

Eagle MLP Strategy Quick Note - September 2019

From the EGA Portfolio Management Team

ET announces SEMG acquisition

Energy Transfer (ET) announced this morning their proposed merger with Sem-Group (SEMG) in a 60% stock/40% cash deal, which represents a combined offer price of \$17.00/share and a 65% premium to SEMG's closing price on September 13, 2019. The transaction is valued at \$5.1B.

We believe ET is buying SEMG for access to the HFOTCO terminal to enhance export capabilities. This provides a strategic connection between two of the largest crude oil terminals in the U.S. ET also announced the construction of a new 75-mile crude pipeline linking ET's Nederland terminal with the Houston Ship Channel.

Eagle Takeaways:

- Our analysis indicates ET is paying a fair EV/EBITDA multiple of 9-11x depending on the success of the synergies and any change in the control provisions. We expect key proforma metrics to be neutral to slightly positive.
- For comparison, private equity player IFM Investors is taking Buckeye Partners private for a EV/EBITDA multiple of 13x+.
- ET's credibility is somewhat weakened due to their recent discussion about capital discipline and desire to avoid merger activity. However, ET's announced merger does speak to the health of midstream M&A activity.
- We expect ET to likely divest many SEMG assets, which are lower quality and non-core relative to ET's operations.

Other Press Release Highlights:

- Management expects the deal to create commercial, operational, financial and cost synergies of up to \$170 million/year.
- ET's leverage ratio will likely show a modest increase, an indication of the multiple being paid for SEMG.
- ET projects the merger to be immediately accretive to DCF/unit and generate approximately \$500 million of aggregate DCF in 2020-22.

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