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| **Company: Magellan Midstream Partners** | Ticker: MMP Current Price: $64.76 | Industry: Energy | Sub Industry: Oil & Gas Storage & Transportation |
| Target Price: $78  Stop Loss: $51.80  52 Week High/ Low: $54.51-85.49 | TTM P/E: 17.2  Forward P/E: 16.6  EPS: $3.59 | Beta: 0.55  Credit Rating: BBB+  Rating Outlook: Stable | Market Cap: $14.75(B)  Avg Vol (3 Month): 1.55 mil  Dividend Yield: 5.09% |

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| **Company Background:** |
| Magellan Midstream Partners is a master limited partnership that operates pipelines and storage terminals in the central and Eastern United States. It engages in the transportation, storage, and distribution of refined petroleum products and crude oil in the United States. MMP operates in three segments: Refined Products, Crude Oil, and Marine Storage. The refined product segment accounts for 64% of revenue; the crude oil segment for 24%; and the marine storage segment for 12%. |
| **Industry Outlook:** |
| Our fundamental outlook for the oil and gas storage and transportation sub-industry for the next 12 months is negative. The sudden and rapid decline in crude oil prices, which started in late 2014, could cause a deceleration in new energy infrastructure projects in the U.S. However, many projects already underway should continue, and the demand for energy infrastructure will benefit storage and transportation companies. As of December 2015, analysts forecast WTI crude oil prices averaging $46 per barrel in 2016, and $52 per barrel in 2017. |
| **Investment Thesis:** |
| * I’m looking for a stock with low beta and high yield in this volatile market. So the risk could be relatively low and it can also provide stable high dividend, and also, Magellan’s management announced its plan to increase the cash distribution by 10% 2016 and 8% for 2017. Also, we believe the 10% growth rate in 2016 is very achievable, with many key projects due on line in 2016-17 to support this; * In terms of valuation, currently MMP is trading at 14.8X EBITDA multiple, while over the last five years, MMP has traded at an average of 17.3X forward EBITDA; * The sub industry is down 33% over the last year, while MMP is just down 7% over the same time frame, while refined product prices have come down along with crude oil prices, they have come down relatively less; * It has strong distributable cash flow, which increased 7% to $943 million, and the Coverage ratio was a very impressive 1.4 times for this year; * Approximately 85% of the MP’s business is fee-based and tied to long-term contracts. This reduces the downside when energy markets slump; * Till now, there is no energy stock in our portfolio, and the energy sector has already dropped too much. We can consider a low risk stock to diversify our holdings; |
| **Investment Risks:** |
| * Need for additional product pipelines or storage terminals may subside over the next decade, reducing the pool of projects Magellan can pursue; * While MMP has limited direct exposure to commodities, 15% of operating margin is from commodity-sensitive operations. Long-term, if a lower commodity price environment persists, the butane blending segment will likely face headwinds. * Since MMP is a yield-oriented investment, it is sensitive to interest rates. While interest rates are expected to remain relatively low in the near future, if this changes due to stronger economic conditions, MMP and the MLP sector in general could begin to experience some headwinds; * Regulatory risk and the tax- favored status of the MLP form of business may change; |
| **3-5 take away from last quarter investor call transcript:** |
| * They have intentionally managed the business in a conservative fashion to focus on fee based activities that is resilient as possible to price volatility; * They announced their 2016 DCF guides of $900 million and assumed an average crude oil price for 2016 of approximately $35 per barrel; * In terms of M&A, they say they are not interested in any businesses that’s got a high degree of commodity sensitivity, and would focus on the fee-based business; * 1.2 is their floor target coverage (the mount of actual cash distributions, relative to the mount it could pay out, Distributable Cash Flow / Actual Cash Distribution); |

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| **Financial Performance:** | **Discounted Cash Flow** |
| |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | 2012 | 2013 | 2014 | 2015 | 2016Est | 2017Est | | Revenue | 1,772.1 | 1,897.6 | 2,303.7 | 2,188.5 | 2,302.8 | 2,421.9 | | Operating Profit | 552.1 | 705.1 | 974.2 | 963.6 | 961.1 | 1,050.5 | | Operating Margin | 31.15 | 37.16 | 42.29 | 44.03 | 41.74 | 43.38 | | Net Income | 435.7 | 582.2 | 839.5 | 819.1 | 799.0 | 877.5 | | Revenue Growth % | 1.34 | 7.08 | 21.40 | -5.00 | 5.23 | 5.17 | | EBITDA% | 38.38 | 44.65 | 49.31 | 51.65 |  |  | | Operating Profit % | 31.15 | 37.16 | 42.29 | 44.03 | 41.74 | 43.38 | | Net Income Margin | 24.59 | 30.68 | 36.44 | 37.43 | 34.70 | 36.23 | | Financial leverage | 2.84 | 2.92 | 2.94 | 3.02 |  |  | | Interest Coverage | 4.65 | 5.43 | 6.85 | 6.21 |  |  | | EPS | 1.92 | 2.57 | 3.69 | 3.60 | 3.53 | 3.85 | | PE Ratio | 21.53 | 24.49 | 25.46 | 19.89 | 16.87 | 15.50 | | Current Ratio | 1.78 | 0.62 | 0.75 | 0.76 |  |  | | ROE | 29.25 | 36.81 | 47.76 | 45.47 | 40.87 |  | | ROA | 10.29 | 12.60 | 16.24 | 15.32 | 13.10 |  | | Dividend Per Share | 1.78 | 2.10 | 2.51 | 3.01 | 3.33 | 3.63 | | |  |  |  | | --- | --- | --- | |  | 2010-15 | 2016-20 | | Avg Revenue growth | 7% | 5% | | Avg EBITDA Margin | 42% | 55% | | Avg NOPAT Margin | 35% | 44% | | Cost of Debt | | 2.3% | | Tax Rate | | 28% | | Cost of Equity | | 9.4% | | WACC | | 8.0% | | Perpetuity Growth Rate (Terminal) | | 2.6% |   Analyst Opinion   |  |  |  | | --- | --- | --- | | Buy: 15 | Hold: 2 | Sell: 0 |  |  |  |  | | --- | --- | --- | |  | Rating | Target | | S&P Net Advantage | 5STAR | $78 | | Morning Star | 5STAR | $76 | | Value Line | 3 | $95-145 | |

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| **Relative Valuation** | **Total Return** |
| |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | FY2015 | EEP | ETP | EPD | Industry | MMP | | P/E | 20.17 | 28.86 | 15.73 | 16.74 | 17.57 | | P/B | 1.67 | 0.51 | 2.06 | 1.46 | 6.80 | | Dividend Yield | 14.60 | 18.77 | 7.38 | 13.75 | 4.99 | | PEG Ratio | 0.51 | 2.08 | 2.80 | 2.26 | 2.65 | | EPS | 0.78 | 0.83 | 1.34 | 1.47 | 3.38 | | Rev Growth (1 Yr) | 11.53 | 10.40 | (43.63) | 5.95 | (5.00) | | NI Growth (1 Yrs) | 561.17 | 192.98 | (9.55) | 140.10 | (2.43) | | Operating Margin | 20.10 | 8.73 | 15.18 | 16.97 | 42.99 | | Debt / Equity | 79.14 | 101.43 | 110.35 | 104.99 | 171.90 | | Market Cap | 5,294.29 | 10,857.08 | 41,599.33 | 7,332.14 | 13,486.44 |   **Sources: Bloomberg, S&P NetAdvantage, VLIS, Morningstar** | |  |  |  |  | | --- | --- | --- | --- | |  | MMP | Sector | S&P 500 | | YTD | -11.6% | -8.66% | -9.17% | | Last 3 Years | 10.8% | -8.62% | 9.1% | | Last 5 Years | 20.88% | -3.55% | 9.27% |   **CSR Characteristics**   |  |  |  | | --- | --- | --- | |  | MMP | Industry | | ESG Disclosure Score | 17.36 | 13.49 | | Governance Disclosure Score | 51.79 | 40.18 | | Social Disclosure Score | 19.30 | 16.63 | | Environmental Disclosure Score | 1.55 | 5.09 |   **Prepared By: Jifeng Hu, 2/10/2016** |