

Eagle Energy Infrastructure Quick Note - November 2020

From the EGA Portfolio Management Team

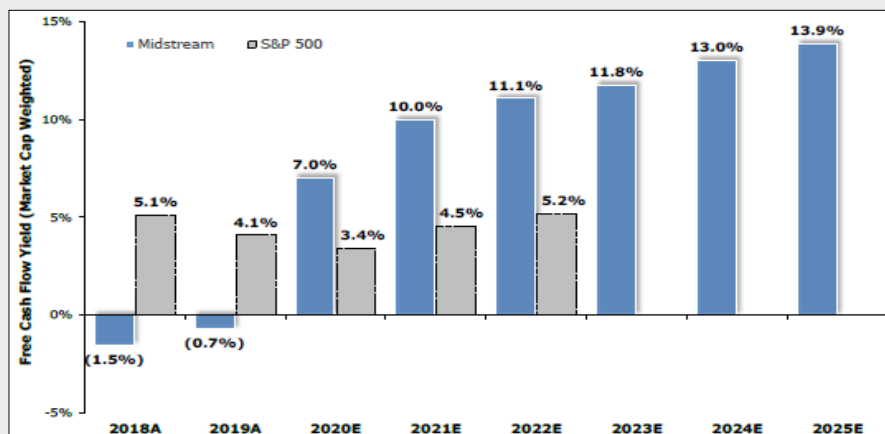
MPLX and PAA join the Midstream Buyback Party

On November 2nd, bellwethers MPLX and PAA joined the growing list of midstream companies to authorize share buybacks. (MPLX also announced it exceeded earnings estimates while forecasting the generation of positive free cash flow after dividends in 2021). MPLX and PAA are the 7th and 8th midstreamers to announce buybacks since 2018:

- Kinder Morgan Inc (KMI), \$2 billion
- Enterprise Product Partners (EPD), \$2 billion
- **MPLX, \$1 billion**
- Cheniere Energy Inc (LNG), \$1 billion
- Magellan Midstream Partners (MMP), \$750 million
- **Plains All American Pipeline (PAA/PAGP), \$500 million**
- Targa Resources Coro (TRGP), \$500 million
- Gibson Energy (GEI), ~\$200 million
- Antero Midstream Corporation (AM), \$100 million

Eagle Takeaways:

- We view stock buybacks as a positive read-through for Midstream, which has exhibited consistent signs of recovery in many investment metrics except unit/stock prices. Our research suggests group EBITDA troughed in Q2 '20 and will increase during 2H 2020 and continue into 2021. EBITDA increases along with forecasted reductions in capital spending as the shale industry matures will result in a ramp in free cash flow (FCF).



- We expect Midstream free cash flow yields (FCF Yield) to exceed that of the S&P 500 during 2020. It is now time to harvest the cash flows from projects built over the past decade. Management teams will have choices for deployment of excess cash. One is ongoing debt reduction. Another is an increase in distributions/dividends. However, with unit/stock prices so low, the Alerian MLP Index currently yields 12%. For Midstream companies with yields over 10%, we think share repurchase programs are a better tool for returning value to shareholders. We expect this trend to continue, likely accelerating into 2021 as FCF grows.

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