



# Energy Infrastructure Review & Outlook Q2 2020

# Highlights For Q2 2020

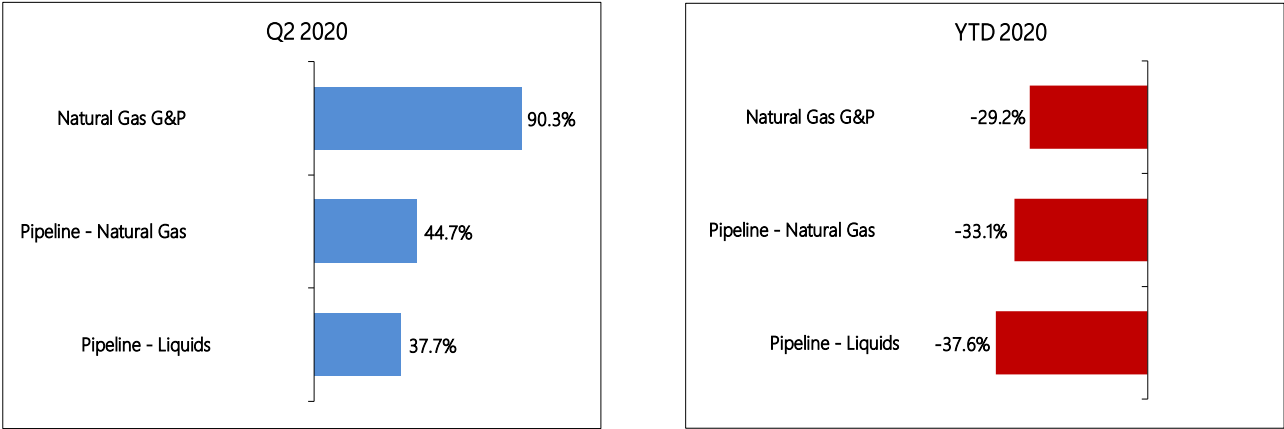
- The Alerian MLP index rebounded 50.8% during Q2 20 driven by enthusiasm for a post-COVID-19 economic recovery, led by higher risk natural gas G&P companies.
- Gasoline Demand increased 50% from April lows.
- Global Crude Oil Demand increased +10MMBPD from an April low of 77.5MMBPD.
- Liquids prices were up 10-30% from April lows led by the crude oil strip.
- Distribution/Dividend cuts continued as management teams seek to preserve cash during the pandemic.
- Fund Flows were again negative as investors shunned value in favor of growth and momentum investments.



# Scorecard

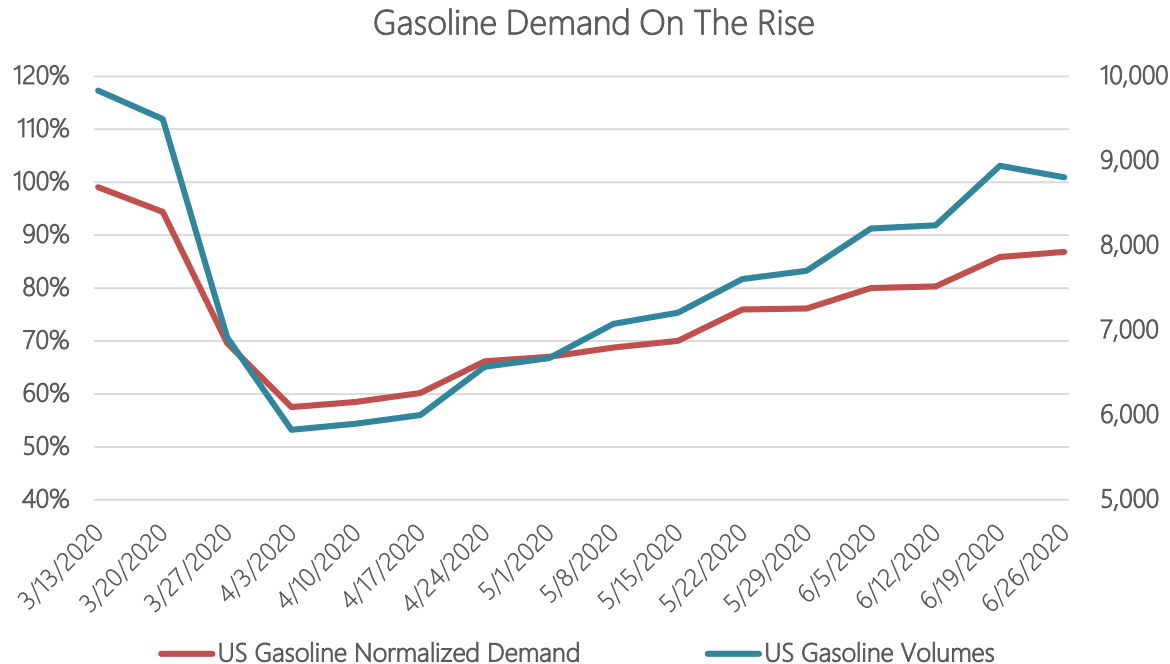
## Energy Infrastructure Sector Performance

Alerian MLP Index



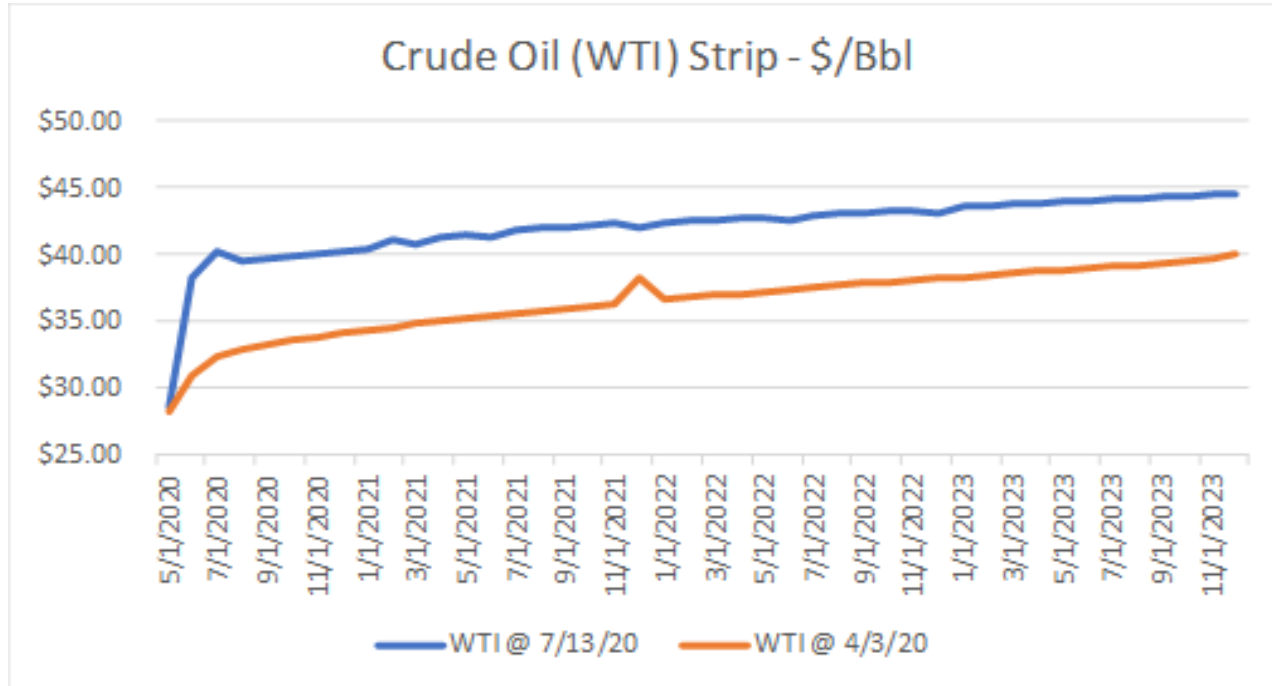
- Gas Gathering & Processing MLPs were the top performers, despite concerns about the trajectory of volumes due to producer liquidity: CEQP(+227.5%), WES (+221.0%) and DCP (+189.5%).
- High quality, large cap C-Corps with balance sheet strength and exposure to natural gas pipelines saw solid, but lower gains: ET (+61.0%) and KMI (+10.9%) were among the top performers.
- Performance in Pipeline-Liquids varied depending on exposure to end-market demand: MMP (+21.3%) versus those leveraged to G&P assets: PSXP (+1.0%).

# Green Shoots: Gasoline Demand Is Improving



- Reopening of US economy has improved gasoline demand, which is +50% since mid-April.
- Benefits Refined Product Infrastructure

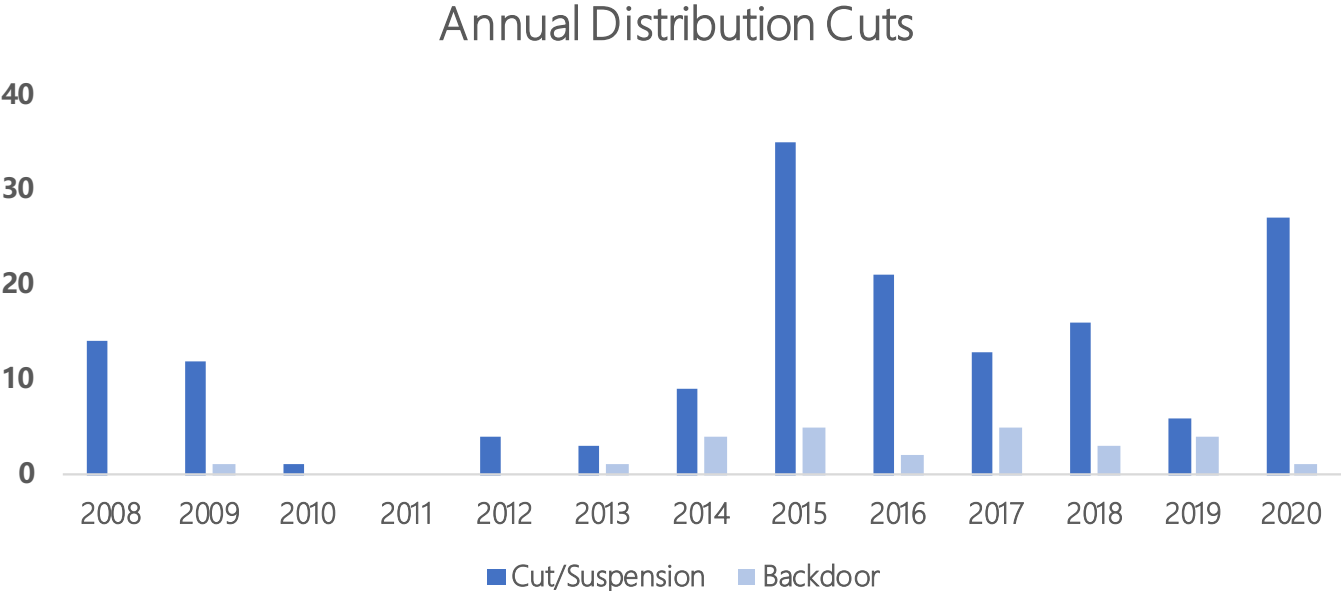
# Crude Oil Price Recovery Since April



- Crude Strip is 15% higher from early April
- Majority of 2 MMBPD of shut-ins have been brought back on line
- Expect completing of some of the 4500-6000 DUCS that exist today



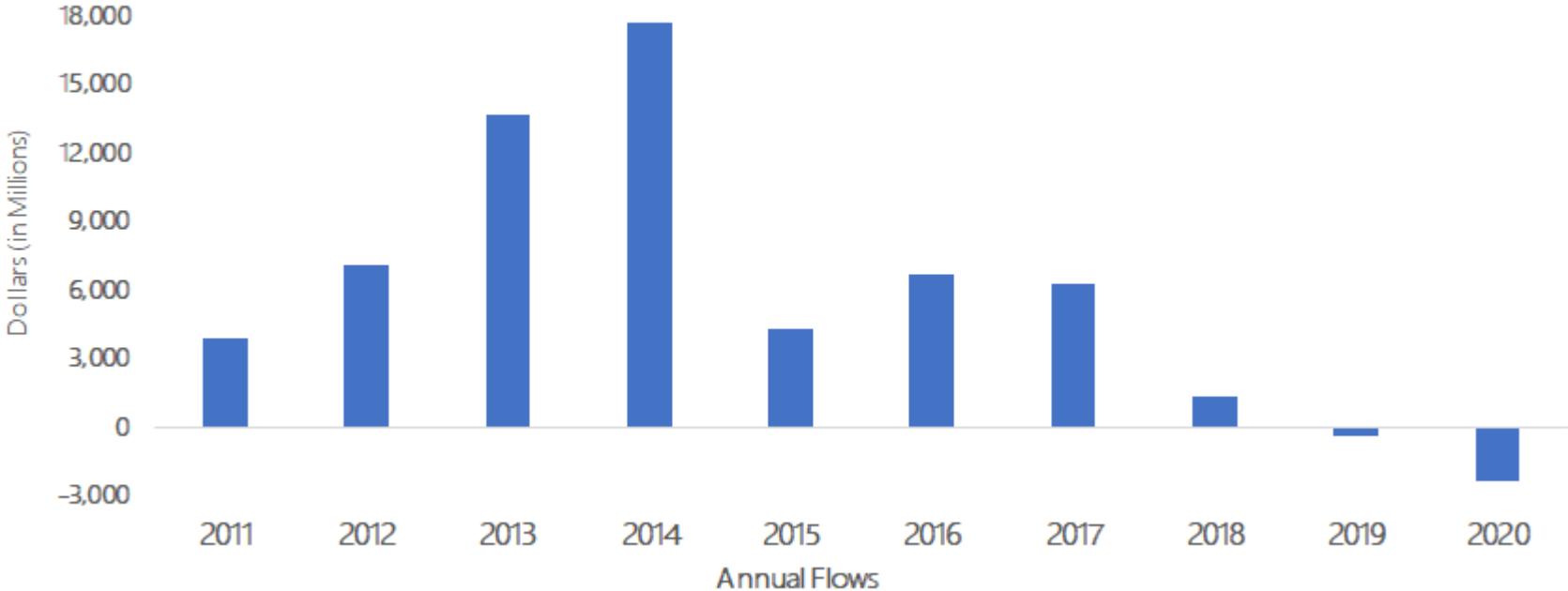
# Historical Distribution Cut Activity



- There have been 23 distribution cuts and 4 suspensions announced in 2020 as management teams have taken a proactive approach to reducing leverage and improving balance sheet quality.

# Fund Flows

### Net Flows to MLP Mutual Funds, ETFs and ETNs



- Fund flows declined during the second quarter with net outflows of \$1.8B.

# H2 2020 Outlook

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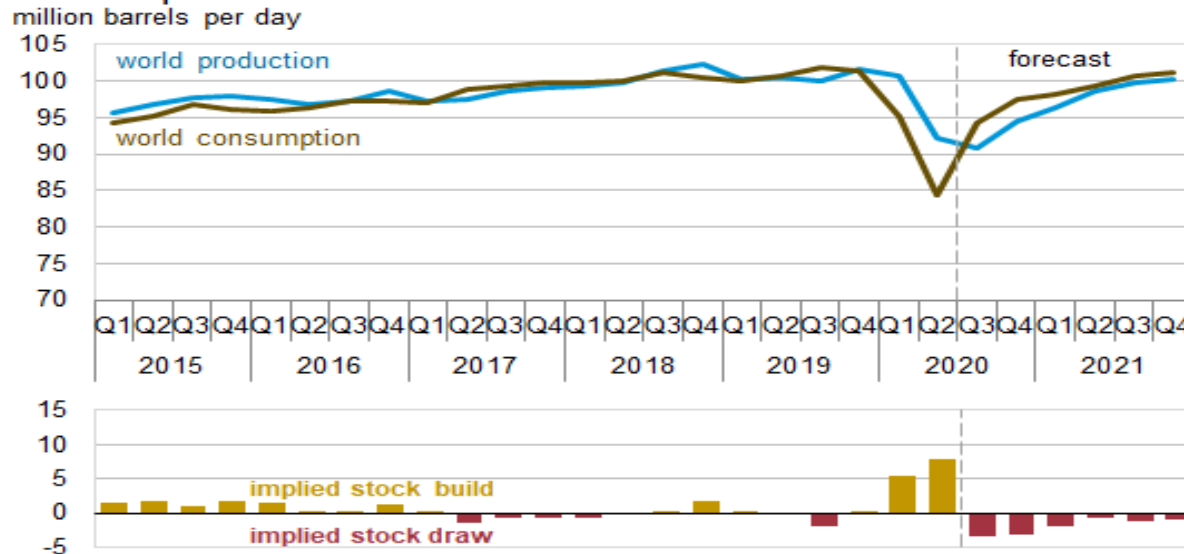
- Global Oil Markets shifted from 21 million b/d of oversupply in April to inventory draws in June.
- EBITDA has troughed. EGA forecasts an increase in 2021.
- CAPEX spending continues to decline as Midstream high grades projects to live within cash flows.
- Midstream Net Free Cash Flow set to exceed the S&P.
- Valuations remain lower than the 2008 financial crisis.





# EIA: Liquids Demand Recovery Leads To Stockpile Draws

**Figure 1. World liquid fuels production and consumption balance**



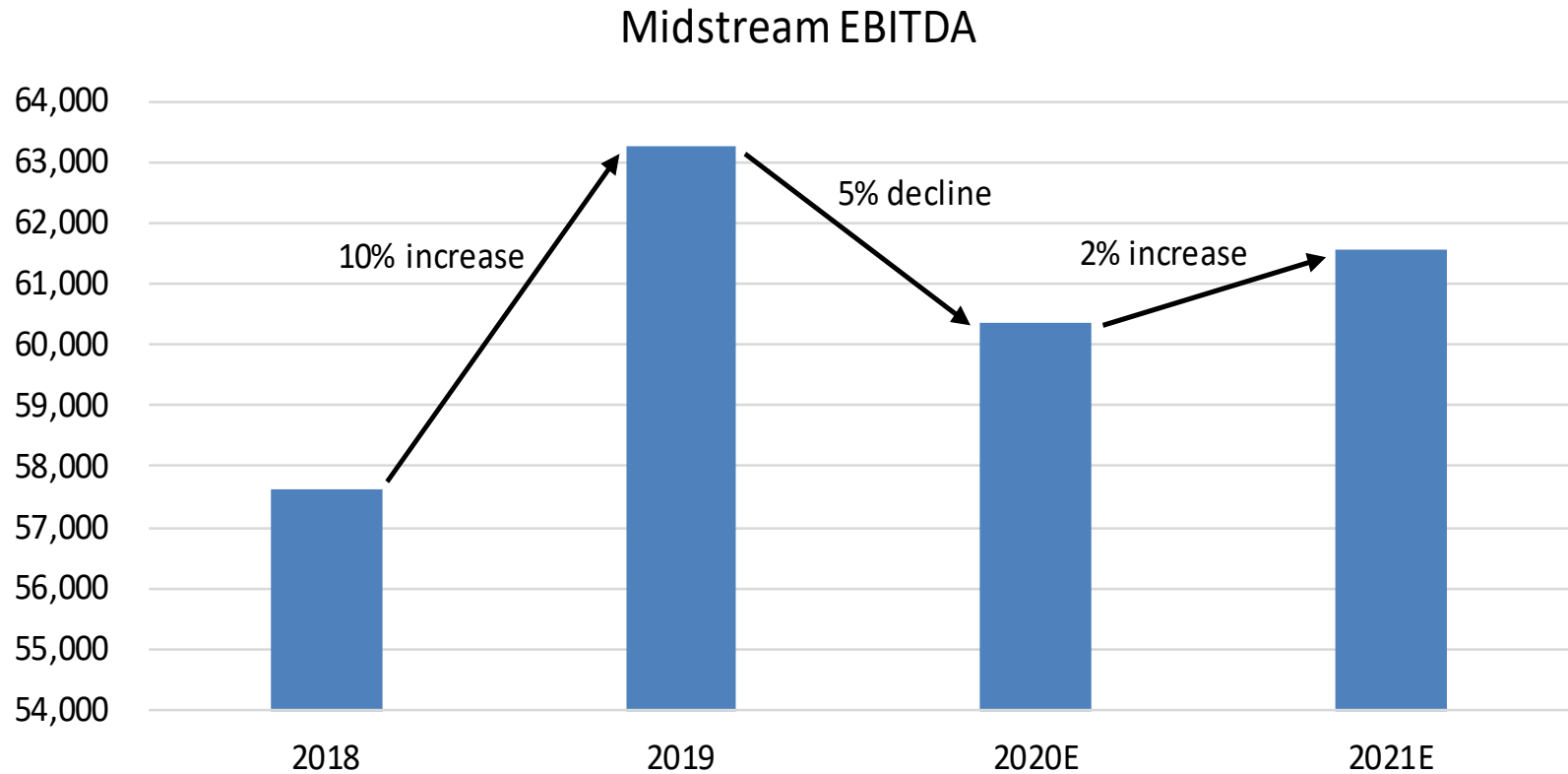
Source: U.S. Energy Information Administration, *Short-Term Energy Outlook*, July 2020

- Global oil markets have shifted from 21 million b/d of oversupply in April to inventory draws in June
- EIA forecasts global liquids consumption of 101.1 million b/d in Q4 2021, an increase of 16.7 million b/d from Q2 2020



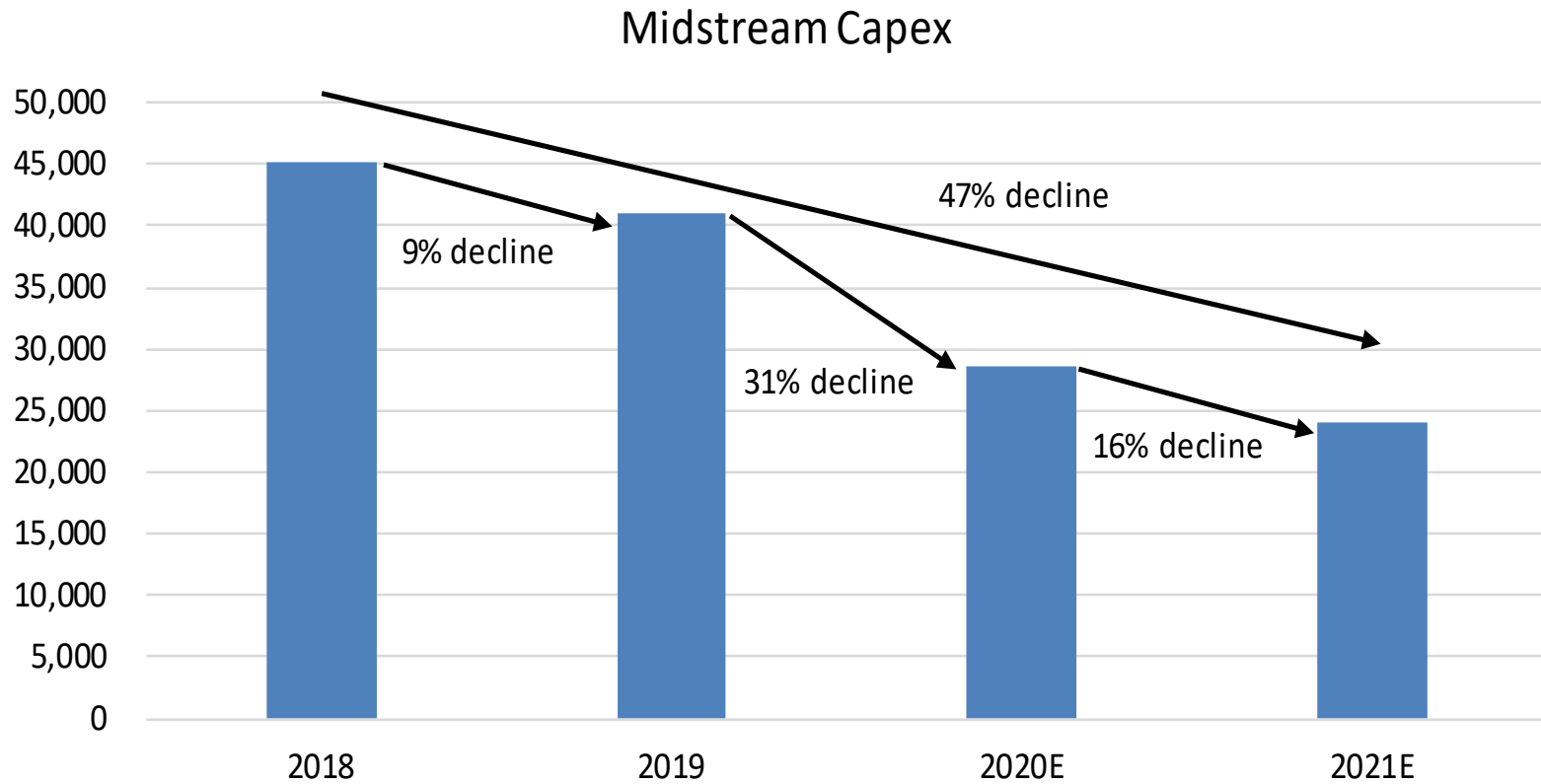
# EBITDA Has Troughed And Will Bounce Back

*EGA forecasts a 2% increase in 2021*



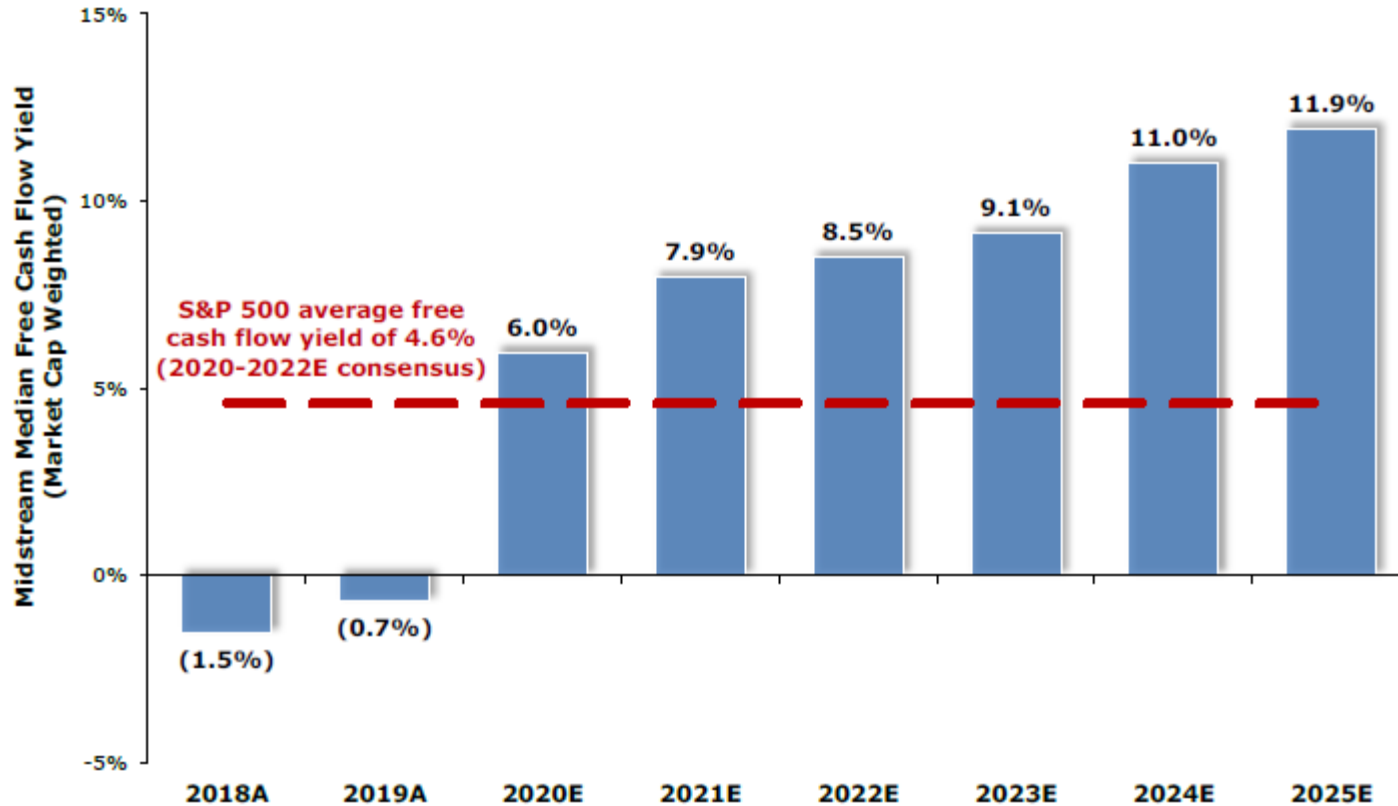
# Capex Spending Remains On The Decline

*Down 47% since 2018*

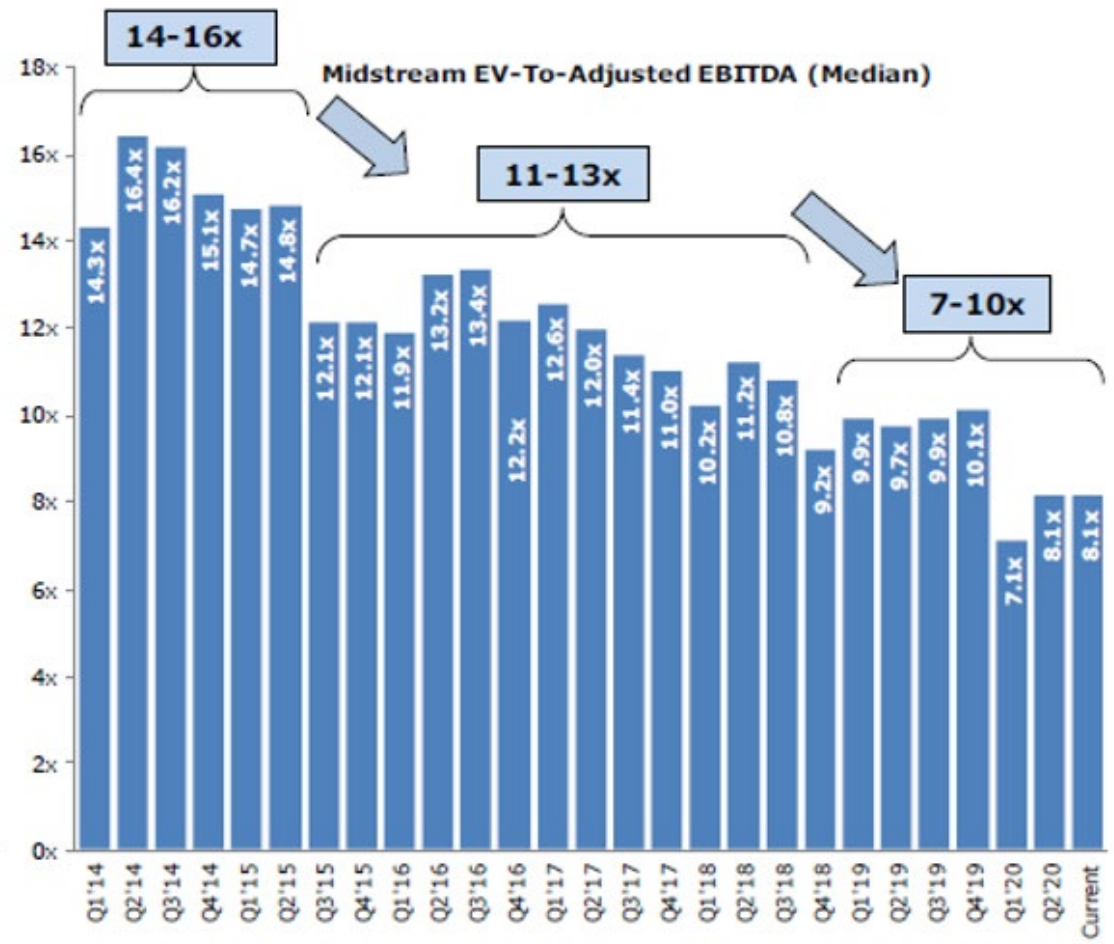


# Higher EBITDA + Lower Spending = Free Cash Flow

*Management Teams Are Focused On Free Cash Flow And Reduced Leverage*



# Current Valuations Below 2008



Note: "Current" is based on 2021 estimates

# Own Emerging Winners

- Own stable, predictable cash flows capable of benefitting from improving economic activity (e.g. KMI, ENB, TRP, WMB)
- Focus on Free Cash Flow Generation (e.g. KMI, PAA, TRGP, WMB)
- Strong Contractual counter party exposure, with emphasis on investment grade debt ratings (e.g. EPD, ET, TRP, ENB)
- Own vertically integrated assets that touch the molecule from the well head to the consumer (e.g. EPD, ET, TRGP)
- Focus on Strong Balance Sheets (e.g. KMI, GEI, WMB, TRP, ENB)

