TULSA WORLD

Casey Smith: Magellan Midstream Partners stands out in first half of 2015

Magellan less dependent on prices

Earnings report season is coming to an end, and during the past few weeks financial filings and conference calls have been providing insights on how Tulsa-based oil and gas companies have been faring during the first six months of a difficult year for the energy industry.

Some companies such as Laredo Petroleum and Midstates Petroleum reported multimillion-dollar second-quarter net losses. The companies lost $397 million and $598.4 million, respectively, between April and June.

Even companies that reported a profit, such as Tulsa-based contract driller and rig manufacturer Helmerich & Payne, are feeling the pain of commodity prices that during the past year have dropped from about $100 per barrel to $43.75 per barrel at the close of market Friday.

H&P reported earnings of nearly $91 million during the third quarter of its fiscal year ending June 30, but that's down 53 percent from the $192.3 million the company earned during the same time period in 2014.

But halfway through 2015 one Tulsa-based oil and gas company is standing out, said Tulsa money manager Fred Russell and assistant Qian Zhang.

Magellan Midstream Partners LP is behaving in a way that is contrary to other oil and gas companies, Russell and Zhang said.

On Thursday, Magellan reported $177.4 million earnings for the second quarter ending June 30, up 21 percent compared to the $146.3 million net income during the same three months of 2014.

Magellan increased its second-quarter 2015 distribution to 74 cents per unit, an amount 16 percent higher than the second-quarter 2014 distribution of 64 cents per unit, Zhang said.

“You have drillers like Helmerich & Payne whose earnings are subject to wild swings because of the cost of operating those rigs,” Russell said.

But Magellan’s business model, he said, makes it less impacted by changes in commodity prices.

“About 85 percent of its revenue comes from transporting and storing oil and gas, and a good part of that revenue on the transportation side is locked in with five-year contracts,” Russell said.

Those contracts, he said, are tied to the Producer Price Index and regulated by the Federal Energy Regulatory Commission.

“Not only is the money stable, but it rises in a stable fashion,” Russell said. “It’s like having a good looking date who also has a high IQ.”

Current prices are also profitable for Magellan’s storage operations, Russell said. With lower commodity prices, they get a lot more business.

“This is not a home run play,” Russell said. “But it’s a good double run.”

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