

CAPITAL STRUCTURE (AS OF 31 MARCH 2019) (USDm)											
Instrument	Coupon	Principal Amt	Price	Mkt Amt	Yield	Maturity	Est. Annual Interest	LTM Leverage	LTM Mkt Leverage	2019E Leverage	2019E Mkt Leverage
USD 200m senior secured ABL credit facility ¹	Libor+ 175bps-250bps	-	100.0	-	5.0%	1-Aug-23	-	-	-	-	-
Total secured debt		-		-			-	-	-	-	-
9.5% senior unsecured notes due 2026	9.5%	450	64.0	288	18.8%	1-Aug-26	43	2.7x	1.7x	5.0x	3.2x
Promissory notes ²	0.74% to 2.42%	3	-	3	-	1-Aug-21	0	2.7x	1.8x	5.0x	3.2x
Total debt		453		291			43	2.7x	1.8x	5.0x	3.2x
Cash and cash equivalents	-	60	-	60				2.4x	1.4x	4.4x	2.6x
Net debt		393		231				2.4x	1.4x	4.4x	2.6x
Market cap. (101 million common units outstanding)	-	230	2.3/sh	230				3.7x	2.8x	6.9x	5.1x
Enterprise value		622		460				3.7x	2.8x	6.9x	5.1x
LTM adjusted EBITDA	166	Asset retirement obligations			11						
2019E adjusted EBITDA ³	90										

Source: 10-Q filed on 7 May 2019.

Notes:

1) USD 22m L/C outstanding.

2) Will be prepaid on a quarterly basis as sand is extracted, delivered, sold and paid for from the properties.

3) FactSet consensus estimate.

OVERVIEW

Hi-Crush Partners (HCLP) produces and transports monocrystalline sand, a specialized mineral used as a proppant during the well completion process in the E&P industry.

Hi-Crush acquired the remaining 34% ownership interest in Proppant Logistics, which owns Pronghorn Logistics, in May 2019 for USD 3m in cash and 696k newly issued common units. The company previously purchased a 66% ownership interest in 4Q18.

Hi-Crush also acquired BulkTracer Holdings in January 2019, which owns PropDispatch, a logistics software system. PropDispatch allows Hi-Crush to improve its logistics management by enabling real-time tracking and monitoring of truck movements, container locations and silo inventory.

The company completed its expansion of the Wyeville facility in 1Q19, and it expects the facility to reach the 850k tons in annual capacity in 2Q19. Its second Kermit facility reached its full capacity of 3m tons/year in March 2019, bringing the total Kermit capacity to 6m tons/year.

HCLP's unit holders voted on [22 May 2019](#) to approve the company's conversion to a C-Corp from an MLP. The outstanding common units will be exchanged to common stock after the market closes on 31 May 2019.

VALUATION

For valuation purposes, we chose EBITDA multiples of 5x-6x and used an adjusted EBITDA range of USD 80m-USD 100m. Unsecured noteholders are covered 88-100 within this range. We estimate the equity price

per share at USD 0-USD 1.5, compared to the current price of USD 2.3/share.

RECENT PERFORMANCE

Total sand sold increased 22% quarter-over-quarter (QoQ) to 2.4m tons in 1Q19 from 2m tons in 4Q18, as a result of the ramp up of the second Kermit facility. In 1Q19, 63% of the sand was sold directly to E&Ps, compared to 51% in 4Q18.

The average price per ton sold also fell 17% to USD 48/ton from USD 58/ton in 4Q18, partly due to contract pricing renegotiations for the Kermit facilities. A change in sales mix also led to the price drop, as 46% of volumes sold in 1Q19 were in-basin, which sell for a lower price, compared to only 34% of volumes sold in 4Q18.

Revenue in the quarter was relatively flat at USD 160m, compared to USD 162m in 4Q18, as the lower sand pricing was offset by higher volume.

General and administrative costs (G&A) declined 26% sequentially to USD 12.6m in 1Q19 from USD 17m, mainly due to the USD 3m incurred in the sponsor buyout transaction in 4Q18. Adjusted for the transaction, G&A was USD 13.2m in 4Q18, relatively flat compared to 1Q19.

Adjusted EBITDA rose 46% QoQ to USD 18m from USD 12m in 4Q18, mainly due to lower G&A. Adjusted for the sponsor buyout transaction, adjusted EBITDA increased 12% QoQ from USD 16m in 4Q18.

LIQUIDITY

Liquidity stood at USD 116m as of 31 March 2019, consisting of USD 60m in cash and USD 55m in revolver availability.

For the remainder of 2019, we used FactSet's consensus estimate of USD 71m for adjusted EBITDA and USD 47m for capex. Free cash flow for the period is estimated at USD 3m. Similarly, free cash flow for 1Q20 is estimated at USD (5m). Liquidity on 31 March 2020 is projected at USD 114m.

COVENANT METRICS

	Covenant	1Q19 Estimate
Fixed charge coverage ratio ¹	1.0x	3.8x

Note: 1) During the trigger period, which occurs when revolver availability become lower than USD 12.5m or an event of default has occurred.

LIQUIDITY (USD m)

Cash and cash equivalents	60
Availability under ABL credit facility	55
Liquidity, 31 March 2019	116
2Q19-4Q19 FCF	3
1Q20 FCF	(5)
Est. liquidity, 31 March 2020	114

NORTH AMERICA CREDIT RESEARCH

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WATERFALL											
Adjusted EBITDA (USD m)						Residual value to common stock holders					
Multiple	USD 70m	USD 80m	USD 90m	USD 100m	USD 110m	Multiple	USD 70m	USD 80m	USD 90m	USD 100m	USD 110m
4x	280	320	360	400	440	4x	-	-	-	-	-
5x	350	400	450	500	550	5x	-	-	-	47	97
6x	420	480	540	600	660	6x	-	27	87	147	207
7x	490	560	630	700	770	7x	37	107	177	247	317

USD 0m	Revolver lenders % recovery				
4x	-	-	-	-	-
5x	-	-	-	-	-
6x	-	-	-	-	-
7x	-	-	-	-	-

101m shares	Equity value per share				
4x	-	-	-	-	-
5x	-	-	-	0.5	1.0
6x	-	0.3	0.9	1.5	2.0
7x	0.4	1.1	1.7	2.4	3.1

Residual value to unsecured noteholders					
4x	280	320	360	400	440
5x	350	400	450	500	550
6x	420	480	540	600	660
7x	490	560	630	700	770

TOTAL DEBT (USD m)	
USD 200m senior secured ABL credit facility	-
9.5% senior unsecured notes due 2026	450
Promissory notes	3
Total debt	453

USD 453m	Unsecured noteholders recovery				
4x	62%	71%	79%	88%	97%
5x	77%	88%	99%	100%	100%
6x	93%	100%	100%	100%	100%
7x	100%	100%	100%	100%	100%

COMPARABLE ANALYSIS (USD m)												
Comp Name	Ticker	Market EV	LTM EBITDA	LTM EBITDA Multiple	LTM EBITDA Margin	2019E EBITDA	2019E EBITDA Multiple	2019E EBITDA Margin	LTM Revenue Multiple	2019E Revenue Multiple	Market Net Debt	2019E Net Leverage
Covia Holdings Corporation	CVIA	1,857	275	6.8x	14%	224	8.3x	11%	1.0x	0.9x	1,447	5.3x
U.S. Silica Holdings, Inc	SLCA	2,029	254	8.0x	16%	287	7.1x	18%	1.3x	1.3x	1,094	4.3x
Smart Sand, Inc	SND	192	68	2.8x	31%	56	3.4x	24%	0.9x	0.8x	51	0.8x
Peer average				5.9x	20%		6.3x	18%	1.0x	1.0x		3.4x
Hi-Crush Partners LP	HCLP	460	166	2.8x	20%	90	5.1x	12%	0.7x	0.8x	231	1.4x

Source: FactSet.

PRODUCTION FACILITIES									
Mine/Plant Name	Location	In-Service Date	Area (Acres)	Annual Capacity ('000 Tons)	Annual Capacity %	Proven Reserves ('000 Tons)	Reserve Life (Years)	Takeaway	Sand Type
Wyeville facility	Wyeville, WI	Jun-2011	971	2,700	16%	72,094	27	Union Pacific	Northern White
Augusta facility	Augusta, WI	Jun-2012	1,187	2,860	17%	42,135	15	Union Pacific	Northern White
Whitehall facility	Whitehall, WI	Sep-2014	1,626	2,860	17%	85,205	30	Canadian National	Northern White
Blair facility	Blair, WI	Mar-2016	1,285	2,860	17%	112,169	39	Canadian National	Northern White
Kermit facility	Kermit, TX	Jul-2017	1,226	6,000	35%	100,044	17	Direct to Truck	Permian Pearl
Total			6,295	17,280	100%	411,647	24		

Source: company filings.

INCOME STATEMENT (USD m)									
Fiscal period	2016 R	2017 R	1Q18 R	2Q18 R	3Q18 R	4Q18 R	2018 R	1Q19	LTM
Period ended	12/31	12/31	3/31	6/30	9/30	12/31	12/31	3/31	3/31
Revenues	204.4	602.6	218.1	248.5	214.0	162.2	842.8	159.9	784.6
Cost of goods sold	(188.3)	(438.3)	(142.0)	(154.5)	(147.6)	(133.9)	(578.0)	(130.5)	(566.5)
DD&A	(17.0)	(29.4)	(7.8)	(10.5)	(10.2)	(9.8)	(38.3)	(11.3)	(41.8)
Gross profit	(0.9)	134.8	68.3	83.5	56.1	18.6	226.6	18.1	176.4
G&A	(36.8)	(43.7)	(10.9)	(12.9)	(14.2)	(17.0)	(55.0)	(12.6)	(56.7)
D&A	-	-	(0.5)	(0.5)	(1.3)	(1.5)	(3.9)	(1.7)	(5.0)
Accretion of ARO	(0.4)	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.5)	(0.1)	(0.5)
Other operating income / (loss)	(34.0)	2.7	(1.0)	(0.4)	(0.8)	(1.1)	(3.2)	(0.4)	(2.6)
Operating income (loss)	(72.2)	93.4	55.7	69.5	39.8	(1.0)	164.0	3.3	111.5
Interest expense, net	(20.9)	(13.0)	(3.5)	(3.7)	(8.0)	(10.1)	(25.3)	(10.6)	(32.5)
Earnings (loss) from equity method investments	-	0.1	1.2	1.1	1.6	1.3	5.2	1.1	5.1
Other income (expense), net	-	(4.3)	-	-	(6.2)	-	(6.2)	-	(6.2)
Earnings (losses) before taxes	(93.0)	76.2	53.4	67.0	27.1	(9.9)	137.6	(6.2)	78.0
Income tax benefit (expense)	-	-	-	-	-	-	-	-	-
Net income (loss)	(93.0)	76.2	53.4	67.0	27.1	(9.9)	137.6	(6.2)	78.0
CASH FLOWS (USD m)									
Revenues	204.4	602.6	218.1	248.5	214.0	162.2	842.8	159.9	784.6
(-) COGS	(188.3)	(438.3)	(142.0)	(154.5)	(147.6)	(133.9)	(578.0)	(130.5)	(566.5)
(-) G&A	(36.8)	(43.7)	(10.9)	(12.9)	(14.2)	(17.0)	(55.0)	(12.6)	(56.7)
(-) Other operating expenses	-	3.6	(1.0)	(0.4)	(0.8)	(1.1)	(3.2)	(0.4)	(2.6)
(+) Share-based compensation	2.6	5.7	1.8	1.8	1.9	1.9	7.4	1.6	7.2
Adjusted EBITDA	(18.1)	129.9	66.0	82.5	53.4	12.2	214.1	17.9	166.0
(-) Cash interest	(17.2)	(11.0)	(3.3)	(3.5)	(7.7)	(9.7)	(24.2)	(21.3)	(42.2)
(-) Capex	(45.7)	(122.2)	(12.3)	(24.8)	(30.2)	(74.8)	(141.5)	(40.3)	(170.0)
Levered free cash flow	(81.0)	(3.3)	50.5	54.3	15.5	(72.3)	48.3	(43.7)	(46.1)
RATIO ANALYSIS									
Revenues YoY change	(39.8%)	194.8%	161.6%	83.8%	27.7%	(25.0%)	39.9%	(26.7%)	6.4%
Gross margin (after deducting DD&A)	-	22.4%	31.3%	33.6%	26.2%	11.5%	26.9%	11.3%	22.5%
G&A margin	18.0%	7.2%	5.0%	5.2%	6.6%	10.5%	6.5%	7.9%	7.2%
Adjusted EBITDA margin	-	22%	30%	33%	25%	8%	25%	11%	21%
CASH FLOW STATEMENT (USD m)									
Funds from operations	(23.3)	120.8	62.7	80.0	45.0	2.1	190.3	10.5	137.7
Changes in operating assets and liabilities	(8.7)	(36.8)	7.9	(10.7)	6.0	47.4	47.0	(19.1)	23.6
Cash flow from operating activities	(31.9)	84.0	70.6	69.3	51.0	49.6	237.3	(8.6)	161.3
Capex	(45.7)	(122.2)	(12.3)	(24.8)	(30.2)	(74.8)	(141.5)	(40.3)	(170.0)
Proceeds from asset sales	1.4	0.0	2.9	0.0	0.3	(0.1)	3.1	0.4	0.6
Other cash flows from investing activities	(7.8)	(202.9)	-	(8.1)	(34.9)	(6.6)	(49.7)	(3.6)	(53.3)
Cash flows from investing activities	(52.2)	(325.1)	(9.4)	(32.8)	(64.8)	(81.5)	(188.1)	(43.5)	(222.6)
Cash flow from financing activities	69.2	244.0	(54.6)	(21.2)	163.8	(31.3)	57.4	(1.8)	109.5
Effects of exchange rate on cash	-	-	-	-	-	(0.0)	(0.0)	0.0	0.0
Change in cash and cash equivalents	(14.9)	2.9	6.6	15.3	150.0	(63.2)	106.5	(53.9)	48.2
Cash and cash equivalents, BOP	19.8	4.8	7.7	14.3	29.7	179.7	7.7	114.3	14.3
Cash and cash equivalents, EOP	4.8	7.7	14.3	29.7	179.7	116.4	114.3	60.4	62.6

Source: company filings.

BALANCE SHEET (USD m)								
<i>Fiscal period</i>	2016 R	2017 R	1Q18	2Q18	3Q18 R	4Q18	2018	1Q19
<i>Period ended</i>	12/31	12/31	3/31	6/30	9/30	12/31	12/31	3/31
Current Assets								
Cash and cash equivalents	5	8	10	25	175	114	114	60
Accounts receivable, net	53	139	135	146	123	101	101	97
Inventories	29	44	35	45	73	57	57	44
Prepaid expenses and other current assets	3	5	6	6	9	13	13	12
Total current assets	89	196	186	222	380	286	286	215
Non-Current Assets								
PP&E properties, net	542	900	899	923	951	1,031	1,031	1,042
Intangible assets, net	10	8	8	8	70	72	72	72
Equity method investments	10	17	19	28	30	37	37	39
Other assets	8	6	5	8	8	8	8	131
Total assets	659	1,128	1,118	1,189	1,439	1,434	1,434	1,499
Current Liabilities								
Accounts payable	19	48	43	64	61	71	71	34
Accrued and other current liabilities	8	33	37	39	54	61	61	45
Current portion of deferred revenues	-	4	4	5	20	20	20	27
Due to sponsor	119	-	9	9	5	-	-	-
Current portion of long-term debt	3	4	3	3	1	2	2	1
Current portion of operating lease	-	-	-	-	-	-	-	34
Total current liabilities	149	90	96	120	141	155	155	140
Non-Current Liabilities and Shareholders' Equity								
Deferred revenues	-	7	6	5	3	10	10	7
Long-term debt, less current maturities	193	194	193	192	444	443	443	443
Asset retirement obligations	10	10	10	10	11	11	11	11
Other liabilities	5	0	-	-	8	8	8	94
Total liabilities	357	302	306	328	607	627	627	695
Shareholders' equity	302	826	811	861	832	807	807	805
Gross debt	196	199	196	195	445	445	445	444
Net debt	192	191	186	169	269	331	331	384
Net leverage	-	1.5x	0.9x	0.7x	1.0x	1.6x	1.6x	2.4x

Source: company filings.

REVENUES AND OPERATING DATA (USD m)									
Fiscal period	2016 R	2017 R	1Q18	2Q18	3Q18 R	4Q18	2018	1Q19	LTM
Period ended	12/31	12/31	3/31	6/30	9/30	12/31	12/31	3/31	3/31
Revenues									
Sales to contract customers	169.7	438.5	164.1	186.9	157.8	99.1	607.9	80.1	523.9
Spot sales	33.0	159.8	27.4	25.8	19.8	15.8	88.7	35.0	96.3
Other revenues	1.7	4.3	26.6	35.8	36.4	47.4	146.2	44.8	164.4
Total revenues	204.4	602.6	218.1	248.5	214.0	162.2	842.8	159.9	784.6
Sales to contract customers mix	83.0%	72.8%	75.2%	75.2%	73.8%	61.1%	72.1%	50.1%	66.8%
Spot sales mix	16.1%	26.5%	12.6%	10.4%	9.2%	9.7%	10.5%	21.9%	12.3%
Other revenues mix	0.8%	0.7%	12.2%	14.4%	17.0%	29.2%	17.4%	28.0%	21.0%
Revenues QoQ Δ %									
Sales to contract customers	-	158.4%	(6.5%)	13.9%	(15.6%)	(37.2%)	38.6%	(51.2%)	(4.2%)
Spot sales	-	384.1%	(25.8%)	(6.1%)	(23.3%)	(20.2%)	(44.5%)	27.8%	(39.7%)
Other revenues	-	148.0%	561.8%	34.5%	1.6%	30.3%	3,326.4%	68.3%	433.8%
Total revenues	(39.8%)	194.8%	0.8%	13.9%	(13.9%)	(24.2%)	39.9%	(26.7%)	6.4%
Operating Data									
Total sand sold ('000 tons)	4,254	8,939	2,618	3,038	2,775	1,977	10,407	2,411	10,201
Sequential % change	(15%)	110%	(12%)	16%	(9%)	(29%)	16%	22%	0%
Average price per ton sold (USD)	48	67	73	70	64	58	67	48	61
Sequential % change	(23%)	40%	3%	(4%)	(9%)	(9%)	0%	(17%)	(13%)
Sand produced and delivered ('000 tons)	4,207	9,068	2,527	3,006	2,656	2,010	10,199	2,316	9,988
Contribution margin per ton sold (USD)	4	18	29	31	24	14	25	12	-

Source: company filings.

INVOLVED PARTIES		
Group	Agent/Trustee	Lenders
USD 200m senior secured ABL credit facility	JP Morgan Chase Bank, N.A.	
9.5% senior unsecured notes due 2026	U.S. Bank National Association	Capital Group (2%) Valic (1%)
Equity		Avista Capital Partners (6%) Rasmus, Robert E (4%) Alston, Jefferies V (4%) JMW (4%)

Source: FactSet.

Useful links

- Debtwire's coverage of [Hi-Crush Partners](#)
- Hi-Crush Partners' [SEC filings](#), [investor relations](#)
- [ABL credit agreement](#)
- [Indenture](#) of 9.5% senior unsecured notes due 2026

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