

USA Compression (USAC)

\$11.52 (As of 08/07/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/10/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: D

Summary

USA Compression Partners is a leading energy infrastructure provider, which specializes in large-horsepower applications. The partnership provides natural gas compressors, a must have service for the transportation of the fuel. With rising longterm consumption and production of natural gas, USA Compression's growth prospects remain strong. Further, as a byproduct of the MLP model, the partnership is largely insulated to fluctuations in commodity prices and generates stable cash flows from long-term contracts. The fact that it yields around 18% makes the stock enticing for income investors. However, USA Compression hasn't been immune to the coronavirus-induced downturn and faces a potential decline in volumes. The firm's high debt levels remain a cause of worry too. Hence, investors are advised to wait for a better entry point.

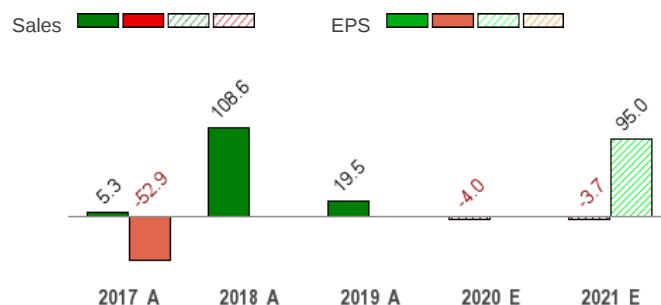
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$18.32 - \$3.52
20 Day Average Volume (sh)	314,364
Market Cap	\$1.1 B
YTD Price Change	-36.2%
Beta	2.38
Dividend / Div Yld	\$2.10 / 18.1%
Industry	Oil and Gas - Mechanical and Equipment
Zacks Industry Rank	Bottom 11% (224 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-50.0%
Last Sales Surprise	-0.4%
EPS F1 Est- 4 week change	3.6%
Expected Report Date	NA
Earnings ESP	-33.3%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					645 E
2020	179 A	169 A	162 E	160 E	670 E
2019	171 A	174 A	176 A	178 A	698 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.13 E	-\$0.13 E	-\$0.12 E	-\$0.12 E	-\$0.33 E
2020	\$0.04 A	-\$0.06 A	-\$0.09 E	-\$0.12 E	-\$6.61 E
2019	-\$0.02 A	\$0.01 A	\$0.02 A	-\$0.01 A	\$0.03 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 08/07/2020. The reports text is as of 08/10/2020.

Overview

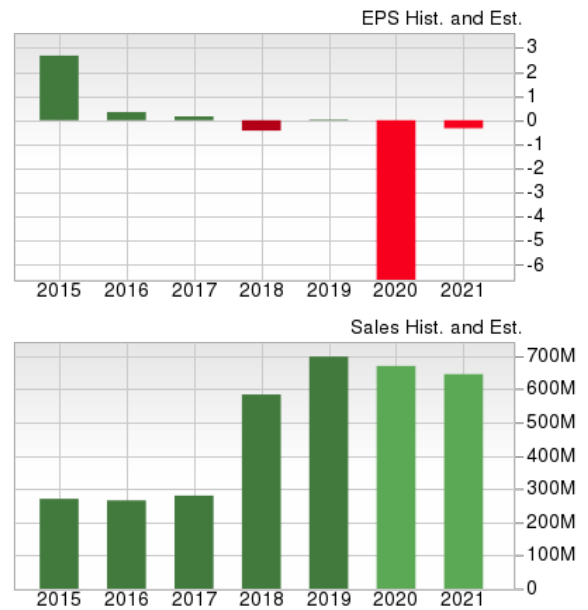
Founded in 1998, USA Compression Partners, LP is one of the largest independent natural gas compression services providers across the United States in terms of fleet horsepower. Structured as a master limited partnership ("MLP") with the Energy Transfer family owning approximately 48%, it primarily focuses on large-horsepower applications (greater than 1,000 horsepower) in a number of areas including the Permian/Delaware, Marcellus/Utica, Midcontinent/SCOOPT/STACK, South Texas, East Texas, Louisiana, Rockies. The firm is also involved in engineering, design, operation, service, and repair of compressor units.

As of year-end 2019, USA Compression Partners' fleet was made up of 5,451 units with total horsepower of 3,682,968 (average of 720 horsepower per unit) and 56,500 horsepower on order with expected delivery during the remainder of 2020. The partnership has been able to maintain an average horsepower utilization rate of over 90% throughout the inherent boom and bust cycle of natural gas prices since 2007. It has a diversified customer base consisting of major oil and gas companies, large independent upstream players and midstream operators.

Being an MLP, USA Compression Partners passes its cash flows to its investors in the form of a quarterly distribution. The Austin, TX-based partnership's diversified infrastructure assets offer cash flow stability from long-term contracts. Since its IPO in January 2013, USA Compression Partners has distributed more than \$880 million to common unitholders.

For full-year 2019, USA Compression Partners reported revenues of \$698.4 million, up 20% year over year.

A Word on Natural Gas Compressors: Natural gas compressors help the commodity to move from the wellhead (where it is produced) to the end market (where it is demanded). In other words, compression equipment is an integral part of natural gas pipelines, helping to push the fuel from one place to another. As midstream firms transport natural gas through the pipeline system, a plethora of factors (like frictional pressure, elevation differences and distance) affects its movement. Compression service providers supply the infrastructure needed to maintain the flow and pressure throughout the transportation chain.



Reasons To Buy:

- ▲ Despite occasional hiccups, natural gas production is expected to remain strong for a number of years going forward driven by the shale plays. Moreover, the commodity's long-term demand picture remains bullish. The usage for cleaner fuels and the commodity's relatively lower price has catapulted natural gas' share of domestic electricity generation to 41% from 25% in 2011. Moreover, new pipelines to Mexico, together with large-scale liquefied gas export facilities mean that exports out of the United States are set for a quantum leap. Finally, higher consumption from industrial projects will likely ensure strong natural gas demand. With compression engines necessary to move natural gas across pipelines, growth prospect for the likes of USA Compression Partners remain exciting.
- ▲ USA Compression Partners earns its revenues based on the overall horsepower usage of natural gas transported rather than the price. As such, the partnership is largely insulated to fluctuations in commodity prices. Moreover, in the longer term, volume-based contracts result in steady cash flow through the boom and bust cycle. As a proof of USA Compression Partners' continued cash flow stability, it generated distributable cash flow of \$58.7 million in the second quarter even amid the coronavirus-induced disarray, resulting in a safe coverage ratio of 1.15.
- ▲ At current prices and an annualized dividend of \$2.10, USA Compression Partners offers investors a pretty attractive 18% yield - higher than most partnerships. The stability in cash flow for USA Compression Partners has enabled it to maintain a steady quarterly distribution of 52.50 cents since the second quarter of 2015.
- ▲ USA Compression Partners faces no near-term debt maturity as its revolving credit facility matures in April 2023 and its notes don't mature until 2026. The partnership's good liquidity is underpinned by its \$1.6 billion committed revolving credit facility, with option for an additional \$400 million. As of Jun 30, 2020, there was approximately \$1.2 billion of availability on the revolver after taking into account \$447.8 million of borrowings outstanding.

With compression engines necessary to move natural gas across pipelines, growth prospect for the likes of USA Compression Partners remain exciting.

Reasons To Sell:

- ▼ While midstream entities like USA Compression Partners have a lower correlation to oil and gas prices compared to other energy peers, this sector hasn't been immune to the coronavirus-induced downturn. With E&P operators pulling back activities and curtailing production in response to sharply lower natural gas pricing and demand, USA Compression Partners is faced a decline in volumes through its facilities, contributing to lower profits.
- ▼ Energy infrastructure being a capital-intensive business, USA Compression Partners' high debt levels remain a cause of worry, which restricts its financial freedom to tap into growth opportunities. USA Compression Partners' total debt is currently around \$1.9 billion. Importantly, the partnership's debt-to-capitalization as of the end of the second quarter was 67%, deteriorating from 65.8% three months ago.
- ▼ Over the next few quarters, USA Compression Partners is expected to witness pricing and utilization declines following the adverse effect of soft demand due to the coronavirus pandemic. As the sector's business activity remains under pressure and higher contract rates continue to slowly roll off, customer push for concessions is expected to intensify. This might further impact the partnership's margins.
- ▼ USA Compression Partners has come to depend more heavily on its largest customers, of which the top 10 contribute around 33% to total revenues. The high level of customer concentration makes it susceptible to financial strain from the potential loss of one of these key clients.

USA Compression Partners' high debt levels remain a cause of worry.

Last Earnings Report

USA Compression Reports Wider-Than-Expected Q2 Loss

USA Compression Partners, LP reported second-quarter 2020 adjusted net loss per unit of 6 cents, wider than the Zacks Consensus Estimate of a loss of 4 cents. The bottom line also compared unfavorably with the year-ago adjusted profit of a penny. The underperformance reflected lower utilization.

Revenues of \$168.7 million were 2.9% lower than the year-ago quarter. However, the figure was in line with the Zacks Consensus Estimate due to higher-than-expected revenue-generating horsepower capacity, which, at 3,191,348 horsepower, surpassed the Zacks Consensus Estimate of 3,188,000 horsepower.

Adjusted EBITDA inched up 0.7% year over year to \$105.5 million on cost-cutting initiatives. The partnership's distributable cash flow rose from \$54.1 million in the prior-year quarter to \$58.7 million.

The partnership reported operating cash flow of \$97.4 million in the quarter. This marked a slight decline from the \$99.8 million that it had generated in the prior-year quarter. But gross operating margin, at 70.4%, was an improvement over the year-ago period's 67.6%.

In the second quarter, the partnership's revenue-generating horsepower capacity decreased 2.4% from last year's corresponding period to 3,191,348 horsepower. Meanwhile, the average monthly revenue per horsepower rose to \$16.79 from \$16.60 in the second quarter of 2019. However, USA Compression Partners' average quarterly horsepower utilization rate came in at 88%, down from 94.6% in the year-ago period.

DCF, Capex & Balance Sheet

USA Compression Partners reported that its distributable cash flow ("DCF") available to limited partners for the second quarter totaled \$58.7 million (providing 1.15X distribution coverage), up 8.6% from the year-ago level. Notably, on Jul 21, the partnership announced second-quarter cash distribution of 52.50 cents per unit (\$2.10 on an annualized basis).

USA Compression Partners spent \$22.8 million on growth capex, while its maintenance capex consisted of \$4.4 million.

As of Jun 30, 2020, the partnership had \$1.9 billion in net long-term debt. Net debt-to-capitalization was approximately 80.6%.

Guidance

USA Compression Partners reiterated its growth capital spending guidance of \$80-\$90 million for 2020. The partnership is still projecting full-year DCF between \$195 million and \$215 million, while it sees adjusted EBITDA of \$395-\$415 million.

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	-0.35%
EPS Surprise	-50.00%
Quarterly EPS	-0.06
Annual EPS (TTM)	-0.01

Valuation

USA Compression units are down 36.2% and 26.8% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks subindustry and the Zacks Oil-Energy sector are down 46.5% and 35.8% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 38.9% and 31.4%, respectively.

The S&P 500 index is up 3.9% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 3.4X trailing 12-month EV/EBITDA, which compares to 1.08X for the Zacks sub-industry, 4.66X for the Zacks sector and 12.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.49X and as low as 2.73X, with a 5-year median of 10.05X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 1.75X F12M sales.

The table below shows summary valuation data for USAC

Valuation Multiples - USAC					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	3.4	1.08	4.66	12.62
	5-Year High	19.49	26.11	10.47	12.84
	5-Year Low	2.73	0.84	3.04	8.24
	5-Year Median	10.05	5.49	6.49	10.9
P/S F12M	Current	1.69	0.55	0.71	3.66
	5-Year High	5.11	1.67	1.46	3.66
	5-Year Low	0.5	0.37	0.59	2.53
	5-Year Median	2.41	1.1	0.99	3.05
P/B TTM	Current	2.45	0.73	0.91	4.67
	5-Year High	2.72	1.03	1.54	4.67
	5-Year Low	0.3	0.34	0.52	2.83
	5-Year Median	1.21	0.77	1.31	3.73

As of 08/07/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (224 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Archrock, Inc. (AROC)	Neutral	3
CSI Compressco LP (CCLP)	Neutral	2
Enbridge Inc (ENB)	Neutral	3
Exterran Corporation (EXTN)	Neutral	4
Franks International N.V. (FI)	Neutral	3
TC Energy Corporation (TRP)	Neutral	2
Genesis Energy, L.P. (GEL)	Underperform	5
ONEOK, Inc. (OKE)	Underperform	5

Industry Comparison Industry: Oil And Gas - Mechanical And And Equipment				Industry Peers		
	USAC	X Industry	S&P 500	AROC	CCLP	EXTN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	2	4
VGM Score	B	-	-	A	A	A
Market Cap	1.12 B	77.94 M	23.30 B	1.11 B	53.03 M	187.30 M
# of Analysts	3	2	14	1	1	2
Dividend Yield	18.13%	0.00%	1.76%	7.99%	3.57%	0.00%
Value Score	B	-	-	A	A	B
Cash/Price	0.00	0.27	0.07	0.00	0.16	0.11
EV/EBITDA	8.58	5.55	13.32	7.63	6.23	5.46
PEG Ratio	NA	NA	2.94	NA	NA	NA
Price/Book (P/B)	2.45	0.70	3.19	1.17	5.13	0.49
Price/Cash Flow (P/CF)	3.96	4.14	12.51	3.75	0.88	1.37
P/E (F1)	NA	16.08	22.02	21.35	NA	NA
Price/Sales (P/S)	1.60	0.51	2.53	1.16	0.13	0.16
Earnings Yield	-57.08%	-15.63%	4.37%	-7.30%	-76.79%	-29.56%
Debt/Equity	4.15	0.07	0.77	1.92	64.93	1.28
Cash Flow (\$/share)	2.93	1.73	6.94	1.94	1.28	4.12
Growth Score	C	-	-	B	C	A
Hist. EPS Growth (3-5 yrs)	-60.96%	-48.64%	10.46%	NA	NA	NA
Proj. EPS Growth (F1/F0)	-242.53%	-288.37%	-6.80%	-184.13%	-153.09%	-114.10%
Curr. Cash Flow Growth	35.84%	9.00%	5.39%	23.61%	49.19%	2.93%
Hist. Cash Flow Growth (3-5 yrs)	23.59%	-3.70%	8.55%	1.74%	1.70%	-10.84%
Current Ratio	1.16	2.05	1.33	1.74	1.18	1.40
Debt/Capital	67.01%	12.93%	44.50%	65.76%	98.48%	56.19%
Net Margin	-84.00%	-14.68%	10.13%	-2.61%	-10.33%	-9.80%
Return on Equity	4.19%	-5.21%	14.39%	9.65%	-62.32%	-8.61%
Sales/Assets	0.21	0.68	0.51	0.32	0.52	0.79
Proj. Sales Growth (F1/F0)	-4.03%	-4.03%	-1.51%	-7.18%	-28.94%	-39.53%
Momentum Score	D	-	-	D	C	F
Daily Price Chg	0.52%	0.00%	0.90%	0.69%	-2.61%	4.82%
1 Week Price Chg	-6.26%	-3.81%	0.14%	-5.26%	9.43%	-6.58%
4 Week Price Chg	10.60%	10.48%	8.95%	12.38%	41.77%	15.31%
12 Week Price Chg	26.01%	18.45%	18.90%	46.67%	176.61%	18.45%
52 Week Price Chg	-25.34%	-42.47%	1.18%	-20.04%	-67.16%	-46.80%
20 Day Average Volume	314,364	206,551	2,057,775	937,424	100,587	219,721
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	7.94%	25.86%	0.00%
(F1) EPS Est 4 week change	3.61%	0.00%	1.36%	7.94%	38.57%	-1.21%
(F1) EPS Est 12 week change	9.09%	-31.26%	1.57%	25.93%	38.57%	-0.60%
(Q1) EPS Est Mthly Chg	3.03%	3.03%	0.54%	0.00%	32.10%	64.52%

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	D
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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