



MPLX LP: On the Cusp of Another Major Transformation



- In December 2015, MPLX was transformed into the fourth-largest U.S. MLP through its acquisition of MarkWest.
 - The company is now on the cusp of another major expansion through the “dropdown” of more assets from sponsor and general partner Marathon Petroleum that could significantly increase MPLX’s earnings by the end of 2019.
 - Even without the dropdowns, MPLX’s operating income is expected to grow from \$1.6 billion in 2016 to \$2.3 billion in 2020 based on higher income streams from both the Gathering & Processing (G&P) and Logistics & Storage (L&S) segments.
 - The G&P segment income should increase from \$1.1 billion in 2016 to nearly \$1.5 billion in 2020 because of production gains expected from the increase in takeaway capacity in the Marcellus and Utica shales.
- G&P’s Southwest Systems earnings are expected to decline as legacy production shortfalls in East Texas and the Granite Wash more than offset growth in STACK and Permian Systems.
 - L&S growth will come primarily from new projects such as the Cornerstone Pipeline and other Utica Shale infrastructure, plus MPLX’s 9.2% interest in the Dakota Access Pipeline.

1. Introduction

MPLX LP (MPLX) is a master limited partnership (MLP) formed in 2012 by Marathon Petroleum Corp. (MPC or Marathon) to own, operate, develop, and acquire midstream energy infrastructure assets. In 2015, MPLX acquired MarkWest Energy Partners for \$14.7 billion, making the merged entity the fourth-largest U.S. MLP. Marathon controls the general partner of MPLX and 18.2% of the limited partnership units. MPLX has a market capitalization of about \$11.5 billion and expects to generate \$1.3-\$1.4 billion in adjusted EBITDA in 2016, up from \$486 million in 2015 and \$166 million in 2014.

MPLX is on the cusp of another major transformation. Marathon has announced an aggressive “dropdown” strategy under which MPC will transfer additional assets or ownership interests to MPLX. These additional assets are expected to generate about \$1.4 billion in annual EBITDA at MPLX by the end of 2019, doubling the MLP’s 2016 EBITDA. The assets to be transferred from Marathon to MPLX include pipelines, terminals, and marine assets as well as railcars, refinery infrastructure, and fuels distribution assets.

MPLX also has an aggressive capital investment program of its own. It calls for allocating \$2.3-\$2.8 billion to gathering and processing infrastructure in Appalachia and the U.S. Southwest, and logistics and storage facilities in the Utica Shale and Texas. In addition, the company is evaluating opportunities to restructure Marathon’s general partner interest to optimize MPLX’s cost of capital to fund these projects and investment in future dropdowns.

In this Spotlight Report, we take a bottom-up approach to evaluating the company’s assets, analyzing volume flows, production trends, producer contracts, and commodity price risk for each asset, and detail competitive advantages and disadvantages. We then use this analysis to develop a comprehensive assessment of future volumes and earnings.

This Spotlight Report from RBN Energy and East Daley Capital is available for individual purchase or as part of RBN's Backstage Pass premium content service at rbnenergy.com.

For more information on individual or group subscriptions, send an email to info@rbnenergy.com or call 888-613-8874.

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2. Spotlight Reports from RBN Energy and East Daley Capital

2.1 What Is Spotlight?

Spotlight reports provide a thorough analysis or “deep dive” into the fundamentals that shape the outlook for a specific midstream energy company, usually one operating within an MLP structure. Our goal is to provide a comprehensive, fundamentals-based view of our Spotlight companies based on a bottom-up analysis of their assets and operations. We disaggregate their asset structure to reveal—for each asset—what volumes are flowing, what rates are (and can be) charged, and how they are exposed to commodity price risk. We also look at how the company’s assets fit together, and what aspects of their operations provide competitive advantages in today’s extremely volatile energy marketplace. This report, covering MPLX LP, is the sixth edition of the Spotlight report series. Previous Spotlights covered ONEOK, DCP Midstream Partners, Energy Transfer Partners (in two parts), and Enable Midstream Partners.

Spotlight is a joint venture of RBN Energy, LLC and East Daley Capital Advisors, Inc. We have joined together with the support of Oil & Gas Financial Analytics LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. We use publicly available data, combined with the deep experience of our combined teams to provide a much more granular analysis of a company’s assets and outlook than the more high-level assessments that are typical in the marketplace today. Instead of such a high-level approach, we get into the micro-level detail, and integrated fundamentals data, market data and company data into a comprehensive model that provides a clearer picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs and fees. No non-public data from the subject company or any other source has been used in the preparation of this report.

2.1 Spotlight Dashboards

Our Spotlight **Dashboards** used in this report display pertinent facts about MPLX’s business segments as well as our “Trend” rating which is our qualitative view of the prospects for those business segments. We have three “Trend” ratings which are described below:

- Growth- Our “Growth” rating is given to assets that are expected to have an increasing earnings profile due to expanding throughput and/or the ability pass through price increases.
- Stable-Our “Stable” rating is given to assets that are expected to have a steady earnings profile due to consistent throughput and pricing power.
- Decline-Our decline rating is given to assets that are expected to have a weakening earnings profile due to either falling throughput and or/deteriorating pricing power.

2.2 How Can I Get Spotlight?

Spotlight is available to RBN Backstage Pass subscribers. Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to rbnenergy.com/spotlight.