



Shell Midstream Partners L.P. (SHLX)

Published March 24th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$12.50	5 Year CAGR Estimate:	16.7%	Market Cap:	\$5.5 B
Fair Value Price:	\$14	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	5/3/2021 ¹
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.2%	Dividend Payment Date:	5/14/2021
Dividend Yield:	14.7%	5 Year Price Target	\$18	Years Of Dividend Growth:	5
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	8.9%

Overview & Current Events

Shell Midstream Partners L.P. (SHLX) is a Master Limited Partnership (MLP) that was founded in 2014 and is headquartered in Houston, Texas. It owns, operates, develops and acquires pipelines and other midstream assets in the U.S. Its network of pipelines and terminals is used in the transportation and storage of crude oil, refined products and natural gas in the Gulf Coast and in the Midwest refining markets. SHLX has a market capitalization of \$5.5 billion.

SHLX is currently facing a strong headwind due to the coronavirus crisis, which has caused a severe downturn in the energy market. Due to the collapse in the demand for refined products, U.S. oil production decreased -7.4%, from 12.2 million barrels per day in 2019 to 11.3 million barrels per day in 2020, while the utilization of U.S. refineries plunged from 91% in 2019 to 79% in 2020. These are strong headwinds for SHLX, whose cash flows depend on the volumes of crude oil and refined products transported and stored through its network.

In mid-February, SHLX reported (2/19/21) financial results for the fourth quarter of fiscal 2020. The results of the MLP were affected, not only by the pandemic, but also from late season storms in the Gulf of Mexico as well as planned turnaround activities. However, thanks to increased volumes in its Zydeco system, SHLX reported cash available for distribution of \$162 million, which decreased only \$1 million over the previous quarter and resulted in a (marginal) distribution coverage ratio of 1.0. Management maintained the generous distribution for the first quarter of 2021 but reiterated that future distributions will depend on the outlook based on the pandemic. We applaud SHLX for having a remarkably strong balance sheet, which makes it much easier to endure the pandemic and maintain a generous distribution throughout the downturn.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
CAFDPS²	---	---	---	\$0.12	\$1.30	\$1.61	\$2.00	\$2.43	\$2.70	\$1.47	\$1.55	\$1.98
DPS	---	---	---	---	\$0.67	\$0.97	\$1.18	\$1.43	\$1.69	\$1.84	\$1.84	\$1.84
Shares³	---	---	---	135.0	140.9	169.4	180.4	220.3	229.2	444.1	444.1	500.0

SHLX greatly benefited from the booming U.S. oil production, which climbed to new all-time highs every year in the last decade, until the pandemic struck. The MLP has been greatly hurt by the pandemic, which has caused a severe downturn in the energy sector. However, thanks to the massive distribution of vaccines worldwide, we expect the pandemic to subside in the second half of this year. We thus expect SHLX to grow its cash available for distribution per share by 5.0% per year on average over the next five years.

We have not assumed a full recovery to the pre-COVID level of cash flows in order to be on the safe side in the adverse scenario of a prolonged pandemic. This scenario would severely hurt the cash flows of SHLX and would cause a distribution cut if it materializes. Such an adverse scenario may also accelerate the secular shift from oil to renewable energy, which should not be a concern for the next decade under normal conditions, in the absence of the pandemic.

¹ Estimated date.

² CAFDPS stands for Cash Available For Distribution Per Share.

³ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/CAFD	---	---	---	---	30.2	20.0	14.8	9.3	7.5	8.6	8.1	9.0
Avg. Yld.	---	---	---	---	1.7%	3.0%	4.0%	6.3%	8.4%	14.6%	14.7%	10.3%

Excluding the first two years of SHLX, which were marked by abnormally high price-to-cash flow ratios, SHLX has traded at an average price-to-cash flow ratio of 10.0. Given the cyclical nature and the vulnerability of the stock to downturns, we assume a fair cash flow multiple of 9.0. If the stock reaches our fair value estimate over the next five years, it will enjoy a 2.2% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

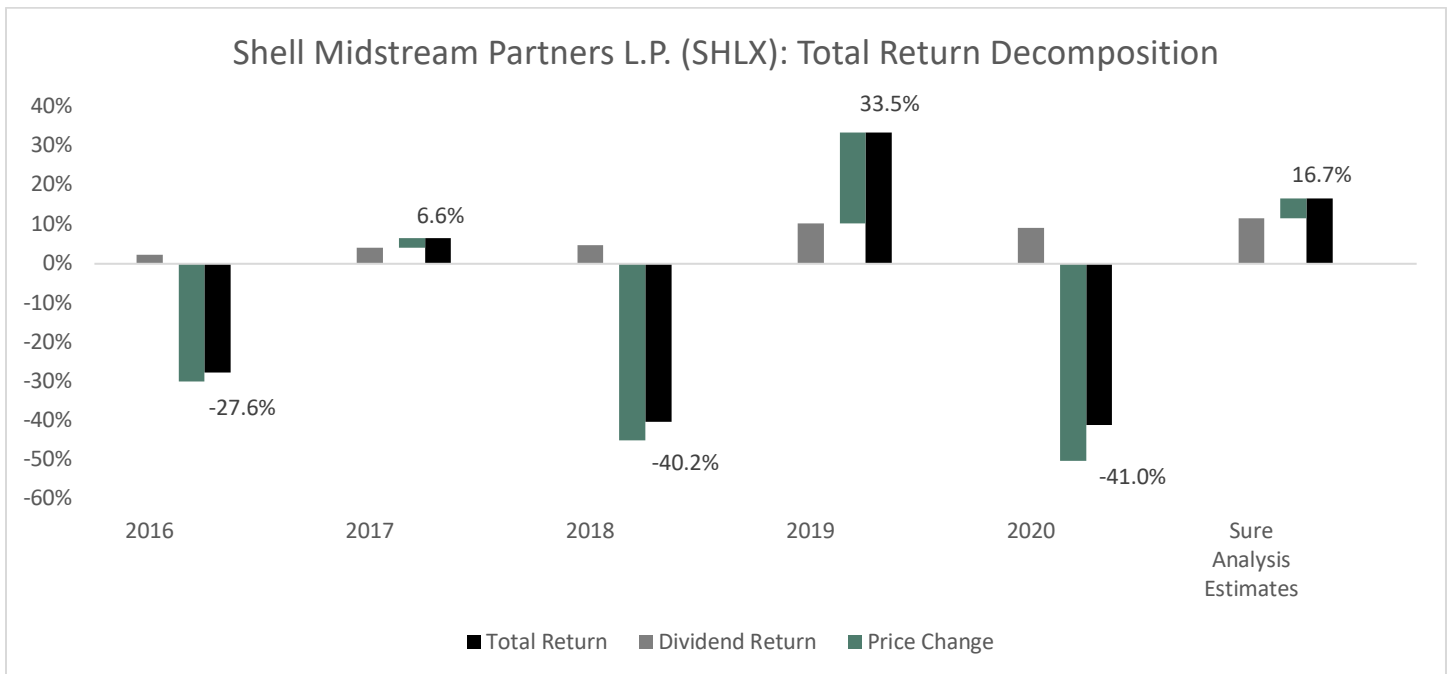
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	0.0%	52%	60%	59%	59%	63%	125%	119%	93%

SHLX is less cyclical and more resilient to downturns in the energy sector than most oil stocks thanks to the secular growth of U.S. oil production in the absence of the pandemic. The results of SHLX are greatly affected by the pandemic but SHLX has one of the strongest balance sheets in the MLP universe, with net debt of \$2.4 billion, which is only 44% of the market cap and less than four times the annual cash flow available for distribution. As a result, SHLX can endure the pandemic even if it lasts longer than expected. In the event of a prolonged pandemic, SHLX will likely cut its exceptionally high 14.7% distribution but it will still offer an attractive yield. Overall, this MLP is certainly attractive for income-oriented investors.

Final Thoughts & Recommendation

The pandemic has taken its toll on the results of SHLX but the MLP should endure the ongoing downturn thanks to its rock-solid balance sheet. We expect SHLX to offer a 16.7% average annual return over the next five years, assuming the distribution is maintained. Thus, we maintain our buy rating, particularly for investors who are confident in a recovery from the pandemic and the return of U.S. oil production to its long-term growth trajectory.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	115	148	250	486	453	470	525	503	481
Gross Profit	---	109	134	232	448	410	425	447	418	407
Gross Margin	---	94.9%	90.7%	92.6%	92.2%	90.5%	90.4%	85.1%	83.1%	84.6%
SG&A Exp.	---	10	15	20	56	53	58	60	60	56
D&A Exp.	---	6	14	18	38	43	45	46	49	50
Operating Profit	---	48	50	142	253	224	200	212	215	169
Operating Margin	---	42.1%	33.7%	56.7%	52.1%	49.3%	42.6%	40.4%	42.7%	35.1%
Net Profit	---	47	71	13	167	245	295	464	528	543
Net Margin	---	40.9%	47.7%	5.4%	34.4%	54.1%	62.8%	88.4%	105%	113%
Free Cash Flow	---	47	(34)	98	344	383	374	458	559	623
Income Tax	---	---	---	---	---	---	---	1	---	---

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	135	252	730	715	1,304	1,367	1,914	2,019	2,347
Cash & Equivalents	---	---	---	150	93	122	138	208	290	320
Accounts Receivable	---	21	17	34	29	42	41	48	41	41
Total Liabilities	---	17	38	48	508	770	1,932	2,171	2,768	2,805
Accounts Payable	---	4	8	12	10	13	16	13	15	21
Long-Term Debt	---	---	---	---	458	686	1,844	2,091	2,692	2,692
Shareholder's Equity	---	119	215	520	99	513	(589)	(282)	(775)	(481)

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	36.4%	2.7%	23.1%	24.3%	22.1%	28.3%	26.8%	24.9%
Return on Equity	---	---	42.3%	3.6%	54.0%	80.1%	---	---	---	---
Shares Out.	---	---	---	135.0	140.9	169.4	180.4	220.3	229.2	444.1
Revenue/Share	---	0.85	1.10	1.85	3.45	2.67	2.61	2.38	2.19	1.23
FCF/Share	---	0.35	(0.25)	0.73	2.44	2.26	2.07	2.08	2.44	1.59

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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