



Magellan Midstream Partners LP (MMP) Current Price: \$68.38, Target: \$75.36

Price	68.38
52 week range	48.90 - 71.25
Mkt cap	15.6B
P/DCF	23.2x
Distribution (%)	3.41%
Distribution (\$)	\$0.59
Shares	226M
Beta	0.83
YoY Distribution Growth	17.8%

Magellan owns the longest refined petroleum products pipeline system in the country. It can tap into nearly 50% of the nation's refining capacity and store more than 90 million barrels of petroleum products such as gasoline, diesel fuel and crude oil. Investors benefit from primarily fee-based business, low-risk growth projects and attractive quarterly cash distributions.

Magellan plans to grow organically in the future, with capital expenditures devoted to expanding Magellan's crude oil pipelines and storage facilities. Magellan also stands to benefit from the recent shale boom in the United States, while its position as a midstream energy company insulates it from volatile commodities markets.

Key Investment Highlights

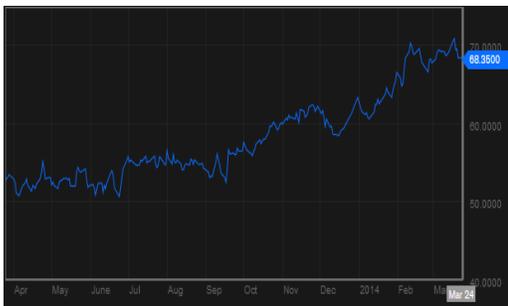
Valuation: We value MMP at \$75.40 per share based on a multistage distribution discount model (DDM). This model accounts for short-term organic growth of the firm and long-term dividend growth, making it the most appropriate for a company such as MMP, and is the most frequently used valuation model within the MLP space. The cost of equity for MMP used was 8.3%, in order to reflect attractive features of MMP such as the lack of a general partner interest.

Corporate Structure: Magellan Midstream Partners LP is a Master Limited Partnership (MLP), which is a publically traded limited partnership. This grants the company pass-through tax treatment, and also mandates that most of MMP's cash flows are paid out to investors in quarterly distributions. Further, unlike many MLPs, Magellan's general partner (GP) is a wholly owned subsidiary of the limited partner, eliminating the burdensome incentivized distribution rights (IDRs) that many competitors suffer from. This has the added effect of lowering Magellan's equity cost of capital significantly below the mean.³

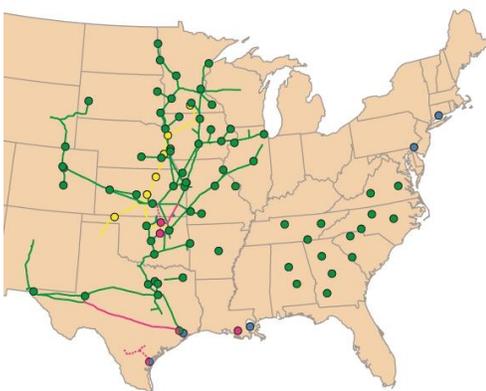
Strong Foothold: With access to over 50% of the nation's refineries, Magellan is an important player in the energy sector. However, in addition to their refined products pipelines and terminals, Magellan also has crude oil pipelines and terminals as well as a small ammonia pipeline system.

Organic Growth: Magellan is focusing heavily on expanding into the crude oil transportation and terminalling business, with joint ventures such as the Longhorn Pipeline and BridgeTex pipeline bringing in increased revenues in both the short and long term. With half a billion of capital expenditures expected for 2014, 75% of which will be devoted to increasing their foothold in the crude space, Magellan's expansion will make it even more profitable to investors in the future.⁴

Analyst's Take: We believe that Magellan represents a value not just because of its expansion, but also because of its guaranteed quarterly distributions. The combination of its ability to take advantage of the energy boom without the commodity exposure of an upstream company, and its dedication to organic growth leading to higher distributions makes MMP a solid buy.



MMP 1Y Price¹



MMP Asset Map²

1: Source: Bloomberg

2: Source: MMP Analyst Presentation

3: Source: Neuberger Berman

4: Source: MMP Analyst Presentation