

USA Compression (USAC)

\$12.72 (As of 06/23/20)

Price Target (6-12 Months): **\$13.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/18/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: B

Growth: B

Momentum: F

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 long-term 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 16% 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.

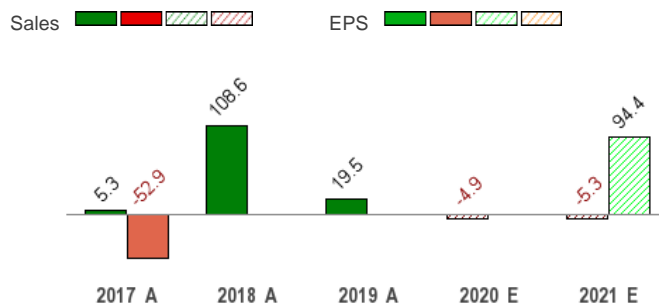
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.00 - \$3.52
20 Day Average Volume (sh)	313,481
Market Cap	\$1.2 B
YTD Price Change	-29.9%
Beta	2.42
Dividend / Div Yld	\$2.10 / 16.5%
Industry	Oil and Gas - Mechanical and Equipment
Zacks Industry Rank	Top 28% (72 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	300.0%
Last Sales Surprise	2.9%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	212.0
P/E F1	NA
PEG F1	NA
P/S TTM	1.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					629 E
2020	179 A	169 E	160 E	155 E	664 E
2019	171 A	174 A	176 A	178 A	698 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					-\$0.37 E
2020	\$0.04 A	-\$0.04 E	-\$0.08 E	-\$0.13 E	-\$6.58 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 06/23/2020. The reports text is as of 06/24/2020.

Overview

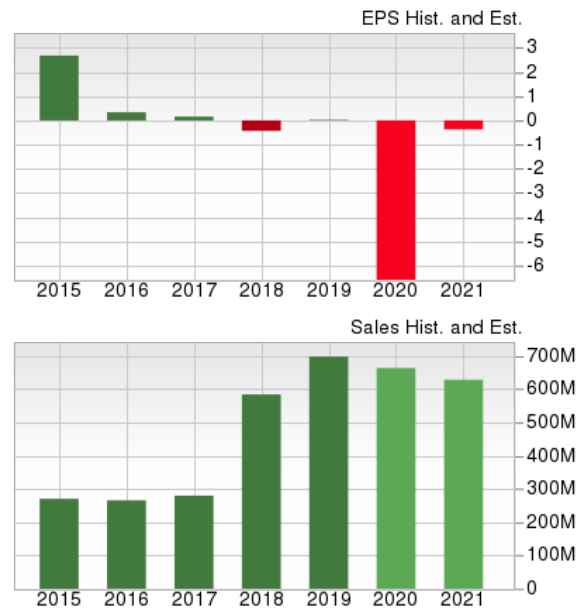
Founded in 1998, USA Compression Partners, LP is one of the largest independent natural gas compression services providers across the United States in terms of fleet horsepower. Structured as a master limited partnership ("MLP") with the Energy Transfer family owning approximately 48%, it primarily focuses on large-horsepower applications (greater than 1,000 horsepower) in a number of areas including the Permian/Delaware, Marcellus/Utica, Midcontinent/SCOOB/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.

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▲ 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 \$55 million in the first quarter even amid the coronavirus-induced disarray, resulting in a safe coverage ratio of 1.08.

▲ At current prices and an annualized dividend of \$2.10, USA Compression Partners offers investors a pretty attractive 16% 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 as underpinned by its \$1.6 billion committed revolving credit facility, with option for an additional \$400 million. As of Mar 31, 2020, there was approximately \$1.1 billion of availability on the revolver after taking into account \$459.3 million of borrowings outstanding.

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 faces a potential decline in volumes through its facilities, contributing to expectations for 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 first quarter was 65.8%, deteriorating from 52.8% a quarter 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 Q1 Profit

USA Compression Partners reported first-quarter 2020 net income per unit —excluding one-time items — of 4 cents. The Zacks Consensus Estimate as well as the year-ago figure was a loss of 2 cents. The outperformance was led by increasing horsepower capacity and higher sales for each horsepower.

Revenues of \$179 million were 4.8% higher than the year-ago quarter and beat the Zacks Consensus Estimate of \$174 million.

The partnership had operating cash flow of \$50.1 million in the quarter. This was an increase over the \$47.8 million that it generated in the prior-year quarter. Gross operating margin, at 66.9%, was also an improvement over the year-ago period's 66.6%.

In the first quarter, the partnership's revenue-generating horsepower capacity increased 1.2% compared with last year's corresponding period to 3,320,724 horsepower. Meanwhile, average monthly revenue per horsepower rose to \$16.89 from \$16.45 in the first quarter of 2019. However, USA Compression Partners' first-quarter average horsepower utilization rate came in at 92.5%, down from 94.2% in the year-ago period.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	2.90%
EPS Surprise	300.00%
Quarterly EPS	0.04
Annual EPS (TTM)	0.06

Valuation

USA Compression units are down 25.1% in the year-to-date period and 18.8% over the trailing 12-month period. Stocks in the Zacks subindustry and the Zacks Oil-Energy sector are down 45.9% and 32.5% in the year-to-date period, respectively. Over the past year, the Zacks subindustry and sector are down 43% and 33.6%, respectively.

The S&P 500 index is down 1.8% in the year-to-date period but up 9.6% and over last year.

The stock is currently trading at 3.47X trailing 12-month EV/EBITDA, which compares to 1.07X for the Zacks sub-industry, 4.1X for the Zacks sector and 11.61X 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 10.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 1.94X 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	3.47	1.07	4.1	11.61
	5-Year High	19.49	26.11	10.45	12.85
	5-Year Low	2.73	0.84	3.03	8.25
	5-Year Median	10.11	5.49	6.5	10.83
P/S F12M	Current	1.9	0.51	0.76	3.51
	5-Year High	5.11	1.67	1.46	3.51
	5-Year Low	0.5	0.37	0.58	2.53
	5-Year Median	2.41	1.1	0.99	3.02
P/B TTM	Current	2.38	0.73	0.93	4.28
	5-Year High	2.67	1.03	1.54	4.56
	5-Year Low	0.3	0.34	0.52	2.83
	5-Year Median	1.19	0.77	1.31	3.67

As of 06/23/2020

Industry Analysis Zacks Industry Rank: Top 28% (72 out of 253)



Top Peers

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

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)	2	-	-	3	4	3
VGM Score	C	-	-	A	A	A
Market Cap	1.23 B	67.11 M	21.86 B	943.55 M	39.20 M	189.95 M
# of Analysts	3	2	14	1	1	2
Dividend Yield	16.51%	0.00%	1.92%	9.40%	4.83%	0.00%
Value Score	B	-	-	A	A	A
Cash/Price	0.00	0.23	0.07	0.00	0.18	0.09
EV/EBITDA	8.88	7.62	12.65	7.20	6.09	5.48
PEG Ratio	NA	5.67	2.90	NA	NA	NA
Price/Book (P/B)	2.38	0.73	2.99	0.94	1.13	0.50
Price/Cash Flow (P/CF)	4.34	4.26	11.61	3.19	0.65	1.39
P/E (F1)	NA	38.32	21.08	11.22	NA	NA
Price/Sales (P/S)	1.74	0.34	2.25	0.96	0.08	0.16
Earnings Yield	-51.73%	-25.88%	4.42%	8.91%	-168.67%	-28.80%
Debt/Equity	3.70	0.05	0.77	1.83	19.25	1.28
Cash Flow (\$/share)	2.93	1.76	7.01	1.94	1.28	4.12
Growth Score	B	-	-	B	A	A
Hist. EPS Growth (3-5 yrs)	-60.96%	-33.82%	10.84%	NA	NA	NA
Proj. EPS Growth (F1/F0)	-22,033.33%	-264.30%	-10.80%	-12.70%	-218.18%	-111.54%
Curr. Cash Flow Growth	35.84%	19.78%	5.46%	23.61%	49.19%	2.93%
Hist. Cash Flow Growth (3-5 yrs)	23.59%	-2.89%	8.55%	1.74%	1.70%	-10.84%
Current Ratio	1.38	2.05	1.29	1.42	1.14	1.40
Debt/Capital	65.77%	9.20%	45.14%	64.66%	95.06%	56.19%
Net Margin	-80.65%	-15.55%	10.53%	1.70%	-4.78%	-9.80%
Return on Equity	4.84%	-6.29%	16.06%	9.61%	-31.46%	-8.61%
Sales/Assets	0.20	0.72	0.55	0.33	0.55	0.79
Proj. Sales Growth (F1/F0)	-4.93%	-4.93%	-2.66%	-5.23%	-35.89%	-39.53%
Momentum Score	F	-	-	D	B	B
Daily Price Chg	-1.40%	0.33%	0.04%	0.82%	-0.43%	4.37%
1 Week Price Chg	5.01%	-3.61%	0.92%	0.33%	-15.88%	-7.37%
4 Week Price Chg	7.80%	7.80%	2.71%	-3.29%	97.14%	-11.44%
12 Week Price Chg	124.74%	31.83%	19.78%	64.10%	27.39%	19.38%
52 Week Price Chg	-28.22%	-50.79%	-6.05%	-36.78%	-76.34%	-56.26%
20 Day Average Volume	313,481	262,187	2,819,961	1,676,076	514,790	405,061
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	-1.54%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-245.83%	-123.51%	-12.72%	32.53%	-241.46%	-159.84%
(Q1) EPS Est Mthly Chg	0.00%	-2.86%	0.00%	0.00%	0.00%	0.00%

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	B
Momentum Score	F
VGM Score	C

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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