

MPLX LP

4Q/FY23 beat but premium valuation & uncertain '24+ growth; Underperform

Maintain Rating: UNDERPERFORM | PO: 36.00 USD | Price: 38.05 USD

MPLX finishes strong year with 4Q beat but '24 repeatable?

MPLX reported 4Q EBITDA of \$1,623mm beating consensus/BofA estimates by 4%/6%. Both the L&S and G&P segments beat expectations. And FY24 EBITDA increased 8.6% y/y beating MPLX's implicit guide of ~5% y/y. In the 4th quarter, L&S beat consensus by 6%, with EBITDA of \$1,089mm. Relative to consensus, crude and product pipelines volumes slightly missed but product pipeline rates were 12% above expectations. A large part of this was attributable to the FERC PPI increase of ~13%, which occurred in July, and positively impacted rates for 1/3 of L&S. Marcellus G&P had strong 4Q volume increases, and Permian processing volumes continue to growth. However, the FERC rate increase will not repeat again, and we find it hard to underwrite future L&S growth. And the G&P business still lacks scale. So, we maintain our U/P rating and \$36 PO, as MPLX trades at a ~1 turn '25E premium to the MLP peer group with uncertain future growth.

Permian volumes outperform in FY23; Marcellus in 4Q

MPLX's Permian Delaware processing volumes outperformed in '23, especially in Culberson County, underpinned by volumes from Coterra (we estimate CTRA accounts for ~70% of total Delaware processing volumes). In 3Q, CTRA added a 7th rig in Culberson County for its Windham Row project. As such, MPLX is increasing its 1 Bcf/d processing capacity to 1.4 Bcf/d by the end of '25, with Preakness II coming online in 2Q24 and Secretariat in 2H25, both in Culberson County. While volume increases are positive, CTRA typically operates its own gathering system, allowing it to receive more competitive, lower rates for processing only services than full-service G&P systems. And while FY23 was driven by Permian outperformance, 4Q23 saw both gathering and processing growth in the Marcellus, which we see as limited going forward, given takeaway constraints.

'24 budget: \$1.1bn capex for debottlenecking/growth

MPLX's capital budget is \$1.1bn (\$950mm growth and \$150mm maintenance). This is a \$200mm increase (+22%) vs. '23. This is likely attributable to both L&S (debottlenecking projects) and Permian G&P capital and some capital for the Northeast like the Harmon II processing plant. Note this excludes the \$100mm repayment for MPLX's share of the Bakken Pipeline JV. MPLX returned \$877mm in FY23 through distributions with a 10% y/y increase. While MPLX will likely be able to increase its distribution above long-term earnings in '24, we expect distribution growth to increase with EBITDA growth, over time, which has averaged ~5% in the past.

\$270mm Permian G&P acquisition not a big earnings mover

We appreciate that MPLX has built a solid position in the Permian, without the benefits of a first mover. But the biggest issue we see with the position is that MPLX lacks scale and smaller acquisitions with equity interests, like the announced 40% stake for a G&P position for \$270mm is unlikely to move earnings for a company of MPLX's size, which generates >\$6bn of EBITDA. The processing heavy Permian G&P position is growing, but downstream projects are all equity interests, like the BANGL expansion, where MPLX is the operator but only a 25% owner, Matterhorn Express (5% interest) and Whistler-ADCC (25%). So, we see MPLX lacking the scale to significantly grow its G&P position.

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Stock Data

Price	38.05 USD
Price Objective	36.00 USD
Date Established	11-Aug-2023
Investment Opinion	B-3-7
52-Week Range	33.03 USD - 38.18 USD
Mkt Val (mn) / Shares Out (mn)	38,088 USD / 1,001.0
Free Float	35.2%
Average Daily Value (mn)	73.89 USD
BofA Ticker / Exchange	MPLX / NYS
Bloomberg / Reuters	MPLX US / MPLX.N
ROE (2023E)	27.3%
Net Dbt to Eqty (Dec-2022A)	144.7%
ESGMeter™	High

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Glossary

BANGL: Belvieu Alternative for NGLs Y-Grade Pipeline
CTRA: Coterra Energy Inc.
FERC: Federal Energy Regulatory Commission
G&P: Gathering & Processing
JV: Joint Venture
L&S: Logistics & Storage
MLP: Master Limited Partnership
MPLX: MPLX LP
PPI: Producer Price Index



Exhibit 1: MPLX 4Q23 Variance Table

MPLX reported 4Q EBITDA of \$1,623mm beating consensus/BofA estimates by 4%/6%.

Earnings Variance (\$mm)	4Q23			% Beat (Miss)		% Change vs. Actual	
	Actual	Consensus	BofA	Consensus	BofA	Q/Q	Y/Y
Gathering & Processing (G&P) Segment EBITDA	534	507	480	5%	11%	6%	12%
Logistics & Storage (L&S) Segment EBITDA	1,089	1,031	1,050	6%	4%	0%	11%
Other	0	20	0				
Adjusted EBITDA	1,623	1,558	1,530	4%	6%	2%	12%
Net interest and other financial costs	(209)	(225)	(225)	NM	NM	NM	NM
Maintenance capex	(57)	(42)	(35)	NM	NM	NM	NM
Preferred unit distribution	(23)	(26)	(35)	NM	NM	NM	NM
Others	(27)	24	(67)	NM	NM	NM	NM
Distributable cash flow (DCF)	1,361	1,261	1,301	8%	5%	-1%	7%
Net Debt	19,651	20,065	19,690	-2%	-0.2%	1.1%	0.5%
Free Cash Flow	964	1,053	1,012	-8%	-4.7%	1.6%	-10.7%
SEGMENT DETAILS							
Gathering and Processing - MPLX							
Total gathering + equity gathering throughput (MMcf/d)	6,252	6,176	6,304	1%	-1%	0%	1%
Total natural gas processed (MMcf/d)	9,375	9,288	9,021	1%	4%	5%	9%
Total fractionated throughput (mbpd)	599	595	616	1%	-3%	-2%	3%
Logistics and Storage - MPLX							
Crude oil pipelines (Mbpd)	3,701	3,747	3,891	-1%	-5%	-5%	4%
Product pipelines (Mbpd)	2,078	2,099	1,965	-1%	6%	5%	0%
Pipeline throughput total (mbpd)	5,779	5,820	5,857	-1%	-1%	-2%	3%
Average tariff rates (\$/bbl)							
Crude oil pipelines (\$/bbl)	\$0.98	\$0.97	\$0.99	1%	-1%	-1%	5%
Product pipelines (\$/bbl)	\$0.96	\$0.86	\$0.99	12%	-3%	-3%	16%
Total pipelines average tariff rates (\$/bbl)	\$0.97	\$0.93	\$0.99	4%	-2%	-2%	9%

Source: Bloomberg, Visible Alpha, Company Filings, BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

MPLX LP (MPLX)

Our PO of \$36 is derived from our discounted cash flow valuation, which implies a 9.1x 2024E EV/EBITDA multiple. We forecast a ten-year outlook, which we believe is the limit of market recognition, and then forecast a terminal growth rate of 0% while using a 7.5% weighted-average cost of capital (WACC).

Downside risks to our price objective are (1) US economic weakness, (2) slower oil and gas demand growth/lower oil/gas prices, (3) lower utilization at MPC's refineries, (4) slowdown/decline in crude oil/refined products demand and (5) changes to its dividend/payout policy.

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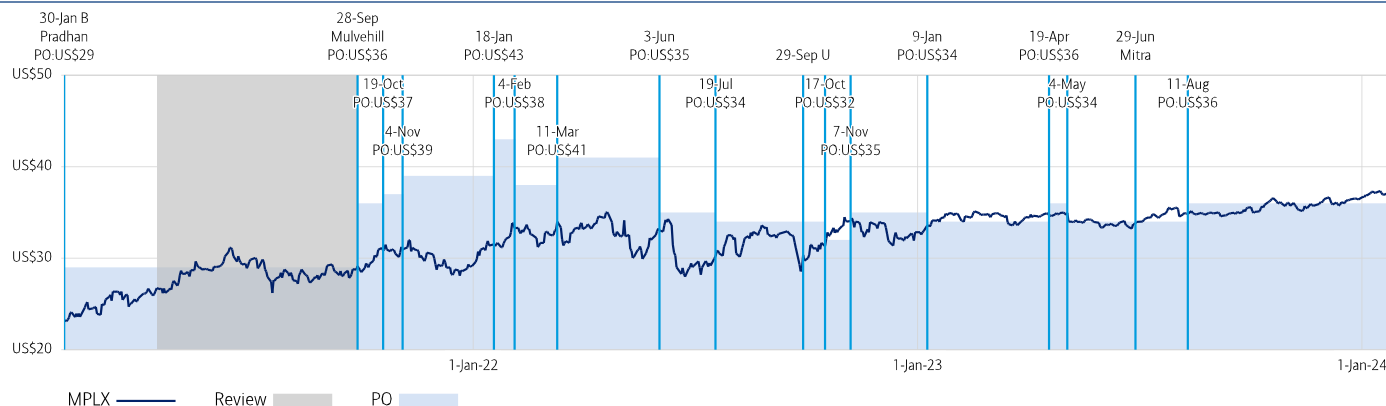
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MPLX LP (MPLX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

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Sell	807	22.84%	Sell	383	47.46%

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