

## **Magellan scores record quarterly profit**

By Kirby Lee Davis

The Journal Record August 1, 2007

TULSA – Strong second-quarter demand for its terminal services led Magellan Midstream Partners to record quarterly profits, besting Wall Street estimates.

Chief Executive Don Wellendorf also attributed growth by the Tulsa-based refined petroleum products transporter to favorable product margins, higher transportation rates and returns from newly completed expansion projects.

Seeing further expansion opportunities spurred Magellan Tuesday to raise its capital spending estimate 33 percent to \$160 million this year, with another \$90 million projected for 2008 to complete the projects.

Officials said this increase would include portions of a \$65 million Texas pipeline system expansion announced Monday, but it would not include potential acquisition or some \$500 million-plus in expansion projects under review.

Magellan also raised its third-quarter earnings guidance to 58 cents per diluted unit, and its full 2007 guidance to \$2.53. Analysts surveyed by Zack's Investment Research of Chicago had projected Magellan would record earnings of 65 cents per unit for the third quarter, ranging from 60 to 69, and \$2.43 for the year, ranging from \$2.34 to \$2.62.

**Fredric E. Russell, owner of his self-titled investment management company in Tulsa, praised the MMP report.**

**"Don Wellendorf can enjoy St. John's health club, where we see him every day keeping his biceps flexible," said Russell with a laugh. "He, like the pipelines, seems to be in excellent shape."**

But since the master limited partnership's net income rose only 7 percent, M. Jake Dollarhide questioned whether Magellan's steady performance might bore some investors seeking louder results.

"There's nothing to me that really stands out above and beyond the noise that's out there," said the owner of Longbow Asset Management Co. of Tulsa. "It would be unfair to call these reports anything but solid. And yet there's increasing pressure on any company to compete with investors."

That factor may have entered into Tuesday trading. MMP units opened strong and continued climbing for an hour, rising more than \$1, before an overall downturn carried the units downward. The securities closed off 40 cents at \$45.31. Volume totaled 226,400 units, 36 percent above its daily average.

Magellan posted a 7-percent increase in second-quarter net income to a record \$61.5 million, or 66 cents per diluted unit, from \$57.4 million, or 62 cents, the prior year. That easily topped the 61-cent increase foreseen in a Zack's Investment Research analyst survey.

Operating profits also set a quarterly record at \$79.2 million, up 11 percent from \$71.5 million for the second quarter of 2006.

Revenues rose 5.3 percent to \$328.1 million from \$311.5 million.

For the six months ended June 30, Magellan ([www.magellanlp.com](http://www.magellanlp.com)) posted a 5.7-percent increase in net income to \$111.1 million, or \$1.21 per diluted unit, from \$105.68 million, or \$1.17 per diluted unit, in the same period of 2006. Revenues climbed 4.9 percent to \$620.1 million from \$590.79 million.

"I just think that after this report, management can relax and enjoy the PGA with no guilt," said Meredith Bohot, assistant portfolio manager at Fredric E. Russell Investment Management Co. of Tulsa.

Dollarhide generally agreed with that, although he went back to Monday's pipeline expansion as perhaps the bigger story.

"They're probably their own worst enemy," he said of Magellan. "They have an impeccable, almost perfect history. Increasing their 2007 guidance continues their legend, continues their streak of one-upping themselves."

Magellan Midstream Holdings profits up 15.5%

TULSA – The general partner of Magellan Midstream Partners recorded a 15.5-percent increase in second-quarter profit to \$14.9 million, or 26 cents per diluted unit, from \$12.9 million, or 21 cents, the prior year.

That beat the 24-cent estimate by Zack's Investment Research analysts.

Operating profits rose 11.5 percent to \$75.2 million from \$67.5 million in the second quarter of 2006.

Magellan Midstream Holdings owns the general partner interest and 100 percent of the incentive distribution rights in Magellan Midstream Partners. MGG will receive \$18 million in distributions from that stake in MMP.

Don Wellendorf, chief executive of both firms, said this will allow MGG to provide a 6-percent increase in its second-quarter cash distribution, accounting for 12-percent distribution growth this year.

In trading Tuesday, MMG securities slid 5 cents to close at \$30.43. Volume totaled 51,000 units, just over a third of its daily volume.

– Kirby Lee Davis

Inside the MMP report

Pipeline operating margin rose 11.9 percent in the second quarter of 2007 to a quarterly record of \$92.9 million. Officials attributed that to a mid-2006 tariff increase, which offset lowered production and transportation shipments.

The terminals operating margin climbed 12.6 percent to \$20.5 million. This reflected marine terminal expansion projects, record throughput volumes at Magellan's inland terminals and higher additive fees.

Magellan's ammonia operating margin loss fell to \$1.5 million from \$3.4 million.

MMP spent \$3.5 million to refinance debt due in October.

Distributable cash flow rose 9 percent to \$77.2 million.