

TRANSCRIPT



1Q 2020 EARNINGS CALL

PHILLIPS 66 PARTNERS (NYSE: PSXP)

May 1, 2020 at 2:00 pm ET

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*

Robert Mosca, *Mizuho*

TRANSCRIPT

Operator:

Welcome to the First Quarter 2020 Phillips 66 Partners Earnings Conference Call.

My name is David, 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 the Phillips 66 Partners First 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 materials 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 our Q&A session. Actual results may differ materially from today's comments. 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.

During the first quarter, Phillips 66 Partners delivered solid financial results, operated reliably and safely, and advanced its growth projects. We achieved a major milestone in April, with Gray Oak Pipeline starting full operations. The board of directors approved a first-quarter distribution of \$0.875 per common unit, a 4% increase over first quarter 2019, unchanged from fourth quarter 2019.

Phillips 66 Partners is navigating the current business environment from a position of financial strength, supported by a fee-based portfolio of high-quality assets, investment-grade credit rating and strong liquidity. We remain focused on maintaining our strong balance sheet and disciplined approach to capital allocation. In this challenging environment, we deferred the Liberty Pipeline, postponed FID on the ACE Pipeline and held the quarterly distribution flat.

Moving to slide 4, to discuss financial results, the Partnership reported first-quarter earnings of \$226 million and adjusted EBITDA of \$321 million. The \$24 million decrease in adjusted EBITDA was driven by wholly owned assets, due to lower utilization rates at Phillips 66 refineries. First-quarter distributable cash flow was \$269 million, up from \$254 million in the fourth quarter. The \$24 million increase in joint-venture distributions over the prior quarter reflects the first distribution from Gray Oak Pipeline.

Slide 5 highlights our financial flexibility and liquidity. We ended the first quarter with \$92 million of cash and \$747 million available under our revolving credit facility. The Partnership funded \$196 million of growth capital during the quarter. This included investments in Gray Oak, the Liberty Pipeline after it was acquired, and the South Texas Gateway Terminal. The debt-to-EBITDA ratio, on a revolver covenant basis, was 2.9.

Our distribution coverage ratio was 1.35. We continue to target a long-term leverage ratio of up to 3.5. Given current market conditions, we expect the coverage ratio for the year to be between 1.1 and 1.2.

Looking ahead, we remain focused on maintaining our strong financial position and disciplined capital allocation as we navigate through these unprecedented times.

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.

The Gray Oak Pipeline has started full operations. Service from West Texas to Corpus Christi and Ingleside, Texas, started on April 1. More recently, the Eagle Ford segment of the pipeline came online, marking completion of the project. We own 42.25% in the Gray Oak Pipeline. This is a significant milestone for PSXP and further enhances our stable asset portfolio.

Construction continues at the South Texas Gateway Terminal in Ingleside. The marine export terminal will have two deepwater docks, with storage capacity of 8.5 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 startup in the third quarter of 2020.

The Sweeny to Pasadena capacity expansion project remains on track, and we expect to reach mechanical completion in June. This is a great project for the Partnership, with long-term pipeline and terminal volume commitments from Phillips 66.

In response to the uncertainty in the current market environment, the Liberty Pipeline project has been deferred and the final investment decision on ACE Pipeline has been postponed. We will continue to fund sustaining capital to ensure safe operations, as well as the remaining in-flight growth projects included on this slide. These projects are all progressing as planned.

Looking ahead to the second quarter, we anticipate results to decrease from the first quarter, mainly due to lower domestic production and refinery utilization. This impacts many of our wholly owned and joint-venture assets. We anticipate the impact from reduced throughput to more than offset increased earnings from the Gray Oak Pipeline.

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. As we open the call for questions, as a courtesy to all participants, please limit yourself to one question and a follow-up. If you have a question, please press star, then 1 on your touch-tone phone. If you wish to be removed from the queue, please press the pound key. If you are 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 1 on your touch-tone phone.

Your first question comes from the line of Spiro Dounis with Credit Suisse. Please go ahead, your line is open.

Spiro Dounis:

Good afternoon, everyone. My first question is just maybe to revisit some of the guidance provided around the last Analyst Day. You all laid out a target of about \$1.5 billion as the EBITDA exit rate for 2020. Is that still a target that you see as intact, and just maybe how to think about some of that forward guidance that you guys had previously given out.

Kevin J. Mitchell:

Hey, Spiro, it's Kevin. That guidance was what we had at that point in time with the projects we knew were underway and would come online over the course of this year. What it didn't anticipate is the situation that we're going through just now, in terms of the impact on both the refined product side of the business, which is sort of tied to the PSX refining portfolio and where those assets are running, and then also on the crude throughput, you know, the long haul pipeline business. We're not giving specific guidance at this point. I think the way to consider that \$1.5 billion is probably when we get back to some form of normal state. It's not unreasonable to think that we would get back to – anticipate getting back to that \$1.5 billion level, but it's probably pushed out, based on the way we see things right now.

As you know, there's a lot of uncertainty as to what this recovery looks like. I think it's clearer on the products side that once the country gets back to work and people start moving, you'll see refined product demand increase and refining utilization will rise to meet that demand, and you'll see that part of the business get back to normal. It's harder to get a read on the impact on the upstream sector, but I also go back to the view that \$20 oil prices aren't sustainable forever, so it's just a question of timing.

Spiro Dounis:

Yes, no, I appreciate that, and it makes sense. Second one. It might sound crazy to talk about drop-downs right now, but is there a mutual interest to drop down assets here, just maybe to provide PSX with some liquidity and help you sort of bolster up some of your cash flows, or is that really a discussion for another time?

Kevin J. Mitchell:

Yes, realistically, that's probably a discussion for another time. It's really a PSX question, anyway, because they would – those conversations are all initiated at that level, but it's hard to see, even from a Phillips 66 Partners standpoint, funding a drop-down transaction. If the objective would be to get cash back to the PSX level, then the funding would have to be either equity, and these aren't equity markets to be going out into to raise funds or debt. We're sort of trying to manage our way through the balance sheet and leverage as it is, so it doesn't feel like it's the right timing.

Operator:

Once again, if you have a question, please press star, then 1 on your touch-tone phone.

Your next question comes from the line of Robert Mosca from Mizuho. Please go ahead, your line is open.

Robert Mosca:

Hi, good afternoon, everyone. I think you've kind of answered one of my questions on drop-downs, but thinking about it from a different angle, I know on the PSX call there were some comments from management about a possible reduced opportunity set from an organic standpoint in midstream for 2021. I guess, thinking a little bit further out, you know, would, I guess, the growth maybe comes from inorganic acquisitions, you know, looking at '21, whether it be bite-size drop-downs or maybe some third-party M&A, and kind of thinking about like how the growth strategy shifts, in your view.

Kevin J. Mitchell:

Yes, I think that where the growth opportunities come from – right from the beginning, we've said at PSXP we have the potential to grow through organic means, through drop-downs from the parent, and also through acquisitions, and while we haven't done any acquisitions for a while, we have done some, relatively small, but we've done some acquisitions back in the sort of 2016 time frame, and in principle, none of that is any different. We still see the growth will come through those three different sources, and at different points in time different areas will be prioritized, depending on where the most attractive opportunities are. Most recently, we've seen the best opportunities in the organic space, or I'd sort of characterize as organic drop-downs, where the asset project comes from PSX, but it's early-stage construction, and then it becomes an organic project at the MLP. If those opportunities are not there, if the projects are not there with the kinds of returns, we would expect then we'd look at other ways of accomplishing growth. I'd also say, whatever we do, it's got to meet our return thresholds, our investment criteria, it has to make sense for the MLP. So, potentially, acquisitions at some point in the future, it's certainly possible, and in sort of a sustained downcycle, you often see that trend of consolidation. PXSP could be positioned for that, but it's not something that we're focused on right now.

Robert Mosca:

Okay, that's helpful, and then maybe just an easier one on the distribution because that could be kind of a touch-and-go, quarter-to-quarter evaluation, or do you see yourselves maybe holding it flat for the remainder of 2020 and seeing how things shake out afterwards?

Kevin J. Mitchell:

Yes, I mean, every distribution is a decision by quarter, so it's a decision we make every time. This was a break in practice for us, by holding it flat, but it just felt like the prudent thing to do given the environment. So, a lot of this will depend on how things transition and shake out over the remainder of the year, as to whether or at what point we get back increasing the distribution.

Operator:

We have reached the end of today's call. I will now turn the call back over to Jeff Dietert.

Jeff Dietert:

All right, thank 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.