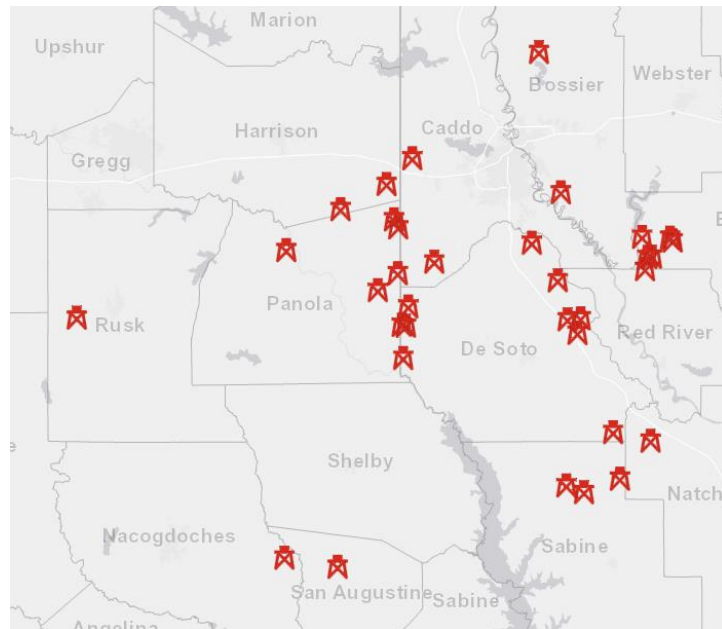




U.S. Capital Advisors®

Midstream Gathering: Deep Dive into Haynesville Counterparty Exposure

Haynesville Rig Activity



Source: DrillingInfo

April 15, 2020

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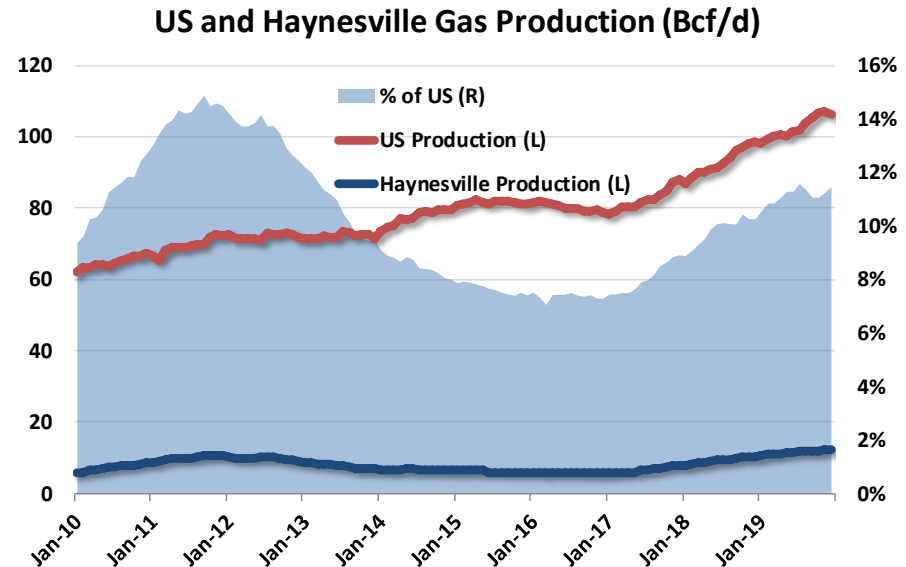
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Summary

- **Why the Note?:** After publishing our [Deep Dive into Permian Gathering Counterparty Exposure](#) last week, we wanted to follow up with a similar examination for other basins where certain state-level data allows us to look at which midstream providers gather for which producers – something that there is generally low visibility on in company disclosures. In this piece, we take a deep dive into the Haynesville and look at exposures both in terms of volumes and credit quality.
- **Methodology:** Texas and Louisiana are somewhat unique in that producers generally disclose to the TXRCC and LADNR not only their produced volumes, but who gathers their gas production at the lease level. We pulled that information from DrillingInfo using December data, which we thought would be the most recent, fulsome month. We pulled credit ratings from Bloomberg to triangulate to credit quality. Unfortunately, gathering data for the Haynesville is not as comprehensive as the Permian, with 31% of production not listing a gas gatherer (vs. 11% for Permian gas). However, data should still give a rough approximation of overall midstream exposures.
- **Largest Producers:** The Top 15 Producers in the Haynesville account for 86% of total production. Among top producers, production is dominated by privates, accounting for ~40% of production, with small-cap publics producing another 31%. There are no large-cap independents, and Majors XOM and BP account for 15%.
- **Largest Gas Gatherers:** In a somewhat ironic twist, it's the large-cap midstream names that dominate the gas gathering landscape, despite production that is largely from smaller players (EPD, KMI, WMB, ET, DCP and MPLX are largest gatherers).
- **Overall Credit Quality Weak:** As may be expected with such a large amount of production from small-cap and private producers, the average credit rating for Haynesville producers is roughly equivalent to only a B rating, which compares with a weighted average BB+/BBB- that we saw in our Permian deep dive.
- **Gas Customer Credit Quality:** As measured by counterparty credit rating and just looking at the larger gatherers, EPD and ET rank as having the lowest credit customers (thanks largely to exposure to CRK and CHK – both CCC rated). KMI rates the highest thanks to their BP exposure. DCP and MPLX have the most exposure to smaller producers (<200 mmcf/d).

Perspective on Size of Haynesville

- **Haynesville Perspective:** Over the last three years, the Haynesville has experienced a renaissance after prior production peaked in late 2011 at 10.5 Bcf/d. Production surpassed that level in Feb '19 and now sits just north of 12 Bcf/d. The Haynesville is the third largest gas-producing basin in the US, behind Appalachia (~33 Bcf/d) and the Permian (~17 Bcf/d).
- **As Percent of US:** While current production levels are above those of the prior peak, as a share of US production, the Haynesville now sits at 11.5% vs. 14.9% in Sept '11.



Haynesville Gas Producers Overview

- **The Data:** We pulled December data from DrillingInfo, using that date as what we thought it would be the most recent, fulsome month. Chart to the right shows gas production for the Top 15 Haynesville producers. ***The Top 15 account for ~86% of Haynesville production, while ~425 smaller producers account for the remaining 14%.***
- **Privates, Small Caps Dominate:** Looking at the Top 15 producers, ***eight privates dominate with 40% of production, five public small-caps account for another 31% (combined market cap of \$2.8B)***, there are no large-cap independents, while Majors XOM and BP account for 15%.

Haynesville Gas Production by Producer

Producer	Production (mmcf/d)	% of Total
COMSTOCK RESOURCES	2,245	17.4%
Small Producers	1,796	13.9%
INDIGO NATURAL RESOURCES	1,256	9.7%
AETHON ENERGY	1,130	8.8%
EXXON MOBIL	1,112	8.6%
CHESAPEAKE ENERGY	961	7.4%
BP	872	6.8%
VINE OIL & GAS LP	787	6.1%
ROCKCLIFF ENERGY	592	4.6%
GEP HAYNESVILLE	537	4.2%
EXCO RESOURCES	379	2.9%
SABINE OIL & GAS	343	2.7%
TANOS EXPLORATION	241	1.9%
GOODRICH PETROLEUM	228	1.8%
CCI EAST TEXAS UPSTREAM LLC	222	1.7%
RANGE RESOURCES	208	1.6%
Total	12,910	100%



Haynesville Gas Gatherers Overview

- **The Data:** One quirk of TX and LA state well data is that generally, producers are required to indicate who gathers their gas. So, by using the same methodology as the previous slide, we can see which companies gather the most gas. ***Here “na” indicates that the producer did not disclose who the gatherer was. Unfortunately, this accounts for ~31% of production (vs. only 11% of production in our Permian study).*** Further down, “Other” reflects the summation of several smaller gathering systems not owned by public midstream operators.
- **Large Caps Dominate:** In a somewhat ironic twist, ***it’s the large-cap midstream names that dominate the gas gathering landscape, despite production that is largely from smaller players*** (EPD, KMI, WMB, ET, DCP and MPLX).
- **More Detail:** On the next page we show customer detail for six of the larger gas gatherers. It is our best estimate based on information provided by the producers to the states of Texas and Louisiana.
- **No Discount Double Check:** While we were able to check our Permian data against TRGP, WES and DCP reported Permian volumes, not a single one of the largest Haynesville gatherers report Haynesville-level gathering volumes in their earnings reports or 10-Q/10-Ks. ***Given the significant amount of production listed with “na” as the gas gatherer, we caution that data presented is only a rough approximation of the true gathering landscape.***

Haynesville Gas Production by Gatherer

Gatherer	Production (mmcf/d)	% of Total
na	3,965	30.7%
EPD	1,948	15.1%
KMI	1,072	8.3%
Other	1,056	8.2%
XOM	963	7.5%
WMB	613	4.7%
Arclight	527	4.1%
ET	495	3.8%
DCP	463	3.6%
MPLX	432	3.3%
ENBL	397	3.1%
EXCE	381	2.9%
L	189	1.5%
Castleton	175	1.4%
Laser	127	1.0%
Woodland	107	0.8%
Total	12,910	100%

Haynesville Gas Detail by Gatherer

EPD Gas Gathering Volumes

Producer	mmcf/d
COMSTOCK RESOURCES	1,240
BP	256
EXCO RESOURCES	222
Small Producers	122
Other Top 15 Producers	83
AETHON ENERGY	25
Total	1,948

KMI Gas Gathering Volumes

Producer	mmcf/d
COMSTOCK RESOURCES	331
BP	204
CHESAPEAKE ENERGY	201
Small Producers	181
GOODRICH PETROLEUM	99
Other Top 15 Producers	33
VINE OIL & GAS LP	23
Total	1,072

WMB Gas Gathering Volumes

Producer	mmcf/d
CHESAPEAKE ENERGY	314
EXCO RESOURCES	154
BP	81
Other Top 15 Producers	31
COMSTOCK RESOURCES	31
Small Producers	2
Total	613

ET Gas Gathering Volumes

Producer	mmcf/d
CHESAPEAKE ENERGY	138
RANGE RESOURCES	121
Small Producers	79
COMSTOCK RESOURCES	60
Other Top 15 Producers	37
TANOS EXPLORATION	32
AETHON ENERGY	29
Total	495

DCP Gas Gathering Volumes

Producer	mmcf/d
Small Producers	131
COMSTOCK RESOURCES	100
ROCKCLIFF ENERGY	97
RANGE RESOURCES	39
TANOS EXPLORATION	30
CCI EAST TEXAS UPSTREAM LL	25
EXXON MOBIL	24
Other Top 15 Producers	17
Total	463

MPLX Gas Gathering Volumes

Producer	mmcf/d
ROCKCLIFF ENERGY	228
Small Producers	156
Other Top 15 Producers	48
Total	432



Haynesville Gas Counterparty Credit Quality

- **Methodology:** We wanted to take a very big picture look at relative counterparty credit quality, so we looked at it two ways: 1) average producer credit, using a numerical equivalent for the different credit ratings on a scale of 1 (worst) to 10 (best); and 2) percent of volumes from small producers (not in the Top 15 or <200 mmcf/d), as they tend to have lower credit quality.
- **Overall Credit Quality Weak:** As may be expected with such a large amount of production from small cap and private producers, *the average credit rating is only 4.2 (roughly equivalent to a B rating) and compares with an average of 5.7 we saw in the Permian (roughly BB+/BBB-)*. About 40% of production is from producers without a credit rating (which we assigned a numerical equivalent value of 4).
- **Credit Results:** While counterparty creditworthiness is weak for everyone, ET (heavy CHK and CRK exposure) and EPD (CRK) screened as the lowest. On relative basis, KMI (from BP exposure) and MPLX (no CRK, CHK exposure) look best.
- **Small Producer Results:** Those with the highest percentage of production from the Top 15 include WMB and EPD, while MPLX and DCP rely most on smaller producers.

Select Haynesville Gas Gatherers

Gatherer	Gathering Volumes (mmcf/d)	% of Total Haynesville	Avg Producer Credit	Vs. Avg	% From Small Producers	Vs. Avg
EPD	1,948	15%	3.4	(0.8)	6%	-8%
KMI	1,072	8%	4.7	0.4	17%	3%
WMB	613	5%	3.5	(0.7)	0%	-14%
ET	495	4%	3.3	(0.9)	16%	2%
DCP	463	4%	4.0	(0.3)	28%	14%
MPLX	432	3%	4.6	0.4	36%	22%
All Others	7,887	61%	na	na	na	na
Total	12,910		4.2		14%	

Credit Rating	Num Eqv
A-AA	9
BBB+	8
BBB	7
BBB-	6
All BB	5
All B	4
NR	4
C-CCC	2
D	1

Important Disclosures

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Price Target Methodology:

C-Corps

For C-Corps, our price targets are based on a sum-of-the parts analysis. In our sum of the parts analysis, we value various business segments on a multiple of forward year(s) EBITDA, with multiples ranging from 4.5 to 13.5x. The spectrum reflects a wide range of contract lives, commodity sensitivity, volume risk, customer risk, cash flow visibility, growth outlook, etc. LP units are valued at our LP price target. GP values are determined by allocating a proportionate share of the consolidated equity value commensurate with the percent of total distributions the GP receives. We then net out C-Corp level debt and add back in forward year GP distributions received. For companies with E&P assets, we value those assets consistent with how our E&P team models their coverage universe, blowing down PDP reserves and netting out the NPV of G&A. We then layer on development of probable reserves.

MLPs

For MLPs, our price targets are also based on a sum-of-the parts analysis. We value various business segments on a multiple of forward year(s) EBITDA, with multiples ranging from 6x to 14x. The spectrum range reflects a wide range of contract lives, commodity sensitivity, volume risk, customer risk, cash flow visibility, growth outlook, etc. We then net out forward year debt and minority interest to arrive at a consolidated equity value. From there we allocate equity value to the MLP based on the proportionate share of distributions the LP receives and add back in forward year distributions to be received.

MLP yield refers to the cash distributions paid out by the MLP, part of which may be treated as a return of capital rather than interest or capital gains.

Important Disclosures

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Recommendation	Count	Percent	Investment Banking Relationship	Count	Percent
Overweight/Buy	36	75%	Overweight/Buy	1	3%
Hold	12	25%	Hold	0	0%
Underweight/Sell	0	0%	Underweight/Sell	0	0%

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