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HEP - Q4 2019 Holly Energy Partners LP Earnings Call

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PRESENTATION

Operator

Welcome to the Holly Energy Partners' Fourth Quarter 2019 Conference Call and Webcast. (Operator Instructions) Please note that this conference is being recorded.

It is now my pleasure to turn the floor over to Trey Schonter. Trey, you may begin.

Trey Schonter;Investor Relations

Thanks, Sanisha. And thank you all for joining our fourth quarter 2019 earnings call. I'm Trey Schonter with Investor Relations for Holly Energy Partners. Joining us today are Rich Voliva, President; and John Harrison, Senior Vice President and CFO. This morning, we issued a press release announcing results for the quarter ending December 31, 2019. If you would like a copy of today's press release, you may find one on our website at hollyenergy.com.

Before Rich and John proceed with their remarks, please note the safe harbor disclosure statement in today's press release. In summary, it says statements made regarding management expectations, judgments or predictions are forward-looking statements. These statements are intended to be covered under the safe harbor provisions of federal securities laws. There are many factors that could cause results to differ from expectations, including those noted in our SEC filings. Today's statements are not guarantees of future outcomes.

Also, please note that information presented on today's call speaks only as of today, February 19, 2020. Any time-sensitive information provided may no longer be accurate at the time of any webcast replay or reading of the transcript. Finally, today's call may include discussion of non-GAAP measures. Please see today's press release for reconciliations to GAAP financial measures.

And with that, I'll turn the call over to Rich.

Richard Lawrence Voliva - *Holly Energy Partners, L.P. - President of Holly Logistic Services LLC*

Thanks, Trey. And thanks to each of you for joining the call this afternoon. HEP wrapped up 2019 with sound fourth quarter results and announced a distribution of $0.6725 per unit. For the full year of 2019, Holly Energy Partners declared distributions of $2.6875 per unit, totaling $273 million of distributions for the year. In the fourth quarter, distribution coverage fell to 0.94x due to the volume impacts of heavy turnaround activity at HollyFrontier's refineries. However, in December, we began to see pipeline internal volumes improve to more normalized levels, and we anticipate our coverage ratio will increase to 1x or higher for the first quarter of 2020. For the full year of 2020, we plan to hold the quarterly distribution constant at $0.6725 per LP unit while maintaining a coverage ratio of 1x.

In October, we announced our Cushing Connect joint venture with Plains All American, which will terminal crude oil for both HollyFrontier's El Dorado and Tulsa refineries and operate a new build pipeline from this terminal to the Tulsa refinery. The 1.5 million barrel terminal is expected to begin service during the second quarter of 2020, and we anticipate the 160,000 barrel per day pipeline to come on line during the first quarter of 2021. Combined, we expect initial annual EBITDA multiple of 8x to 9x, once both the terminal and pipeline are in service.

During the quarter, we also renewed certain portions of our agreement with Delek. We are actively engaged in locking uses for the specific assets that were not renewed. Given their quality and location, we remain confident that we'll be able to profitably utilize these assets during 2020.

Looking to the rest of the year, we're positioned for a good 2020. In terms of commercial risk, we do not have a third-party recontracting event until 2022. Additionally, with a light turnaround year for our largest customer, HollyFrontier, we expect strong volume levels. And we remain committed to the safe, clean and reliable operations.

Now I'll take the opportunity to introduce you to HEP's new Chief Financial Officer, John Harrison. Since joining the company in 2005, John has played an integral role in HEP's finance, treasury, investor relations and corporate development efforts, serving most recently as Vice President of Finance, Investor Relations and Treasurer for HEP. We look forward to getting John out to meet all of you soon. With that, I'll turn the call over to John.

John Wayne Harrison - *Holly Energy Partners, L.P. - Senior VP, CFO & Treasurer of Holly Logistic Services LLC*

Okay. Thanks, Rich. For the fourth quarter of 2019, net income attributable to HEP was $45.7 million compared to $47.5 million in the fourth quarter of 2018. As Rich mentioned, HFC experienced heavy maintenance across its refining system, and the impact to HEP net income was primarily due to lower throughput at HFC's Navajo refinery and lower equity in earnings on our Osage Pipeline joint venture.

During the quarter, HEP generated distributable cash flow of $64.5 million, a $300,000 increase over the same period last year. Our distribution coverage ratio was 0.94x for the quarter and 0.99x for the year.

Fourth quarter adjusted EBITDA was $86.9 million compared to $89.9 million in the fourth quarter of 2018. In accordance with the new lease accounting standard, we recognized a net adjustment to EBITDA of a negative $800,000 for the quarter. This is comprised of $2.4 million of pipeline tariffs not included in the revenue line offset by a $3.2 million benefit to operating expense for financing lease payments. A table reflecting these adjustments is available in our press release. Going forward, we expect the new lease accounting standard will require similar adjustments as we renew existing contracts or execute new contracts.

Our capital expenditures and joint venture investments during the quarter were approximately $26 million, including $3 million in maintenance CapEx and $18 million for Cushing Connect. In 2020, we expect to spend between $8 million and $12 million for maintenance CapEx, $5 million to $7 million for refinery unit turnarounds and $45 million to $50 million for expansion capital, inclusive of our share of the Cushing Connect joint venture.

As of December 31, 2019, HEP had $1.46 billion of total debt outstanding, resulting in a debt to adjusted EBITDA of just over 4.0x.

I'd also like to highlight, in February this year, we refinanced our 6% senior notes due 2024 with a new issue, 5% coupon, $500 million senior notes due 2028. This refinancing will save approximately $4 million of interest expense per year while extending the maturity another 4 years.

Looking ahead, we will continue our disciplined approach to growth and evaluate both organic and third-party opportunities where we can create value for our unitholders.

Now I'd like to turn the call back over to the operator to answer any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Craig Weiland with U.S. Capital Advisors.

Craig Patrick Weiland - *U.S. Capital Advisors LLC, Research Division - Executive Director of Refining Research*

I have 2 of them, if you don't mind. First one -- first, was just hoping you could provide a quick update on the progress you're making with the Cushion Connect project. And the second one has to do with the monthly FERC meeting tomorrow. One of the items on the agenda relates to the potential revision of indexing policies, and it appears that FERC will consider modifications that could prevent index-based tariff increases for pipelines, where revenues exceed costs by 15% for both of the prior 2 years. So was just curious if you have any thoughts or expectations for the meeting, and whether you think there are any potential read-throughs to HEP.

Richard Lawrence Voliva - *Holly Energy Partners, L.P. - President of Holly Logistic Services LLC*

Craig, so on Cushing Connect, good news here. So far, we are on schedule and on budget. It is admittedly early days. We're primarily in the right-of-way portion right now. So we expect to clear that out over the next few weeks to a few couple of months. Really, for us, the heavy construction phase and heavy spend will be over the course of the summertime. So far, so good is -- would be our answer there.

On the FERC meeting, no, I don't -- we don't really have a whole lot of insight to offer there. And they don't -- based on the kind of comments you were making, would not expect all to impact to HEP.

Craig Patrick Weiland - *U.S. Capital Advisors LLC, Research Division - Executive Director of Refining Research*

Got it. Appreciate the insight.

Richard Lawrence Voliva - *Holly Energy Partners, L.P. - President of Holly Logistic Services LLC*

Thank you.

Operator

Your next question comes from Theresa Chen with Barclays.

Theresa Chen - *Barclays Bank PLC, Research Division - Research Analyst*

Wanted to ask you about your outlook for utilization at UNEV, just given the volatility on the product side in path 5.

Richard Lawrence Voliva - *Holly Energy Partners, L.P. - President of Holly Logistic Services LLC*

Theresa, I think overarching, it's still generally the same story, which is to say there's going to be a lot of seasonality there. The Salt Lake Valley will tend to be a long product in the wintertime and short in the summertime. So we'd expect no matter what to see more volume there in the winter, kind of fourth quarter and the first quarter than in the second and third. There is obviously noise that comes around it depending on refinery uptime and downtime on both ends of the pipe, frankly. So we saw some refinery downtime in the valley into the -- into October, November this year. So it kept more barrels up in Salt Lake City than would normally be on the pipe at that part of the year, and we saw that bounce back in December. So with those caveats around refinery downtimes, we would still expect to see a sort of normal seasonality there.

Operator

I will now turn the floor back over to Trey for closing remarks.

Trey Schonter;Investor Relations

All right. Thanks again for joining the call today. Feel free to reach out to Investor Relations if you have any questions.

Operator

This concludes today's conference call. You may now disconnect. Thank you for joining, and have a great day.

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