



USD Partners LP (USDP)

Modestly Lower 2021-2022 Estimates To Reflect Timing Of Filling Slots At Stroud; Maintain 2023 Forecast, \$11 Target; Expect Distribution Growth Given Improving Balance Sheet And Cash Flow

	2020		2021E		2022E		2023E	
		OLD	NEW	OLD	NEW	OLD	NEW	
Mar.	\$0.39	\$0.46A		\$0.45	0.45	\$0.47	\$0.49	
June	0.36	0.53A		0.53	0.48	0.54	0.51	
Sep.	0.50	0.43	0.39A	0.51	0.49	0.53	0.52	
Dec.	<u>0.48</u>	<u>0.47</u>	<u>0.43</u>	<u>0.51</u>	<u>0.50</u>	<u>0.54</u>		
DCF per unit	\$1.75	\$1.89	\$1.81	\$2.00	\$1.92	\$2.07		
P/DCF					2.9x	2.7x		
EPU	\$0.58	\$0.96	\$0.82	\$1.03	\$0.95	\$1.09	\$1.10	
P/EPU					5.9x		5.1x	

Note: EPU measures earnings per common (or LP) unit. DCF (distributable cash flow) per common unit is calculated by subtracting cash taxes, interest and maintenance cap-ex from adjusted EBITDA (excluding one-time or non-recurring benefits or charges) and is viewed as the best metric to judge the safety and growth potential of distributions from MLPs but is a non-GAAP measure. 2020 EPU excludes a (\$1.32) per unit goodwill impairment to the Casper Terminal. *EPS including amortization expense. *EPS including amortization expense.

Year	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Rev.(Mil.)	\$36.1	\$81.8	\$111.1	\$111.3	\$119.2	\$113.7	\$120.0	\$124.5	\$133.4	\$141.3
GAAP EPU	(\$0.29)	\$0.83	\$1.06	\$0.88	\$0.77	\$0.22	(\$0.74)	\$0.82	\$0.95	\$1.10

Description: USD Partners LP (www.usdpartners.com) provides railcar loading and unloading, tank storage and blending, pipeline connectivity, truck transloading and leased railcars to customers including integrated oil companies, marketers and refiners through a network of two origination and two destination terminals in North America. US Development Group (USDG) owns about 41.7% of the common units, the 1.7% general partner (GP) interest and incentive distribution rights (IDRs) of the master limited partnership (MLP). Headquarters are in Houston, TX.

- **We lower our 2021 and 2022 distributable cash flow (DCF) per unit estimates to \$1.81 and \$1.92 (from \$1.89 and \$2.00), respectively, to reflect timing of filling open slots at Stroud and the impact of the lost revenue.**
- **USD Partners reported 3Q:21 DCF per unit of \$0.39, modestly below our \$0.43 estimate, on revenue 4% below our projection, as we underestimated the impact of the unfilled Stroud slots and higher maintenance cap-ex.**
- **However, we still expect 100% capacity by midyear 2022, following investments by the sponsor to increase Stroud's optionality for a wider group of users.**
- **We also expect the benefits from the new 5-year contract for renewable diesel at the West Colton Terminal beginning in 4Q:21.**
- **We anticipate rising oil sands production and lack of new egress options will drive increased demand at the Hardisty Terminal.**
- **The diluent recovery unit (DRU) commenced operations in 3Q:21; we expect interest in the DRU will result in additional long-term terminal agreements.**
- **USD Partners has raised its distribution for three consecutive quarters but still maintains a healthy distribution coverage ratio of 3.2x.**
- **We maintain our Moderately Risk rating given the improving balance sheet (net leverage has declined to 2.9x in 2Q:21 (from 4.1x last year) and stable cash flow generated through long-term take-or-pay agreements. The partnership recently extended the maturity of its senior credit facility by one year to November 2023.**
- **We also maintain our \$11 price target, which is based on an unchanged 5.5x multiple to our lowered 2022 DCF per unit estimate of \$1.92 (previously \$2.00) and 12% yield, assuming a 1.5x distribution coverage ratio, in 2022. The multiples are in line with a peer group of MLPs with storage and terminals.**

NR

Price Target: \$11

Price: \$5.65

Risk Rating: M

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$150
Enterprise Value	\$333
52-Week Range (NYSE)	8-3
5-Year EPS CAGR	4%
Avg. Daily Trading Volume	76,000
Units Out (Mil)	27.225
Float Units (Mil)	13.276
Insider Ownership	51%
Institutional Holdings	32%
Annualized Distribution	\$0.47
Distribution Yield	8.4%
DCF Per Share (2023E)	\$2.07
DCF Yield (2023E)	36.6%
Net Cash Per Share (2023E)	(\$3.98)
Price to Book Value	10.5x
Return on Partner Cap. (2023E)	52.7%
Total Debt to Capital	93%
Interest Coverage Ratio	5.8x
Short Interest %	0.1%
Short Interest Days To Cover	0.3
Russell 2000	2,404
Russell 2000 – Last 12 Months	48.9%
USDP – Last 12 Months	103.6%



Source: FactSet Prices

We reduce our 2021-2022 DCF per unit estimates but expect investments at the Stroud terminal to increase demand for available slots. The partnership's sponsor is adding a pipeline connection to a second storage tank at the Cushing Hub, enabling the terminal to service multiple customers. The expansion is expected to be completed in 1Q:22. We lower our 2021 and 2022 DCF per unit estimates to \$1.81 and \$1.92 (from \$1.89 and \$2.00) as we previously underestimated the impact of the open slots at Stroud as USDP's DRU customer reduced volumes to that terminal after successfully commencing its long-term DRU contract with oil going to Port Arthur. We model these slots being filled by midyear 2022 upon completion of the project. Stroud is the only terminal connected by pipeline to Cushing. We also anticipate USDP to benefit beginning in 4Q:21 from its five-year contact for renewable diesel, which is expected to generate \$2 million annually in EBITDA. Revenue declined modestly year over year in 3Q:21 due to the open slots at Stroud. DCF per unit declined to \$0.39 from \$0.50 in 3Q:20 as revenue decreased 1% to \$29.8 million. Maintenance cap-ex was also slightly higher on technology upgrades.

We expect increasing interest in the diluent recovery unit (DRU) to drive stable, long-term cash flow. USDP's general partner in a partnership with Gibson Energy (TSE: GEI) commenced operations of its DRU, which may provide an export alternative at closer price parity with pipelines. One major customer has already commenced usage under a 10-year agreement including terminal service provided by USDP. The partnership hopes to have full capacity under long-term agreement over the next several months, providing stable, long term cash flows to support distributions. The partnership has already increased distributions for the last three quarters. Last month USDP announced a 2.2% hike to its quarterly distribution to \$0.1185..

Management continues to improve the balance sheet. Net debt has declined by \$44 million over the last year reducing net leverage (net debt/trailing 12-month EBITDA) to 2.9x (from 4.1x a year ago). We expect improving cash flow could be used to further reduce debt or increase distributions. We model distributions rising to \$0.266 per unit (\$1.064) by the end of 2022, which would still leave the coverage ratio at a healthy 2.0x, provided DCF grows at a modest rate over the next several quarters. Over that period, net leverage would fall to about 2.1x, by our model.

Exhibit 1: USD Partners Quarterly Variance Table							
	<u>2Q:21 Actual</u>	<u>3Q:21 Estimate</u>	<u>Variance (\$)</u>	<u>Variance (%)</u>	<u>3Q:20 Actual</u>	<u>YoY Change</u>	<u>% Change</u>
Revenue (thou.)	\$29,764	\$30,972	(\$1,208)	-3.9%	\$31,337	(\$365)	-1.2%
SG&A	4,245	4,199	46	1.1%	4,245	(46)	-1.1%
SG&A as % of sales	14.3%	13.6%			13.5%		
Operating income	5,524	7,313	(1,789)	-24.5%	8,896	(1,583)	-17.8%
Margin	18.6%	23.6%			28.4%		
Net income	3,808	5,681	(1,873)	-33.0%	6,237	(556)	NM
Margin	12.8%	18.3%			19.9%		
Adjusted EBITDA	12,319	13,770	(1,451)	-10.5%	15,636	(1,866)	-11.9%
Margin	41.4%	44.5%			49.9%		
DCF per unit	\$0.39	\$0.43	(\$0.04)	-9.2%	\$0.50	(\$0.07)	-14.2%

Sources: Company reports and Sidoti & Company, LLC estimates

Valuation	We maintain our \$11 price target, which is based on an unchanged 5.5x to our lowered 2022 DCF per unit estimate of \$1.92 (previously \$2.00) and 12% yield, assuming a 1.5x distribution coverage ratio, in 2022. The multiples are in line with other MLPs with storage and terminal assets. We think the partnership is well positioned to extend long-term agreements for its Hardisty terminal services, given the launch of the DRU unit. We also think the partnership could reach additional agreements for terminal services at its West Colton facility, which may only require minimal investments, add take-or-pay contracts at Casper, as well as the potential accretive drop down of assets from the sponsor, including the South Hardisty expansion and additional capacity at Stroud.		
Key Risks	Agreement renewals	Government tax policy	Interest rates

USD PARTNERS LP

Table 2. USD Partners Cash Flow Statement

(\$s in thousands, except per unit data)

	Mar	Jun	Sept	Dec	2020	Mar A	Jun A	Sept A	Dec E	2021	2022	2023
Net income	(33,781)	1,186	6,237	6,544	(19,814)	7,328	6,716	3,808	4,902	22,754	26,578	30,709
Adjustments:												
Depreciation & amortization	5,422	5,203	5,430	5,441	21,496	5,471	5,500	5,604	5,604	22,179	22,416	22,416
Loss (gain) on derivatives	2,873	332	1,200	(509)	3,896	(3,076)	718	(110)		(2,468)	0	0
Settlement of derivatives	(6)	(283)	(342)	(261)	(892)	(264)	(279)	(286)		(829)	0	0
Unit based compensation expense	1,635	1,630	1,644	1,654	6,563	1,512	1,405	1,357	1,426	5,700	5,985	6,284
Deferred income taxes	(352)	(189)	(722)	290	(973)	(18)	(72)	(135)	76	(149)	411	475
Other	207	207	208	207	829	207	212	834		1,253		
Goodwill impairment	33,589				33,589					0	0	0
Working capital:	2,130	(2,677)	2,979	(1,312)	1,120	1,485	(146)	(87)	162	1,414	(1,631)	(400)
Cash flow from operations	11,717	5,409	16,634	12,054	45,814	12,645	14,054	10,985	12,170	49,854	53,758	59,484
Investing cash flows												
Capex	(147)	(230)	(18)	(89)	(484)	(483)	(901)	(961)	(483)	(2,828)	(2,100)	(2,205)
Cash used by investing activities	(147)	(230)	(18)	(89)	(484)	(483)	(901)	(961)	(483)	(2,828)	(2,100)	(2,205)
Financing cash flows												
Payments of deferred financing					0					0	0	0
Distributions	(10,655)	(3,182)	(3,183)	(3,183)	(20,203)	(3,183)	(3,303)	(3,375)	(3,444)	(13,305)	(27,048)	(32,220)
Vested phantom units	(1,788)		(1)		(1,789)	(857)		(2)		(859)	0	0
Proceeds from long-term debt	10,000		2,000		12,000			0		0	0	0
Repayments of long-term debt	(6,000)	(6,000)	(11,000)	(12,000)	(35,000)	(8,000)	(10,000)	(5,000)	(5,000)	(28,000)		
Other					0					0	0	0
Cash flows from financing	(8,443)	(9,182)	(12,184)	(15,183)	(44,992)	(12,040)	(13,303)	(8,377)	(8,444)	(42,164)	(27,048)	(32,220)
Effect of FX	(989)	1,427	(145)	(321)	(28)	(95)	(53)	13		(135)	0	0
Net change in cash	2,138	(2,576)	4,287	(3,539)	310	27	(203)	1,660	3,243	4,727	24,611	25,060
Cash, equivalents and restricted cash at beginning of period	10,684	12,822	10,246	14,533	10,684	10,994	11,021	10,818	12,478	10,994	15,722	40,332
Cash, equivalents and restricted cash at end of period	12,822	10,246	14,533	10,994	10,994	11,021	10,818	12,478	15,722	15,722	40,332	65,392
Free cash flow	11,570	5,179	16,616	11,965	45,330	12,162	13,153	10,024	11,687	47,026	51,658	57,279
Distributable cash flow reconciliation:												
Operating cash flow	11,717	5,409	16,634	12,054	45,814	12,645	14,054	10,985	12,170	49,854	53,758	59,484
Amortization of deferred financing	(207)	(207)	(208)	(207)	(829)	(207)	(207)	(208)	(208)	(830)	(832)	(832)
Deferred income taxes	352	189	722	(290)	973	18	72	135	(76)	149	(411)	(475)
Accounts receivable	1,803	334	(69)	984	3,052	(4)	(143)	(313)	90	(370)	1,110	255
Accounts payable	(898)	2,130	(545)	358	1,045	(265)	(281)	(54)	(36)	(636)	156	(119)
Deferred revenue	(3,035)	213	(2,365)	(30)	(5,217)	(1,216)	570	(166)	0	(812)	0	0
Interest expense	2,715	2,253	2,036	1,891	8,895	1,734	1,590	1,479	1,513	6,316	6,052	5,169
Income taxes	(507)	188	(307)	585	(41)	224	166	49	152	591	822	950
FX	(92)	1,150	(246)	(545)	267	(61)	(41)	294	0	192	0	0
Other income										0	0	0
Non-cash deferred amounts	437	1,119	(16)	97	1,637	1,683	543	118		2,344	0	0
Adjusted EBITDA	12,285	12,778	15,636	14,897	55,596	14,551	16,323	12,319	13,604	56,797	60,654	64,432
Cash paid for income taxes	(317)	(116)	(190)	(151)	(324)	(286)	(248)	(144)	(152)	(830)	(822)	(950)
Cash paid for interest	(2,083)	(2,874)	(1,880)	(1,756)	(8,593)	(1,549)	(1,438)	(1,309)	(1,513)	(5,809)	(6,052)	(5,169)
Maintenance capex	(32)	(82)	(16)	(41)	(171)	(203)	(235)	(158)	(210)	(806)	(840)	(840)
Distributable cash flow	9,853	9,706	13,550	12,949	46,508	12,513	14,402	10,708	11,730	49,353	52,941	57,474

Sources: Sidoti & Company, LLC and company reports.

Table 3. USD Partners Balance Sheet

(\$s in thousands, except per unit data)

	Mar	Jun	Sept	2020	Mar A	Jun A	Sept A	2021	2022	2023
Assets										
Cash, equivalents and restricted	12,822	10,246	14,533	10,994	11,021	10,818	12,478	15,721	40,331	65,391
Accounts receivable	4,530	4,515	4,346	4,049	4,467	4,938	4,043	4,133	5,243	5,498
Accounts receivable - R/P	2,556	2,461	2,508	2,460	2,569	1,442	2,658	2,602	3,320	3,482
Prepaid expenses	2,560	2,129	1,529	1,959	1,788	2,556	2,609	2,449	2,097	2,199
Other current assets	859	995	1,189	1,777	1,035	465	129	129	129	129
Other current assets - R/P	196	55	35	15		242	259	259	259	259
Total current assets	23,523	20,401	24,140	21,254	20,880	20,461	22,176	25,293	51,379	76,957
PPE, net	141,232	140,976	139,745	139,841	138,731	138,140	135,243	133,273	125,561	117,954
Intangible assets	70,947	67,796	64,644	61,492	58,341	55,189	52,037	48,886	36,282	23,678
Goodwill				0				0	0	0
Operating lease assets	13,253	11,948	10,956	9,630	8,320	7,551	7,047	7,047	7,047	7,047
Other non-current assets	1,770	2,663	3,571	3,625	4,320	3,941	3,876	3,876	3,876	3,876
Other non-current assets - R/P	375	800	1,227	1,706	2,138	2,337	2,290	2,290	2,290	2,290
Total assets	251,100	244,584	244,283	237,548	232,730	227,619	222,669	220,665	226,435	231,802
Liabilities & partners' capital										
Accounts payable	3,190	1,633	2,214	1,865	2,303	2,686	2,566	2,602	2,447	2,566
Accounts payable - R/P	951	374	384	383	359	348	299	299	299	299
Deferred revenue	4,616	5,531	5,607	6,367	6,968	5,949	5,569	5,569	5,569	5,569
Deferred revenue - R/P	1,395	410	410	410	410	410	410	410	410	410
Operating leases	5,212	5,130	5,371	5,291	5,153	5,627	5,180	5,180	5,180	5,180
Other current liabs.	6,289	4,524	5,495	4,222	4,407	5,087	6,991	6,991	6,991	6,991
Current liabilities	21,653	17,602	19,481	18,538	19,600	20,106	21,015	21,051	20,896	21,015
Long-term debt	221,859	216,066	207,273	195,480	187,688	177,895	173,102	168,102	168,102	168,102
Deferred income taxes	90	31	10	40	4		16	92	503	978
Operating leases	8,219	6,961	5,685	4,392	3,155	1,894	1,823	1,823	1,823	1,823
Other non-current liabs.	7,397	9,542	12,111	12,830	10,927	11,104	9,303	9,303	9,303	9,303
Total liabilities	259,218	250,202	244,560	231,280	221,374	210,999	205,259	200,371	200,626	201,220
Total partners' capital	(8,118)	(5,618)	(277)	6,268	11,356	16,620	17,410	20,294	25,809	30,582
Total liabilities & partners' capital	251,100	244,584	244,283	237,548	232,730	227,619	222,669	220,665	226,435	231,802
Net debt										
Net debt	217,237	212,973	200,345	192,440	184,622	174,764	168,710	160,467	135,857	110,797
Net debt per common unit	8.51	7.93	7.46	7.26	6.83	6.42	6.20	5.90	4.94	3.98
Net leverage (Net debt/TTM EBITDA)	4.2	4.1	3.7	3.5	3.2	2.8	2.9	2.8	2.2	1.7
Total debt-to-total capital	103.8%	102.7%	100.1%	96.9%	94.3%	91.5%	90.9%	89.2%	86.7%	84.6%
Return on partners' capital	NM	NM	NM	NM	332.6%	192.1%	89.5%	171.3%	58.6%	52.7%
Return on invested capital	NM	2.2%	12.0%	NM	14.6%	13.7%	7.9%	11.7%	13.9%	15.6%

Sources: Sidoti & Company, LLC and company reports.

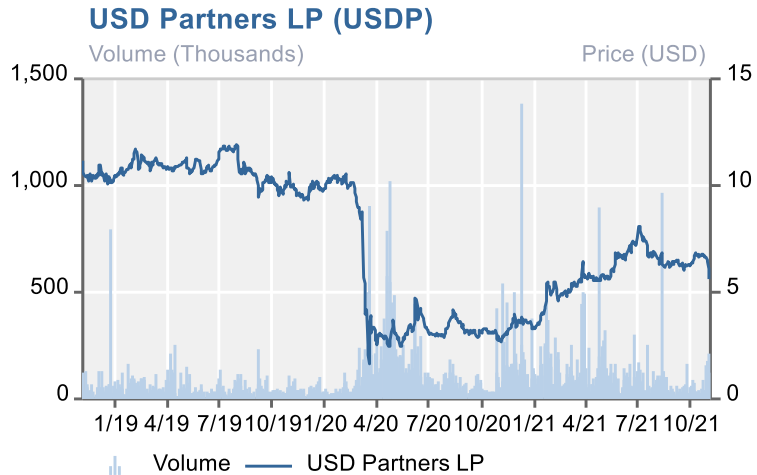
Appendix
Required Disclosures

Required Disclosures

USD Partners LP (USDP-\$5.65) NR Price Target: \$11 Risk Rating: M

Rating and Price Target History Table

Action	Date	Px	Rating	PT	Risk Rating
Initiation	8/30/21	6.3	NR	11	M
PT	10/25/21	6.8		11	



Valuation	We maintain our \$11 price target, which is based on an unchanged 5.5x to our lowered 2022 DCF per unit estimate of \$1.92 (previously \$2.00) and 12% yield, assuming a 1.5x distribution coverage ratio, in 2022. The multiples are in line with other MLPs with storage and terminal assets. We think the partnership is well positioned to extend long-term agreements for its Hardisty terminal services, given the launch of the DRU unit. We also think the partnership could reach additional agreements for terminal services at its West Colton facility, which may only require minimal investments, add take-or-pay contracts at Casper, as well as the potential accretive drop down of assets from the sponsor, including the South Hardisty expansion and additional capacity at Stroud.		
Key Risks	Agreement renewals	Government tax policy	Interest rates

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