



MPLX, LP (MPLX)

Updated November 7th, 2024, by Aristofanis Papadatos

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	6.4%	Market Cap:	\$46 B
Fair Value Price:	\$39	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	11/8/24
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.5%	Dividend Payment Date:	11/15/24
Dividend Yield:	8.3%	5 Year Price Target	\$43	Years Of Dividend Growth:	12
Dividend Risk Score:	C	Retirement Suitability Score:	A	Rating:	Hold

Overview & Current Events

MPLX, LP is a master limited partnership that was formed by Marathon Petroleum (MPC) in 2012. The business operates in two segments: Logistics and Storage – which relates to crude oil and refined petroleum products – and Gathering and Processing – which relates to natural gas and natural gas liquids (NGLs). On July 30th, 2019, MPLX acquired Andeavor Logistics LP. The \$46 billion limited partnership generated \$5.3 billion in distributable cash flow in 2023.

On October 29th, 2024, MPLX announced a quarterly distribution of \$0.9565 per unit, which marks a 12.5% raise.

In early November, MPLX reported (11/5/24) financial results for the third quarter of fiscal 2024. Adjusted EBITDA and distributable cash flow (DCF) per share grew 7% and 5%, respectively, over the prior year's quarter, primarily thanks to higher tariff rates and increased gas volumes. MPLX maintained a healthy consolidated debt to adjusted EBITDA ratio of 3.4x and a solid distribution coverage ratio of 1.5x. As the company slightly exceeded our expectations, we have raised our forecast for annual DCF per share from \$5.40 to \$5.50.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
DCF	\$2.14	\$0.79	\$1.42	\$2.48	\$3.99	\$4.52	\$4.12	\$4.70	\$4.93	\$5.28	\$5.50	\$6.07
DPU	\$1.41	\$1.82	\$2.03	\$2.21	\$2.49	\$2.65	\$2.75	\$2.77	\$2.89	\$3.18	\$3.83	\$4.23
Units¹	80	311	369	415	761	907	1,051	1,019	1,003	1,003	1,020	1,000

Ideally you would use distributable cash flow as a leading metric for a master limited partnership, but MPLX's DCF history is skewed by the general partner's (GP) incentive distribution rights (IDRs). In February of 2018 the parent company, Marathon Petroleum Corporation, dropped down assets and exchanged its GP interest, including IDRs, for a larger portion of MPLX (MPC's interest now equals ~63%). Moving forward this should make the reporting clearer, but for now we have elected to show historical cash flow per share (which is not a perfect measure either). For 2018 (and moving forward) we are reporting DCF.

In general, pipelines tend to have a stronghold in terms of extracting economic rents. Building pipelines requires years of approvals and ongoing regulation. As such, the incumbent positions enjoy "toll-booth" type business models, with a good portion of their revenue fixed via fee-based and "take or pay" agreements. MPLX in particular has a strong position in the Marcellus / Utica region, with long-term contracts from Marathon.

The COVID-19 pandemic and significant drop in commodity prices in 2020 impacted all energy companies, but pipelines were better insulated from the volatility. We expect 2% average annual growth of DCF per unit over the next five years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg P/CF	34.3	49.8	24.4	14.3	8.5	6.5	4.2	5.8	6.5	6.6	8.4	7.0
Avg. Yld.	2.5%	3.1%	6.5%	6.3%	7.4%	9.1%	16.0%	10.1%	9.0%	9.1%	8.3%	9.9%

¹ In millions.

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MPLX does not lend itself to a nice average historical valuation, especially with both cash flow per share and the share price jumping around significantly. With the elimination of the IDRs, the cash available to unit holders should be a more accurate reflection of value moving forward. We assume a fair price-to-DCF ratio of 7.0 for MPLX, which is currently trading at a price-to-DCF ratio of 8.4. If the stock trades at its fair valuation level in five years, it will incur a -3.5% annualized drag.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	66%	230%	143%	89%	62%	59%	67%	59%	59%	60%	70%	70%

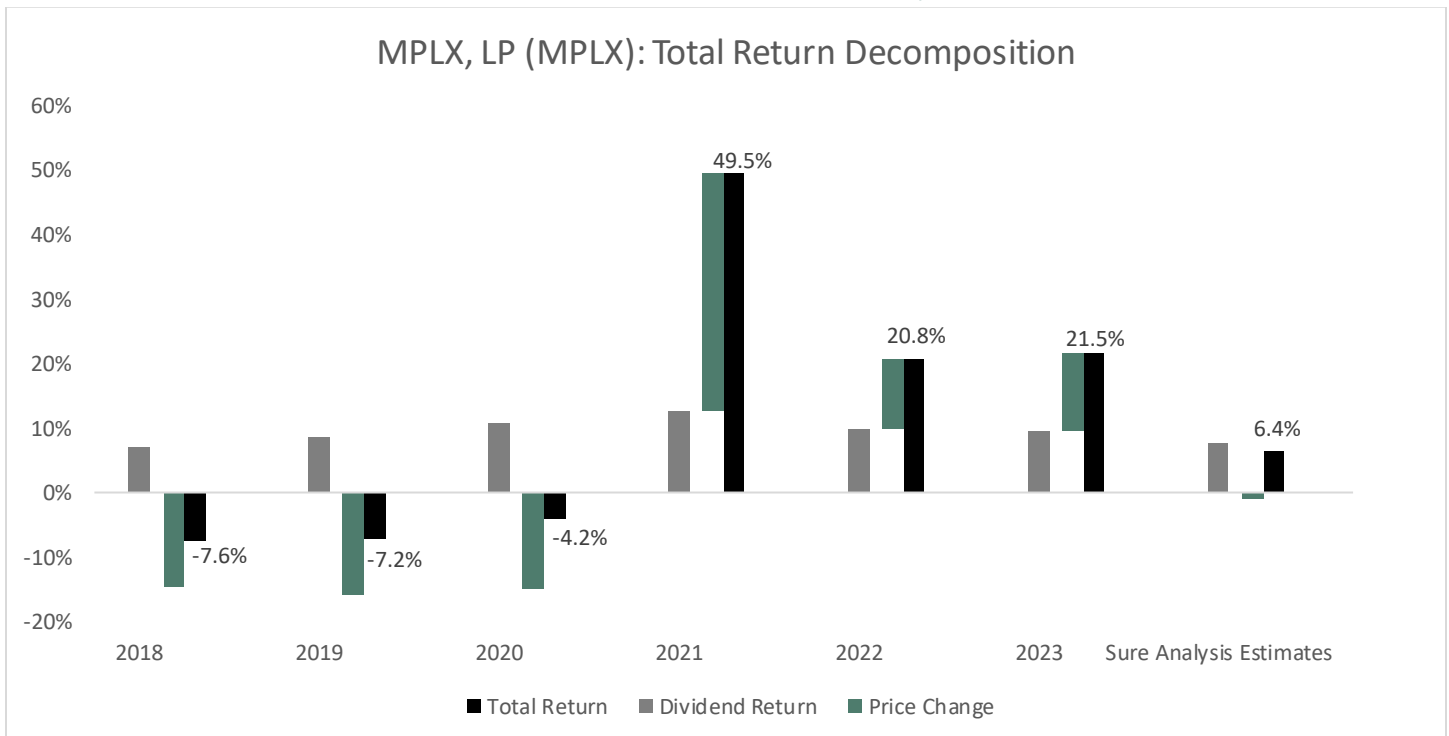
MPLX's industry generally holds competitive advantages as a result of the toll-booth model of pipelines. While growth potential may be limited, the need for the company's infrastructure is certainly present.

With MPLX in particular we are encouraged by the company self-funding on the equity side and getting rid of the IDRs. In the last five years, MPLX has had distribution coverage ratios of 1.51x, 1.46x, 1.64x, 1.6x and 1.6x. Meanwhile, the company's total debt to adjusted EBITDA has been 4.1x, 3.9x, 3.7x, 3.5x and 3.3x during the same time period (generally MLP's are shooting for a ratio under 5x). In addition, the revenues of MPLX are reliable thanks to the long-term contracts with parent company Marathon. Overall, the 8.3% distribution yield of MPLX is safe in the absence of a prolonged recession.

Final Thoughts & Recommendation

The stock of MPLX has rallied to a new 9-year high. While we are cautious with the anticipated growth rate and note the MLP structure for tax purposes, the dividend yield looks attractive. We expect the stock to offer a 6.4% average annual return over the next five years thanks to its 8.3% distribution yield and its 2% growth rate, partly offset by a -3.5% valuation headwind. The stock maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	747	1,034	3,010	3,691	6,652	8,625	8,246	9,575	10,541	10,434
Gross Profit	290	454	1,071	1,310	2,774	3,659	3,593	4,055	4,289	6,140
Gross Margin	38.8%	43.9%	35.6%	35.5%	41.7%	42.4%	43.6%	42.3%	40.7%	58.8%
SG&A Exp.	81	125	227	241	316	388	378	353	335	379
D&A Exp.	75	129	591	683	867	1,254	1,377	1,287	1,230	1,213
Operating Profit	245	378	887	1,113	2,481	3,284	3,349	3,713	4,435	4,300
Operating Margin	32.8%	36.6%	29.5%	30.2%	37.3%	38.1%	40.6%	38.8%	42.1%	41.2%
Net Profit	121	156	233	794	1,818	1,033	(720)	3,077	3,944	3,928
Net Margin	16.2%	15.1%	7.7%	21.5%	27.3%	12.0%	-8.7%	32.1%	37.4%	37.6%
Free Cash Flow	193	93	178	496	960	1,674	3,338	4,911	5,019	4,460
Income Tax	1	1	(12)	1	8	---	2	1	8	11

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,214	16,104	17,509	19,500	39,325	40,430	36,414	35,507	35,665	36,529
Cash & Equivalents	27	43	234	5	77	15	15	13	238	1,048
Accounts Receivable	10	245	299	292	611	593	452	654	737	823
Inventories	12	51	55	65	98	110	118	142	148	159
Goodwill & Int. Ass.	105	3,036	2,737	2,698	11,375	10,806	8,616	8,488	8,350	8,299
Total Liabilities	751	6,437	6,399	9,527	21,594	23,817	23,397	23,455	23,119	22,945
Accounts Payable	14	91	140	151	266	242	152	172	224	153
Long-Term Debt	644	5,255	4,422	6,945	17,922	19,713	20,139	18,571	19,796	20,431
Shareholder's Equity	457	9,654	11,092	9,827	17,575	16,364	12,772	12,052	12,546	12,689

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.0%	1.8%	1.4%	4.3%	6.2%	2.6%	-1.9%	8.6%	11.1%	10.9%
Return on Equity	21.9%	3.1%	2.2%	7.6%	13.3%	6.1%	-4.9%	24.8%	31.2%	62.0%
Shares Out.	80	311	369	415	761	907	1,051	1,019	1,010	1,002
Revenue/Share	10.09	10.55	8.91	9.51	8.74	9.51	7.85	9.32	10.44	10.41
FCF/Share	2.61	0.95	0.53	1.28	1.26	1.85	3.18	4.78	4.97	4.45

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

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