industry, 0.89X 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 30.97X 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 \$68 price target reflects 8.47X 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	7.97	0.87	0.89	3.57
	5-Year High	30.97	1.18	1.44	3.57
	5-Year Low	3.46	0.46	0.67	2.54
	5-Year Median	5.3	0.78	0.99	3
EV/EBITDA TTM	Current	19.32	12.95	5.03	12.38
	5-Year High	73.73	21.85	10.19	12.86
	5-Year Low	10.18	9.84	4.56	8.48
	5-Year Median	17.22	14.06	6.5	10.67
P/B TTM	Current	7.25	2.32	1.22	4.55
	5-Year High	130.19	3.01	1.59	4.55
	5-Year Low	2.65	0.86	1.02	2.85
	5-Year Median	3.65	1.61	1.31	3.61

As of 01/17/2020

## Industry Analysis Zacks Industry Rank: Bottom 26% (187 out of 254)



## Top Peers

Calumet Specialty Products Partners, L.P. (CLMT)	Neutral
Chevron Corporation (CVX)	Neutral
HollyFrontier Corporation (HFC)	Neutral
Marathon Petroleum Corporation (MPC)	Neutral
PBF Energy Inc. (PBF)	Neutral
Valero Energy Corporation (VLO)	Neutral
Delek US Holdings, Inc. (DK)	Underperform
UGI Corporation (UGI)	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
<b>VGM Score</b>	<b>D</b>	-	-	<b>A</b>	<b>A</b>	<b>B</b>
Market Cap	14.56 B	1.40 B	24.65 B	36.94 B	3.72 B	37.46 B
# of Analysts	4	2	13	9	10	7
Dividend Yield	5.41%	10.43%	1.73%	3.73%	3.87%	3.95%
<b>Value Score</b>	<b>D</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Cash/Price	0.05	0.02	0.04	0.04	0.13	0.05
EV/EBITDA	20.15	12.20	14.11	9.21	7.26	6.57
PEG Ratio	3.81	3.80	2.08	0.71	1.04	1.21
Price/Book (P/B)	7.25	3.05	3.39	0.88	1.05	1.74
Price/Cash Flow (P/CF)	8.67	6.59	13.81	6.41	4.86	7.29
P/E (F1)	15.23	14.63	19.19	7.98	7.26	9.65
Price/Sales (P/S)	8.88	0.30	2.69	0.29	0.15	0.34
Earnings Yield	6.57%	6.11%	5.21%	12.53%	13.77%	10.37%
Debt/Equity	1.91	2.32	0.72	0.71	0.65	0.42
Cash Flow (\$/share)	7.37	3.07	6.94	8.87	6.39	12.51
<b>Growth Score</b>	<b>D</b>	-	-	<b>A</b>	<b>A</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	24.66%	-8.51%	10.56%	3.48%	-13.95%	-5.51%
Proj. EPS Growth (F1/F0)	-7.17%	20.51%	7.57%	71.73%	397.83%	91.07%
Curr. Cash Flow Growth	58.23%	9.69%	14.73%	48.56%	78.06%	24.76%
Hist. Cash Flow Growth (3-5 yrs)	64.85%	11.90%	9.00%	12.55%	23.93%	4.78%
Current Ratio	1.51	0.96	1.24	1.25	1.56	1.40
Debt/Capital	58.17%	72.09%	42.99%	42.25%	39.46%	29.81%
Net Margin	51.83%	0.96%	11.14%	2.50%	-0.36%	2.12%
Return on Equity	45.65%	17.52%	17.16%	8.94%	4.77%	10.37%
Sales/Assets	0.25	1.20	0.55	1.31	2.81	2.13
Proj. Sales Growth (F1/F0)	9.68%	3.40%	4.16%	13.85%	6.80%	14.44%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>F</b>	<b>F</b>	<b>F</b>
Daily Price Chg	-1.19%	-0.08%	0.27%	-1.11%	-0.39%	-0.83%
1 Week Price Chg	1.51%	-0.30%	0.39%	3.42%	11.53%	5.87%
4 Week Price Chg	6.10%	3.97%	2.95%	-6.94%	-0.80%	-3.56%
12 Week Price Chg	15.93%	-0.31%	7.76%	-14.26%	-1.02%	-5.87%
52 Week Price Chg	31.23%	2.09%	22.29%	-13.53%	-14.08%	13.33%
20 Day Average Volume	578,869	346,606	1,536,375	5,008,213	1,123,343	2,591,534
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-2.18%	-0.11%	0.12%
(F1) EPS Est 4 week change	-0.65%	-1.28%	0.00%	-4.03%	-0.26%	-1.46%
(F1) EPS Est 12 week change	9.85%	-6.99%	-0.40%	0.66%	-3.73%	4.93%
(Q1) EPS Est Mthly Chg	-1.49%	-1.81%	0.00%	-12.10%	-8.70%	-10.92%

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## 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.

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### 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	C
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.

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