Energy Infrastructure Review & Outlook

Q3 2020

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Highlights For Q3 2020

- The Alerian MLP Index declined 16.3% during Q3 2020 largely due to fears surrounding a contentious U.S. election, negative regulatory actions and pension fund re-allocations.

- Oil prices remained stable around $40, while natural gas followed a highly volatile path to end the quarter up 44%.

- Refined product demand grew modestly due to improvements in gasoline and distillate demand; however, jet fuel demand remains far from a full recovery.

- The regulatory environment remains challenged as several projects or existing pipelines faced legal challenges this quarter, though long-term these challenges could dampen growth and place scarcity value on existing Midstream infrastructure.

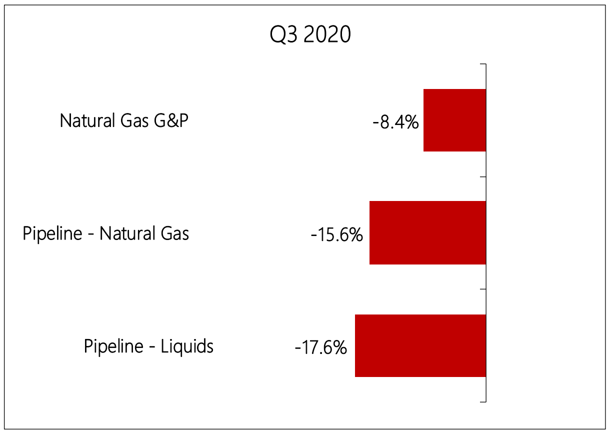
- Energy Infrastructure Path Forward: Material free cash flow generation as capex spending rolls off to a lower, new normal allowing for debt (leverage) reductions, increasing confidence in high dividend yields, and share buyback programs.

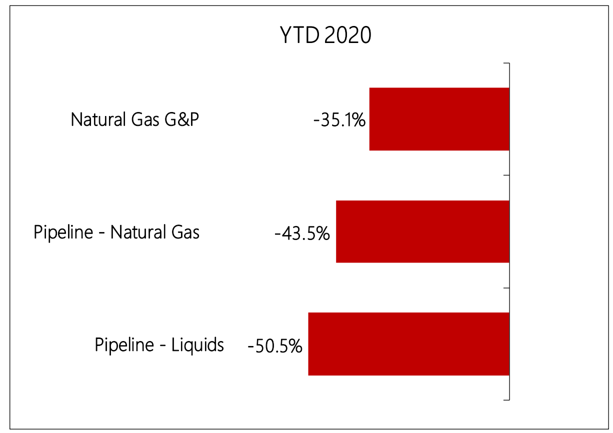
Sources: Bloomberg

Scorecard

Energy Infrastructure Sector Performance

Alerian MLP Index

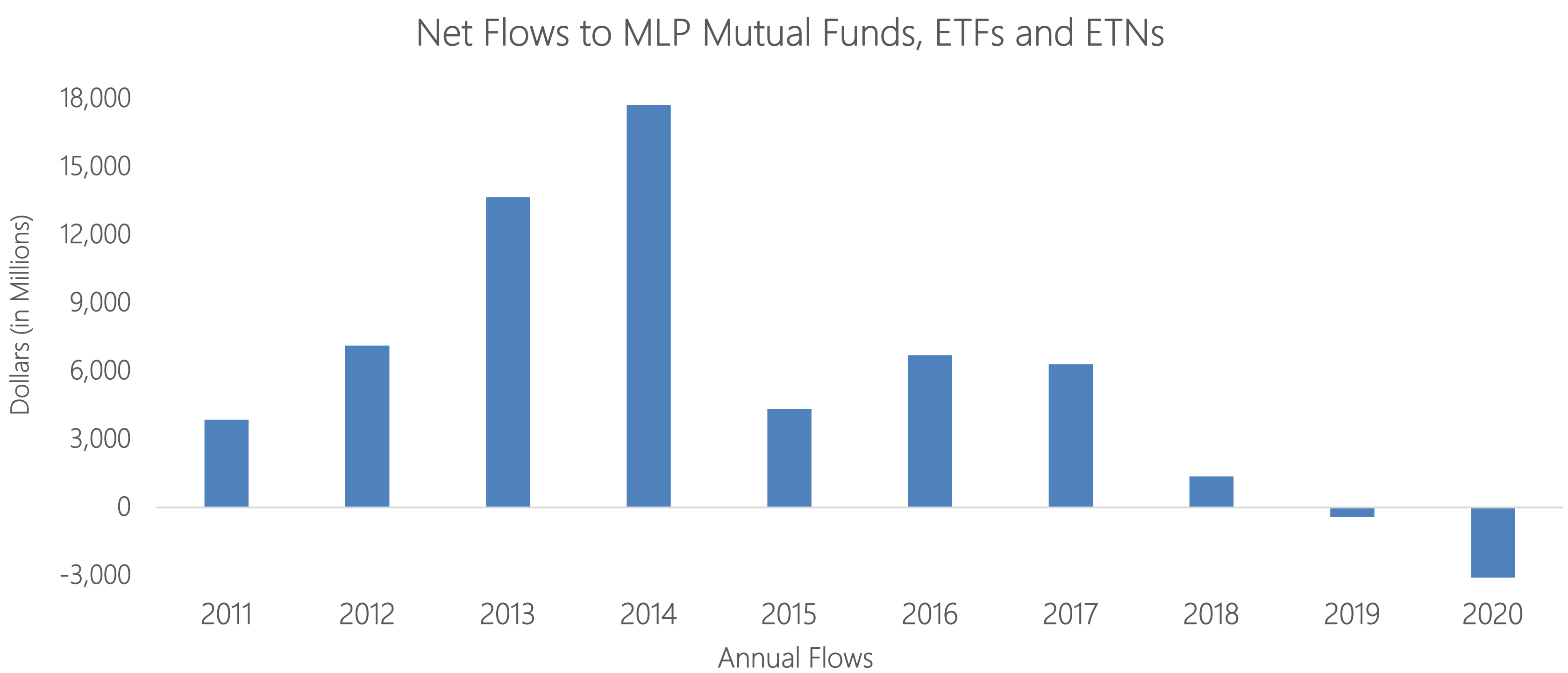




- High quality, large cap C-Corps with exposure to natural gas pipelines, particularly in Canada, provided solid defense: WMB (+5.4%), TRP (-0.4%) and ENB (-2.2%) were among the top performers.
- Gas Gathering & Processing MLPs were a mixed bag: DCP (+2.1%) due to shorter than expected volume curtailments, while TRGP declined (-29.7%) despite strong second quarter earnings.
- Performance in Pipeline-Liquids was challenging with MMP declining (-18.8%) as they lowered guidance due to a slower recovery in refined product demand and PAA lost (-34.1%) due to volume concerns in the Permian Basin exacerbated by excess infrastructure capacity.

Source: Alerian, Bloomberg

Fund Flows



- Fund flows declined during the third quarter with net outflows of $1.2B.

Macro Outlook

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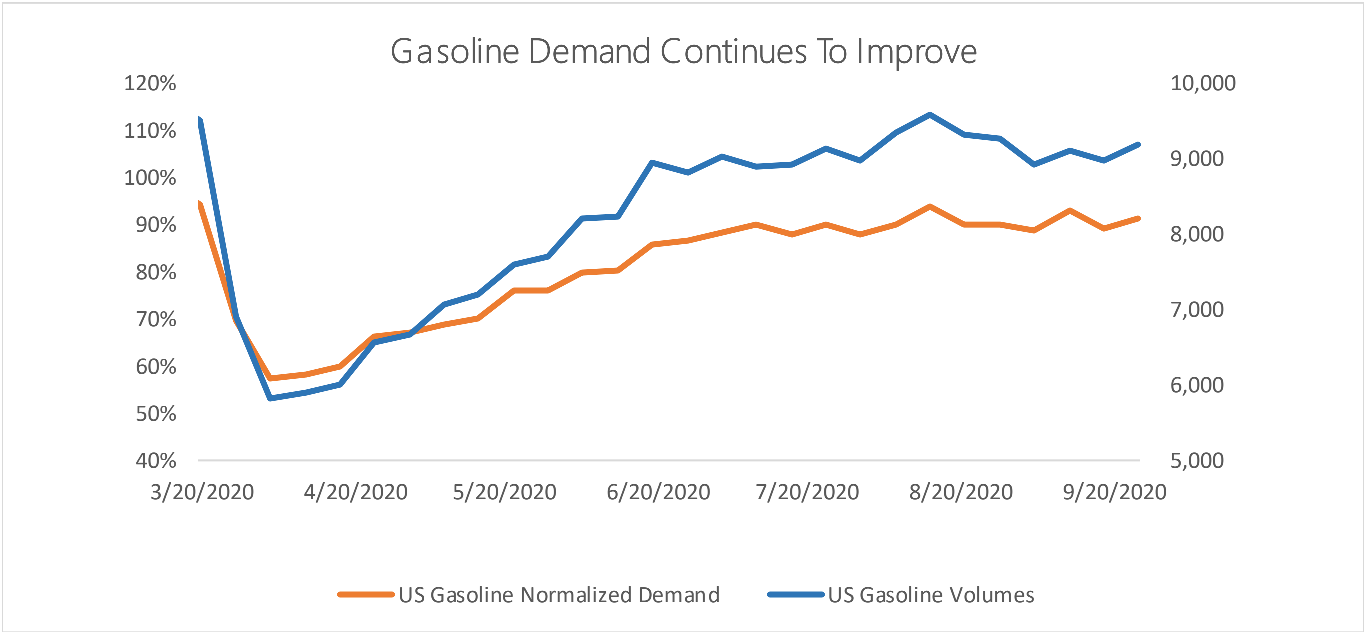
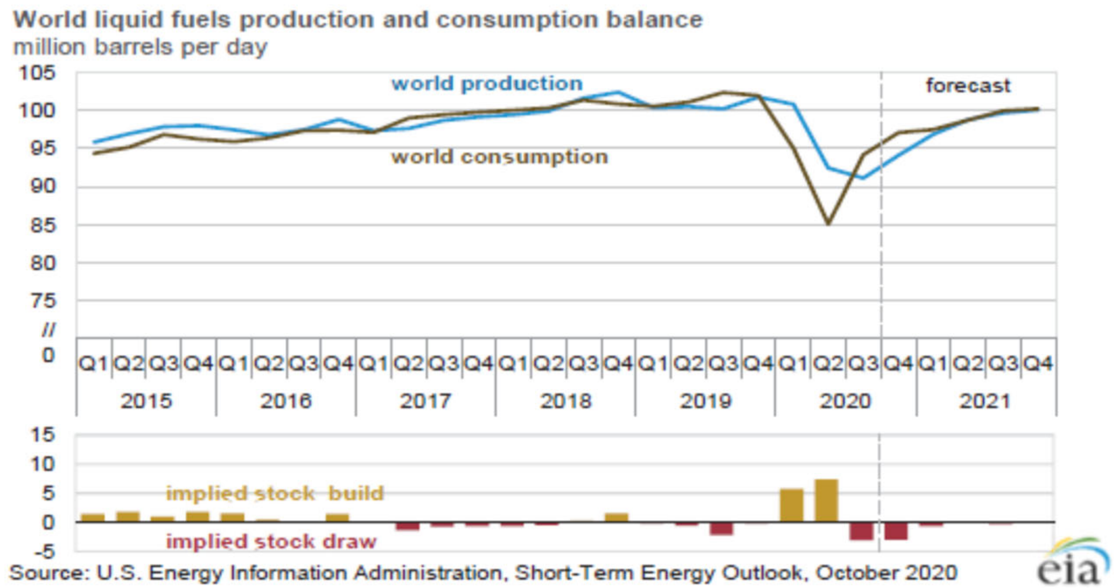
Green Shoots: Gasoline Demand Continues To Improve



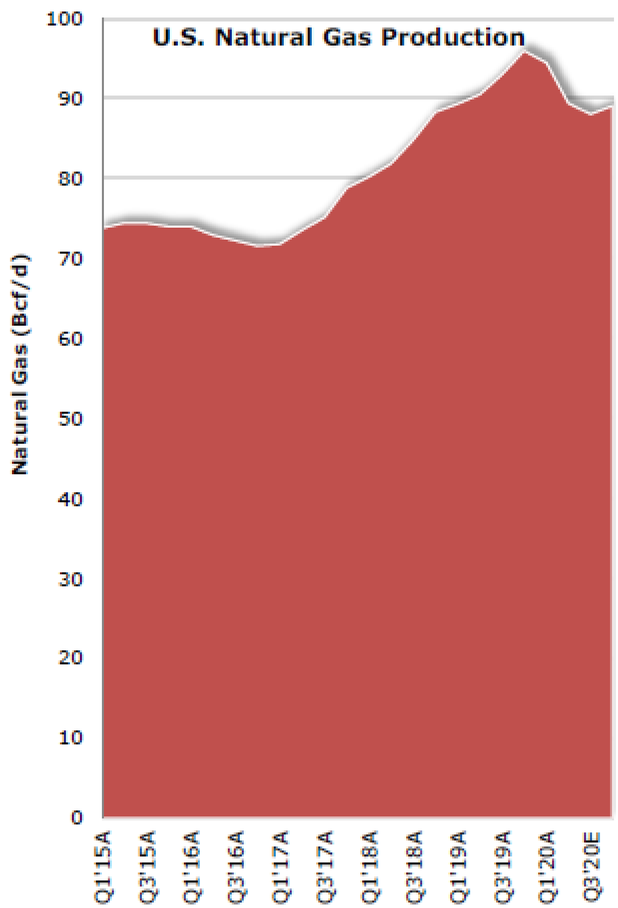
- Reopening of the U.S. economy has improved gasoline demand, which is +59% since the April trough.
- Improvement in gasoline demand benefits Refined Product Infrastructure.

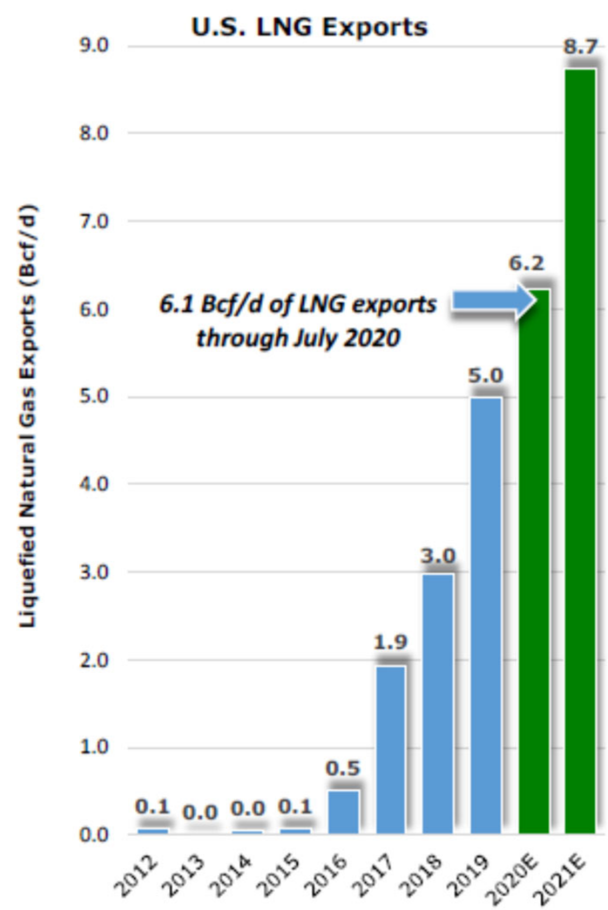
EIA: Liquids Demand Recovery Continues At Moderate Pace



- Global oil markets have shifted from 7.3 million b/d of oversupply in Q2 to inventory draws in Q3 of 3.1 million b/d with draws expected to moderate to 0.3 million b/d by 2021.
- EIA forecasts global liquids consumption of 95.3 million b/d in September versus an average of 85.1 million b/d from Q2 2020 before increasing by 6.3 million b/d in 2021.

U.S. Natural Gas Fundamentals





Note: EIA Export data as of July 2020 (latest available data)
Note: Green bars reflect the EIA's latest U.S. LNG export forecast, while the blue bars reflect actual LNG exports

Source for all charts: Company reports, International Gas Union, Bloomberg, EIA, Wells Fargo Exploration & Production Group, and Wells Fargo Securities, LLC estimates

Energy Infrastructure
Path Forward

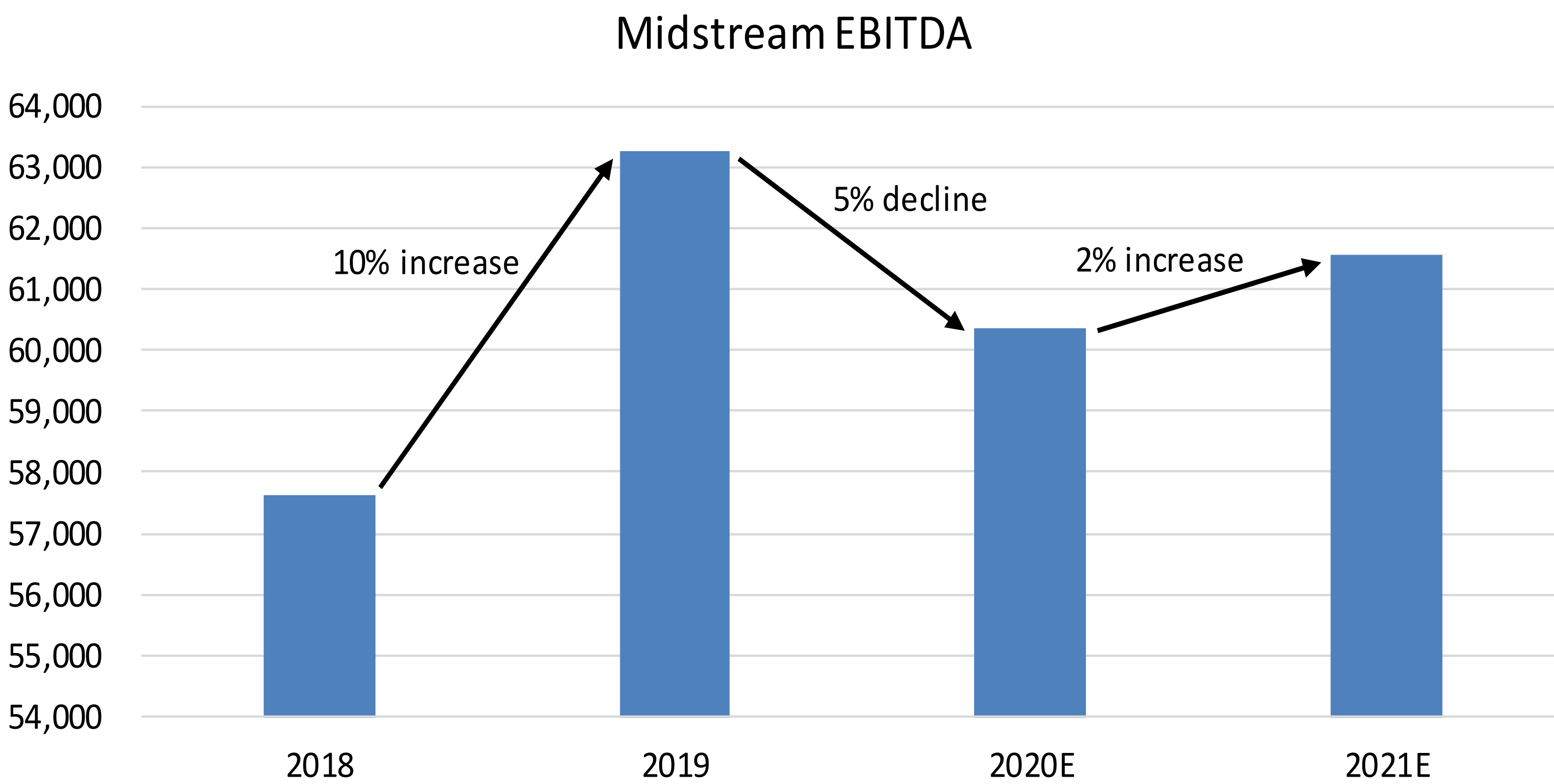
Q4 2020 Outlook and Beyond

- EBITDA has troughed. EGA forecasts an increase in 2021.
- Capex spending continues to materially decline as Energy Infrastructure adjusts to lower, new normal and higher project hurdle rates.
- Energy Infrastructure free cash flow yields will continue to trade higher than the S&P 500 in 2021.
- Valuations remain lower than the 2008 financial crisis.
- Share buyback programs to increase following material gains in free cash flows.

Sources: Bloomberg

EBITDA Has Troughed And Will Bounce Back

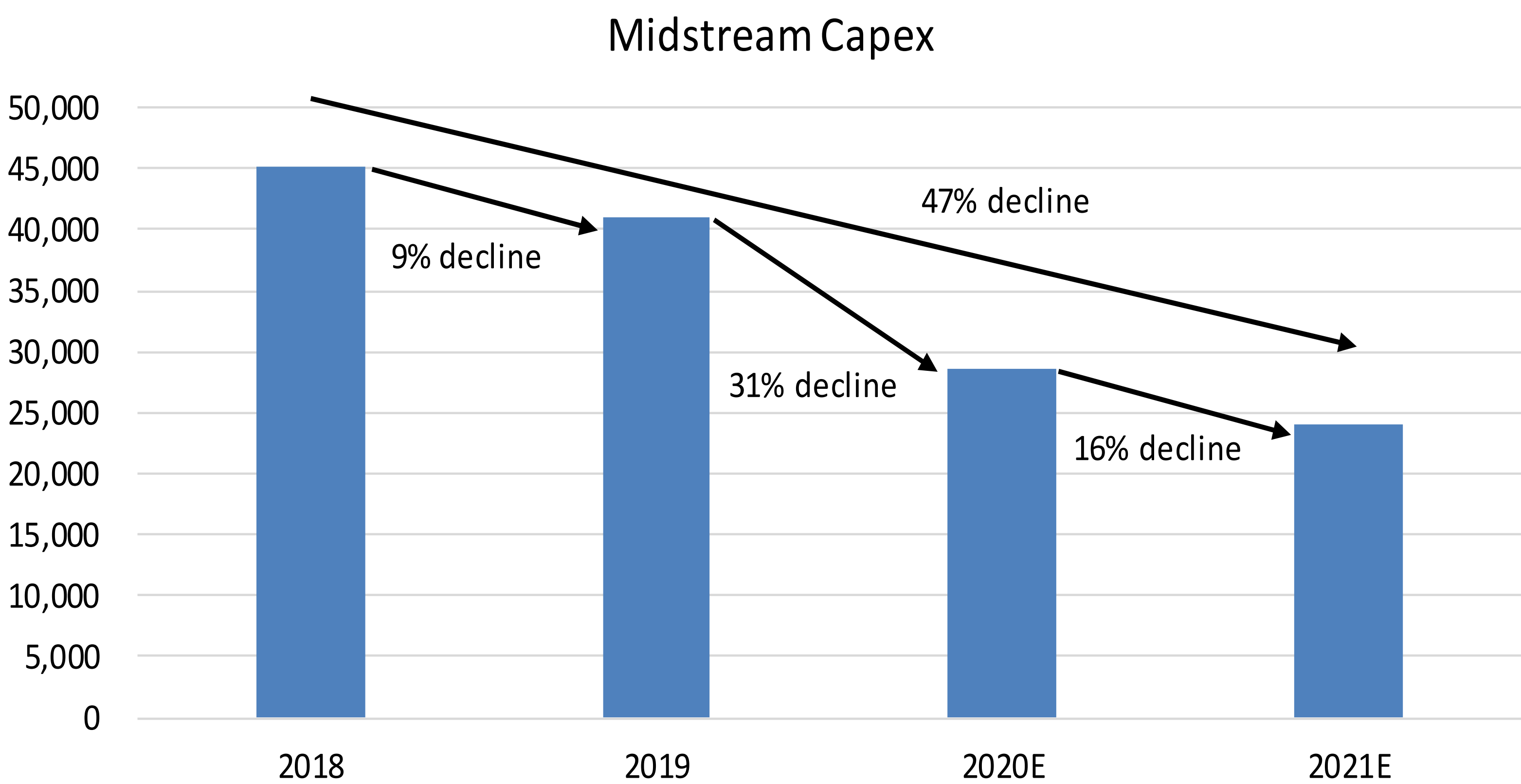
EGA forecasts a 2% increase in 2021



Source: Company Data, Eagle Global Advisors

Capex Spending Remains On The Decline

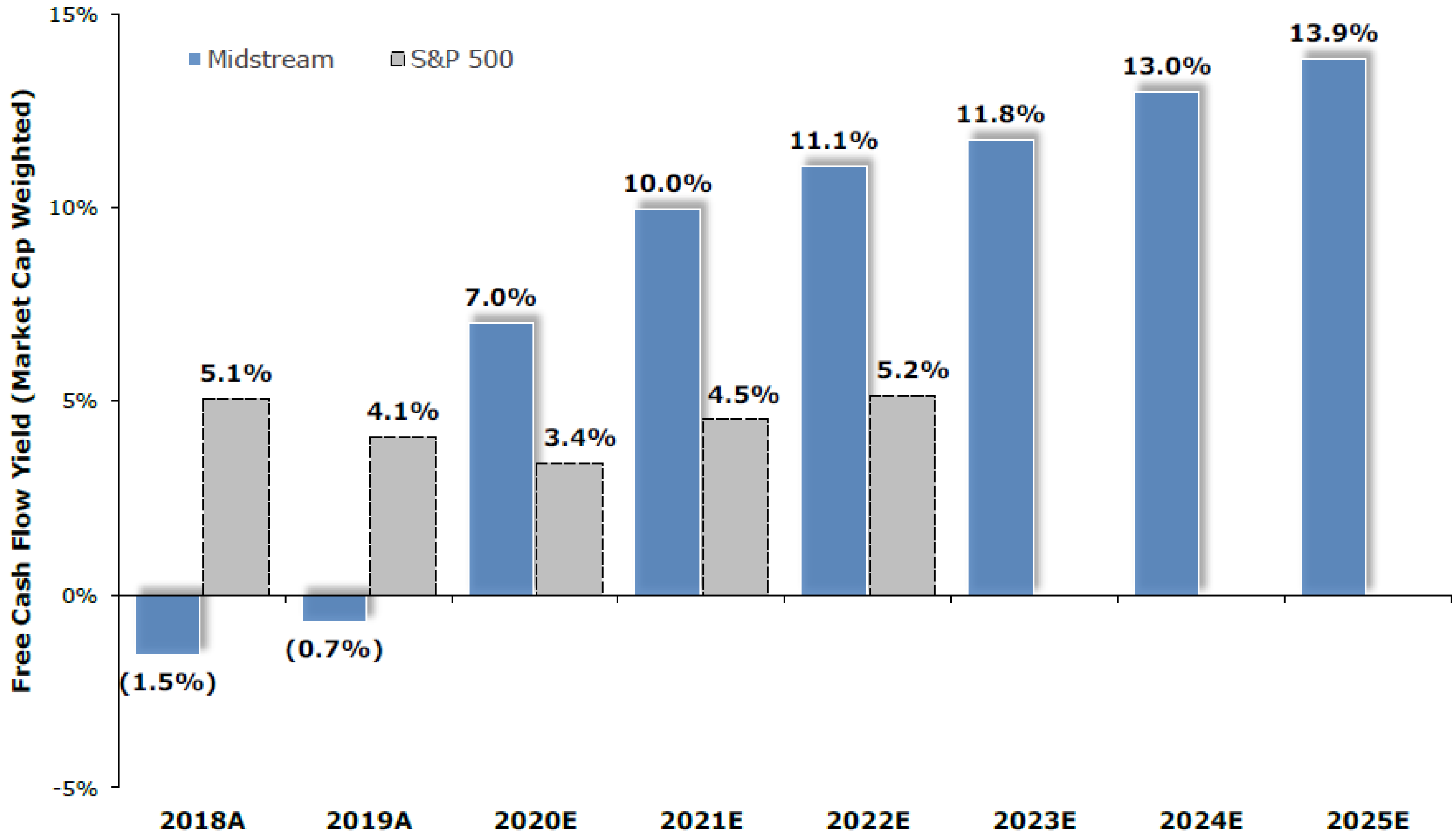
Down 47% since 2018



Source: Company Data, Eagle Global Advisors

Higher EBITDA + Lower Spending = Free Cash Flow

Management Teams Are Focused On Free Cash Flow And Reduced Leverage



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Source: Company Reports and Wells Fargo Securities, LLC. Data as of October, 2020

Stock Example: Targa Resources

TRGP Demonstrates Benefit of Free Cash Flow Generation

2020 Adjusted EBITDA at or near HIGH end of $1.5-$1.625 Billion guidance

+

2020 Capex near LOW end of $700-$800 million guidance

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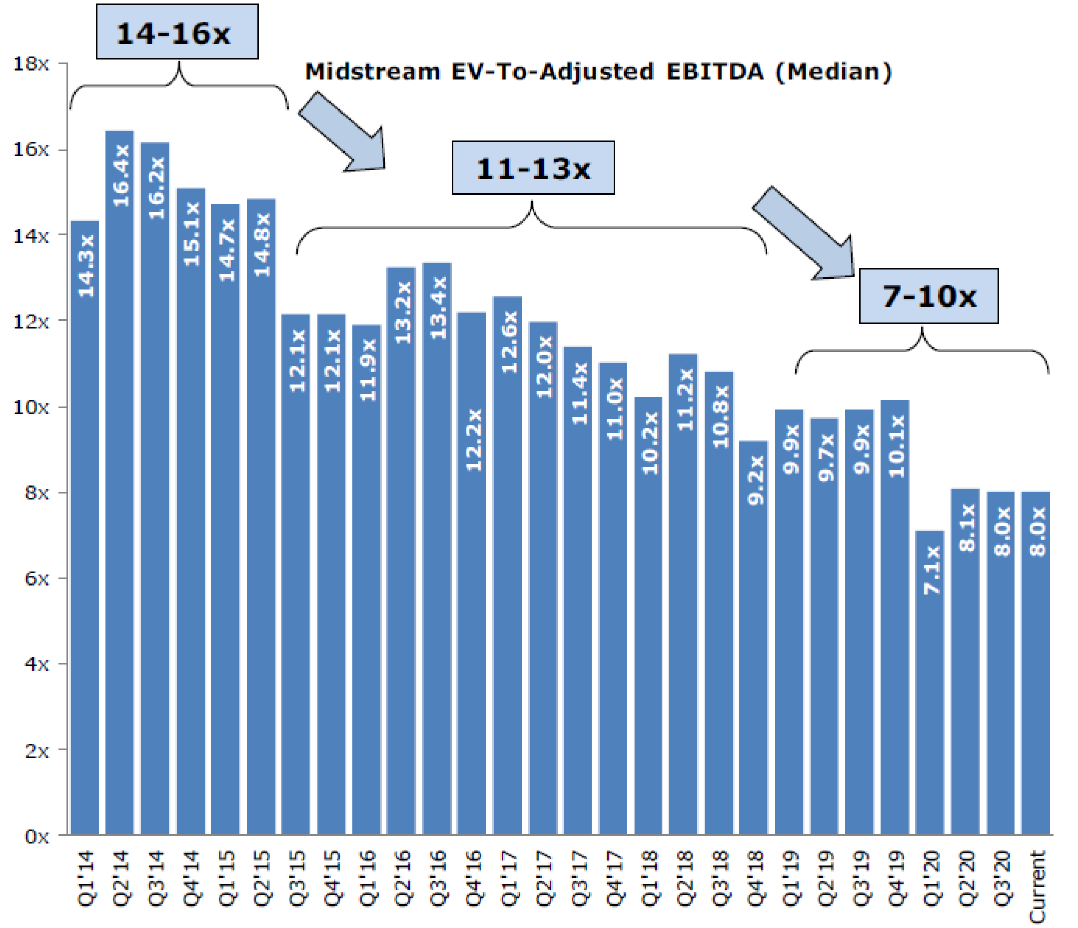
Excess Free Cash Flow to capitalize on sector weakness
TRGP announces $500 million share repurchase program

Source: Company Reports

Current Valuations Below 2008



Note: "Current" is based on 2021 estimates

EGA Playbook

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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)