TRANSCRIPT
3Q 2019 EARNINGS CALL

PHILLIPS 66 PARTNERS (NYSE: PSXP)
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PHILLIPS 66 PARTNERS PARTICIPANTS

Jeff Dietert, *Vice President, Investor Relations*

Kevin J. Mitchell, *Director, Vice President and Chief Financial Officer*

Rosy Zuklic, *Vice President and Chief Operating Officer*

Tim Roberts, *Director and Vice President, Operations*

MEETING PARTICIPANTS

Spiro Dounis, *Credit Suisse*

Philip Stuart, *Scotia Howard Weil*

Theresa Chen, *Barclays*

Jeremy Tonet/Joe Martoglio, *JP Morgan*

TRANSCRIPT

Operator:

Welcome to the Third Quarter 2019 Phillips 66 Partners Earnings Conference Call. My name is Julie, and I will be your Operator for today's call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Jeff Dietert, Vice President, Investor Relations. Jeff, you may begin.

Jeff Dietert:

Good afternoon and welcome to Phillips 66 Partners Third Quarter Earnings Conference Call. Participants on today's call will include Kevin Mitchell, Vice President and CFO, Tim Roberts, Vice President Operations, and Rosy Zuklic, Vice President and Chief Operating Officer.

Today's presentation material can be found on the Events section of the Phillips 66 Partners website, along with supplemental financial and operating information.

Slide 2 contains our Safe Harbor statement. We will be making forward-looking statements during the presentation and the Q&A session. Actual results may differ materially from what we present today. Factors that could cause actual results to differ are included here as well as in our SEC filings.
With that, I'll turn the call over to Kevin Mitchell.

Kevin J. Mitchell:

Thank you, Jeff, and good afternoon, everyone. We delivered another quarter of record earnings and Adjusted EBITDA, reflecting reliable operating performance at our wholly owned and joint venture assets.

We continue to execute on our organic growth projects with the successful start-up of multiple new assets this year, including the Bayou Bridge Pipeline extension, Lake Charles Products Pipeline, and Lake Charles isomerization unit. These assets are running well and performing as planned.

Our Board of Directors approved a third quarter distribution of $0.865 per common unit, an increase of $0.01 per common unit of the previous quarter and 9% higher than the third quarter 2018 cash distribution. We've increased the distribution every quarter since the July 2013 IPO. We remain committed to delivering competitive distribution growth while maintaining strong coverage and leverage ratios.

Moving on to Slide 4 to discuss the financial results, the Partnership reported third quarter earnings for $237 million. Adjusted EBITDA during the quarter was a record $323 million, an increase of $4 million from the second quarter. The improvement reflects increased volumes and tariff rates partially offset by higher planned maintenance expense. Third quarter distributable cash flow was $255 million, an increase of $1 million from the prior quarter.

Slide 5 highlights our financial flexibility and liquidity. We ended the third quarter with $655 million of cash and $749 million available under our revolving credit facility. During the quarter, the Partnership issued $900 million of unsecured notes in an attractive interest rate environment. A portion of the proceeds was used to repay the remaining $400 million outstanding under a term loan facility, and in October we paid off $300 million of senior notes due February 2020.

The debt-to-EBITDA ratio on the revolver covenant basis was 3.2 times. The leverage ratio was higher due to the timing of the debt issuance in the third quarter and repayment of the senior notes in the fourth quarter.

Our distribution coverage ratio was 1.29 times. We continue to target a long-term leverage ratio of up to 3.5 times and distribution coverage ratio over 1.2 times.

The Partnership advanced its major projects during the quarter, funding $136 million of growth capital. This included spend for the C2G Pipeline, the Clemens Caverns, and the Sweeny to Pasadena Pipeline expansion, as well as investments in the South Texas Gateway Terminal.

Now, Rosy will provide an update on our growth projects.

Rosy Zuklic:

Thanks, Kevin, and hello, everyone. Slide 6 lists the projects we have ongoing. I'll speak to a few of the projects. The Lake Charles isomerization unit had a successful start-up and reached full production in September. We're excited about this asset. The initial operating performance is meeting design rates, and we expect to receive a full quarter of earnings contribution in the fourth quarter.

The Gray Oak Pipeline project is nearing completion. We have started line fill and commissioning activities and are on track for initial start-up in November with full service in the first quarter of 2020. Gray Oak will connect to multiple terminals in the Corpus Christi area, including the South Texas Gateway Terminal. The Marine Export Terminal will have two deep water docks with storage capacity of over 7 million barrels and up to 800,000 barrels per day of throughput capacity. Phillips 66 Partners owns a 25% interest in the terminal which is expected to start up by mid-2020.

The remaining projects listed are on schedule to be completed as planned. We look forward to providing more information at the upcoming Phillips 66 Investor Day.

This concludes our prepared remarks. We will now open the line for questions.

Operator:

Thank you. We will now begin the question-and-answer session. If you have a question, please press star then one on your touchtone phone. If you wish to be removed from the queue, please press the pound key. If you're using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again, if you have a question, please press star then one on your touchtone phone.

Spiro Dounis from Credit Suisse, please go ahead. Your line is open.

Spiro Dounis:

Hey, good afternoon, everyone. Maybe just starting off with some of the movers around the quarter, two things stuck out to me. I guess, first, it seems like terminal segment maybe took a bit of a step-change up, shrugged off some of the lower sequential refinery utilization. Just wondering what's really driving some of that, and is that ratable from here? Then, second, on volumes and some of your JV assets, looking really strong once again; just wondering if you could just highlight which pipeline was really driving that and maybe how sustainable that is too.

Rosy Zuklic:

Sure. Hi Spiro. This is Rosy. Absolutely. If you think about the great benefit that we are seeing in the terminals is really as a result of the projects that we've had coming online. As Kevin mentioned, you've got Bayou Bridge where we have the second phase of the pipeline there starting up, and then Lake Charles Pipeline where we've got products moving from Lake Charles Refinery down to Clifton Ridge Terminal. Really what we're seeing there is we've got additional crude movement and product movement off of the

Clifton Ridge Terminal, and so you're seeing that uplift in the terminaling volumes there, and so just really a fruition of all the different projects coming together.

I do think that that is something that at least for the next quarter you should definitely see an uptick coming there.

On the JV pipelines, it's a continuation of what we saw in the second quarter. Explorer had another record quarter. Second quarter was a great quarter; third quarter was even better, 750,000 barrels per day throughput up from 703,000 barrels per day last quarter. Bayou Bridge, again, as you think about the fact that it started Phase 2 in the second quarter and then in the third quarter we had a benefit of the full quarter running 299,000 barrels per day. Then Bakken Pipeline also had another uptick in volume.

Spiro Dounis:

Very helpful. Second question, I don't want to get too ahead of the Investor Day—certainly looking forward to that—but maybe you could just help us understand a little bit how to think about Red Oak and Liberty, potentially becoming a greater part of the PSX story; specifically, especially as you sort of transition back towards doing sort of a dropdown type strategy. I think Greg mentioned on the call earlier that PSXP still has the cost of capital advantage, and so just looking to understand how all that really ties together.

Kevin J. Mitchell:

Yes, Spiro, this is Kevin. I would just reiterate the comment that Greg had made this morning around the suite of organic growth projects that are taking place, really, across both; you see it at the PSX level and also at PSXP. Fundamentally, as you step back and look at what's being done at PSX, you would conclude that it makes sense to get those down into the MLP over time.

I think I'll leave specifics around those Red Oak, Liberty projects, we'll leave those for the Investor Day, and especially since they're actually PSX projects at this point in time, but fundamentally, large backlog of growth opportunities that could be at the MLP for quite some period of time.

Spiro Dounis:

Understood. Thanks for the color.

Operator:

Philip Stuart from Scotia Howard Weil, please go ahead. Your line is open.

Philip Stuart:

Good afternoon, guys. Congrats on a solid quarter. I appreciate the update on Gray Oak. Just wonder if we could kind of talk through kind of the milestones of the ramp of the pipeline. Understand that you all kind of have it starting to really fill up in November and reaching kind of full capacity by the end of 1Q, early 2Q. Just kind of curious if that ramp is going to be pretty ratable over that time period, or if it's going to be kind of more lumpy one way or the other.

Tim Roberts:

Well, this is Tim Roberts, and let me probably just touch a little on that, and then I'll pass it off to Rosy a little bit as well after this.

On Gray Oak, as you would expect, we're going through our line fill, as we've talked about; we're going through commissioning. With the complexity of the pipeline, not just by the terminals, storage or so forth, we're getting it up in phases, as you can imagine, so we're starting to move crude down the pipeline.

Currently with our line fill, we are expecting at this point, and we have posted a tariff with FERC to have limited service to Central Junction sometime in November. That'd be very limited service. At Central Junction, shippers on our pipe can then contract with other third-party shippers to get to various locations on the Gulf Coast, whether that's single side Corpus or out to the Houston market.

This all goes on in phases, so we do expect, again, that we'll start that phase through November, but then there will be additional phases as we go through the end of the year and then also through the first quarter. It's certainly a ramp up, but I wouldn't say it's ratable. Like I said, the complexity of the project itself, especially as we get closer to the market, they'll be coming on in bits and pieces, and to the extent we can commercialize pieces of those, we'll get a tariff out there to support that and then subsequently start booking those revenues. Rosy, you might want to touch on that.

Rosy Zuklic:

Yes. I think the way I think about it from a modeling for PSXP specifically is from a fourth quarter perspective, I don't anticipate to see any, really, benefit from an earnings perspective. From a run rate EBITDA, I would say it's starting maybe in the second quarter. Then as Tim alluded, the first quarter being really the ramp up period, I would say that that's probably half of what the run rate would be. So, you'd probably want to phase it in throughout the first quarter.

Philip Stuart:

Okay. Great. That's really helpful. Then on South Texas Gateway, can you all maybe talk about kind of the ramp there and getting that project throughput kind of up towards capacity?

Tim Roberts:

Yes. This is Tim Roberts again. On that, actually, with Buckeye being one of our partners on that project, it's moving along pretty well. They did receive their Corps of Engineer permit, so they can go and start drudging for the two VLCC-capable docks that we've got there. But they've already started on land activity with regard to all the tanks and terminals and so forth. So, Buckeye is progressing very well in the project.

We are looking at this being a mid-2020 as far start-up. As you would imagine, it's not just a flip of switch and it all comes on. Much like Gray Oak, you could probably see portions of that terminal come on a little earlier and then some a little after that mid-2020 date, but that's currently where we're targeting.

Philip Stuart:

Okay. Great. That's it for me.

Operator:

Theresa Chen from Barclays, please go ahead. Your line is open.

Theresa Chen:

Good afternoon and thank you for taking my questions. Related to the DCP write-down at the Parent for PSXP, so a while ago there was a lot of discussion around the potential combination of PSXP and DCP, and given today's $900 million write-down at the Parent, which, Kevin, you made very clear that it was related to PSX's interest only, but given the fact that it was based on observable market data, it would be

pretty interesting if it didn't translate at all to the other 50%. I was just wondering if there's anything to read into this impairment related to the Parent's long-term desired outcome for DCP in relation, again, to PSXP, as in is a combination less attractive now because you don't want to dilute the quality of the assets at the Partnership at PSXP, or is it more feasible now that the outlook has been mark-to-market more tethered to reality, so perhaps the bid-ask can narrow?

Kevin J. Mitchell:

Yes, Theresa, we really have to pass on this question. It's not appropriate for PSXP to be commenting on DCP and the Parent's ownership on DCP, so I'm going to pass on that one.

Theresa Chen:

Okay. Well, so related to the fundamentals of the Partnership, I mean, we've seen a lot of volatility in the macro data lately, and I just want to touch on the resiliency of the business if we are indeed hitting a soft patch in the cycle. Completely understand that most of the business is contracted with fee-based revenues with support from MVCs, but have you done any sort of sensitivity analysis around macro demand supply given the current makeup of the Partnership as it has grown pretty rapidly in scale, size, and third-party contracts over the last couple of years or so?

Kevin J. Mitchell:

Yes, we do, but I would sort of take it back to right now something like 90% of the PSXP business, the direct PSXP-owned assets, about 90% of that revenue stream comes from PSX, so it's still very much sort of within the greater PSX-level family, if you think about it like that. When you connect a lot of that to the assets that those are supporting, those volumes are supporting, and you think about the PSX refining and marketing infrastructure, some of the NGL value chain, PSX is in that for the long-term, and so we feel very comfortable around that.

The joint venture assets that we've been investing in have a lot more third-party exposure there, but fundamentally, we go back to we've got long-term contracts, long-term commitments around those assets, and so within the context of our planning horizon, which is more than short-term, right, it takes us out a reasonable period of time, we feel very comfortable around where that sits.

Theresa Chen:

Thank you.

Operator:

Jeremy Tonet from JP Morgan, please go ahead. Your line is open.

Joe Martoglio:

Hi. This is Joe for Jeremy. I first wanted to ask on 2020 capex, I realize the budget is probably forthcoming, but could you talk a little bit about kind of some of the puts and takes we should keep in mind, and what we should think of relative to 2019 for that?

Rosy Zuklic:

For 2020 we'll give more color at the Analyst Day presentation here in a couple of weeks. As far as 2019, no change to what we said last quarter. If I take you back to when we first did the budget, we said that it was going to be about $600 million, and with the increase in the Gray Oak project, the latest forecast was between $700 million to $750 million, and we're still at that forecast.

Kevin J. Mitchell:

I would just supplement that by, if you think about the slide that Rosy talked to, the isomerization unit is complete; Gray Oak Pipeline, there'll be some minor spend carryover into 2020, but that's fundamentally, that's done by the end of this year. You've got the Sweeny to Pasadena Pipeline as into 2020; South Texas Gateway as middle of the 2020. Clemens Caverns expansion continues; C2G Pipeline is spent through next year and into 2021. That gives you some flavor of what will comprise at least a portion of the capital budget, but you can sort of get it from that list of projects and the expected start-up timing, completion timings.

Operator:

We have no further questions at this time. I will now turn the call back over to Jeff.

Jeff Dietert:

Thank you, Julie, and thank all of you for your interest in Phillips 66 Partners. If you have additional questions, please call Brent or me. Thank you.

Operator:

Thank you. Ladies and gentlemen, this concludes today's conference. You may now disconnect.