USCA Friday Midstream Recap

January 3, 2020

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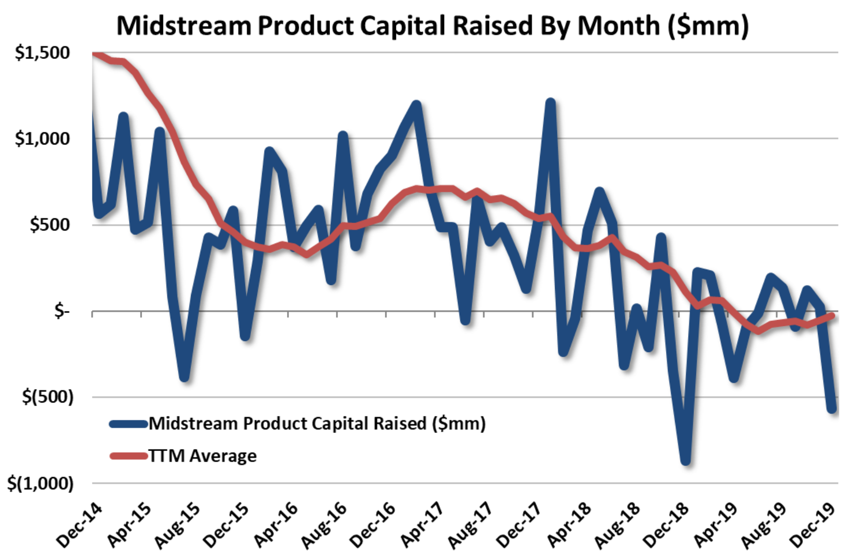
Please see important disclosures beginning on page 15

Midstream Money Flows

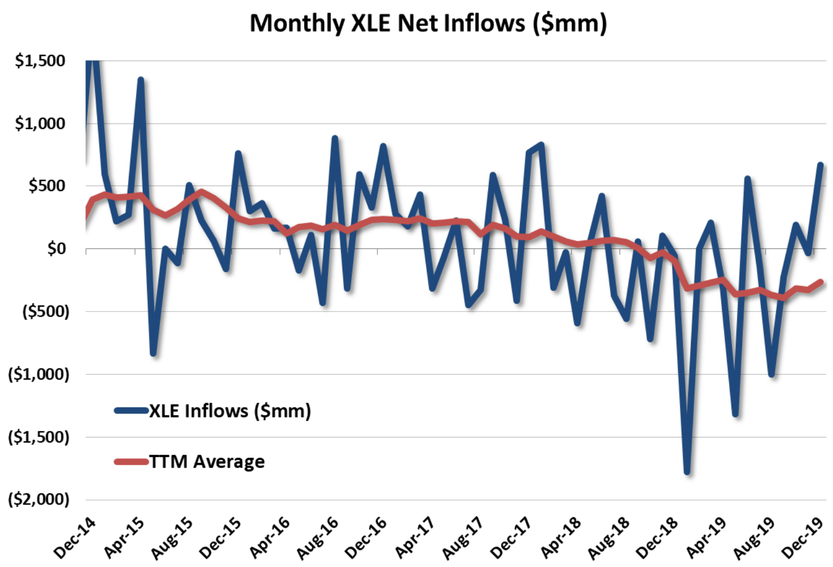
- **Tax Loss Selling Pressure:** December saw an estimated $567mm of ***outflows*** for MLP products, with $792mm of ***outflows*** on the mutual fund side and $225mm of ***inflows*** on the ETF/ETN side. Cumulative money flows were largely flat until December, when tax loss selling picked up and pushed the cumulative total into the red. ***Money flows into MLP products ended 2019 at negative $319mm, a first this decade.***



Source: Bloomberg, USCA

Midstream Money Flows – cont'd

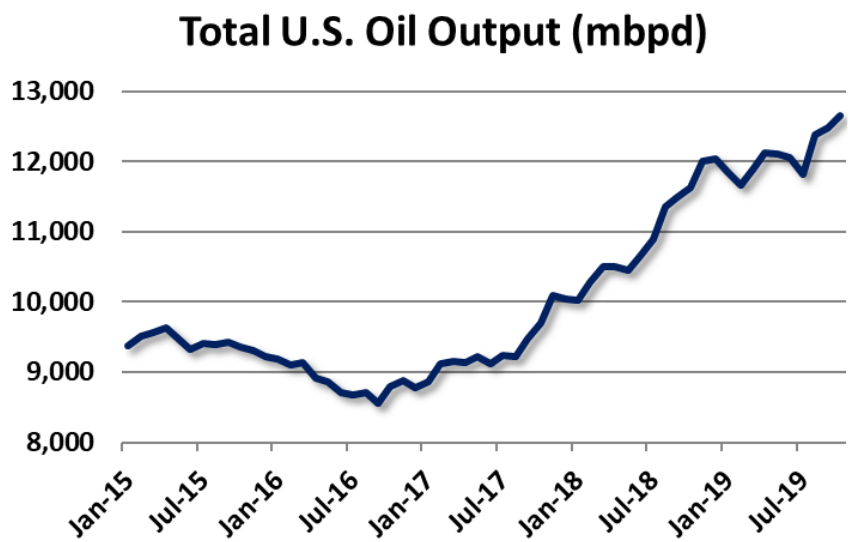
- **Comparison to XLE:** In contrast, the XLE saw ***inflows*** of $670mm during December but fared even worse than MLP products over the course of the year. ***Cumulative money flows for the broader energy sector ETF ended 2019 at a whopping negative $3.2B.***



Source: Bloomberg, USCA

EIA 914 Data

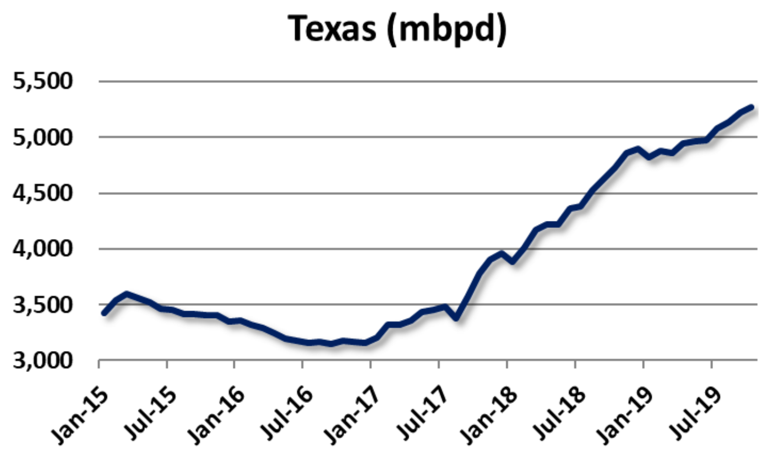
- **Oil Production:** EIA-914 oil supply data released last week showed total U.S. oil production increased by 170 mbpd m/m in October, to ~12.7 mmbpd. Growth driven by a ~70/53 mbpd m/m increase in ND/TX volumes. October data implies onshore volume growth of +1.0 mmbpd y/y, which is down vs. the YTD '19 average of +1.3 mmbpd and the +1.6 mmbpd of y/y growth in '18.



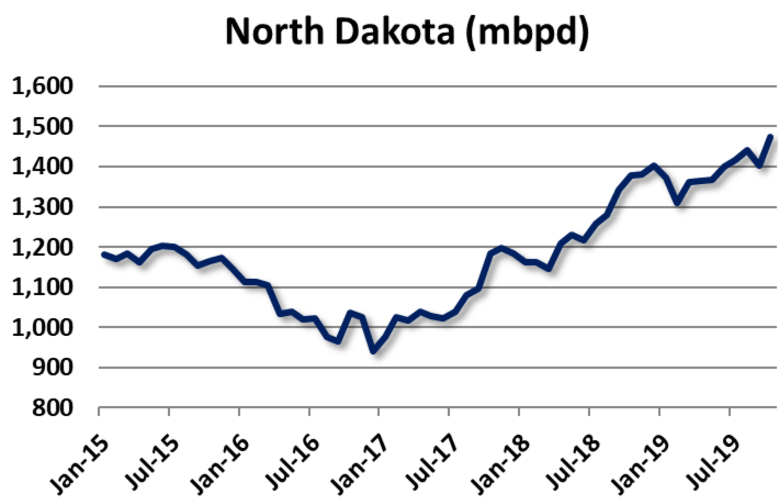
Source: EIA, USCA

EIA 914 Data – cont'd

- Texas volumes continue to reach new peaks, hitting 5.27 mmbpd in October.



- North Dakota accounted for majority of the onshore volume growth in October, with production exceeding 1.47 mmbpd for the first time.



Source: EIA, USCA

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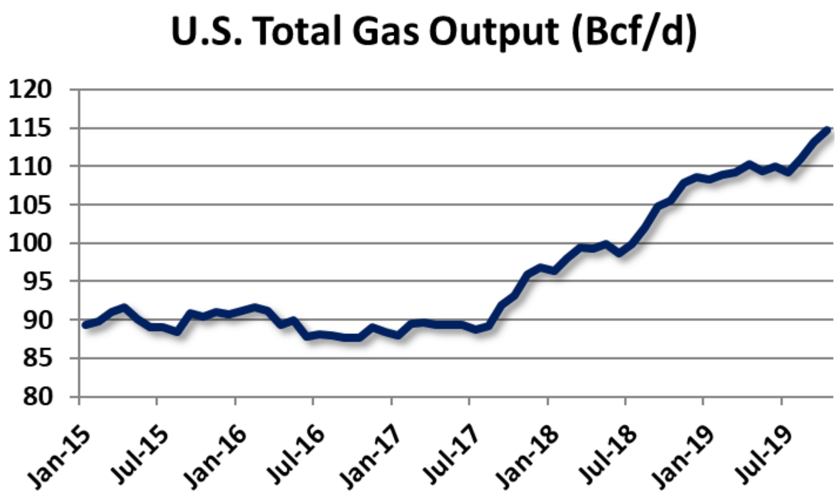
EIA 914 Data – cont'd

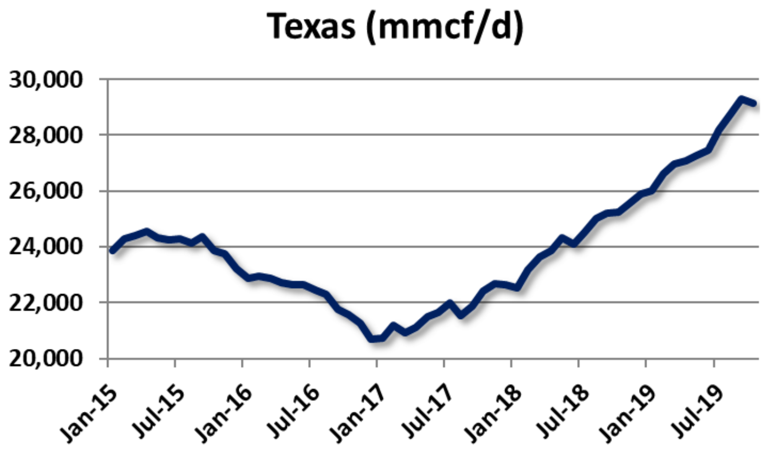
- **Gas Production:** EIA-914 gas supply data released this week showed total U.S. gas production increased by 1.6 Bcf/d m/m in October to just below ~115 Bcf/d. Growth driven by a ~600/450/350 mmcf/d m/m increase in AK/LA/WV volumes. Increases were partially offset by ~150 mmcf/d m/m losses in TX. October data implies a ~9.2 Bcf/d or 9% y/y growth rate.



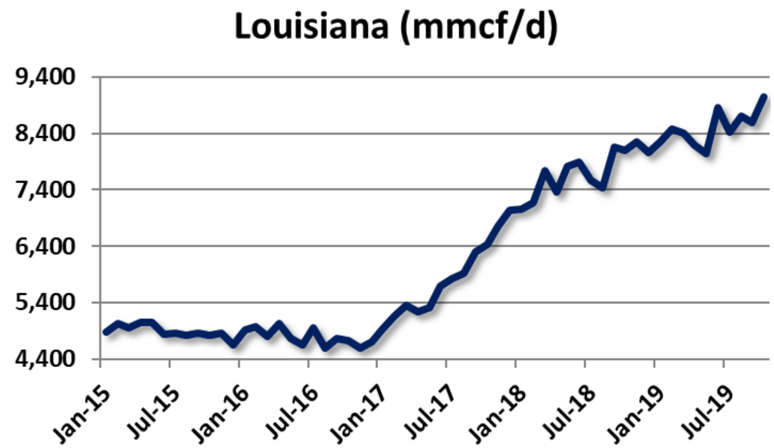
Source: EIA, USCA

EIA 914 Data – cont'd

- Texas had the largest deceleration in October, down ~150 mmcf/d m/m to 29.1 Bcf/d.



- Louisiana's gas production increased by 450 mmcf/d m/m vs the previous 6-month average of +32 mmcf/d m/m.

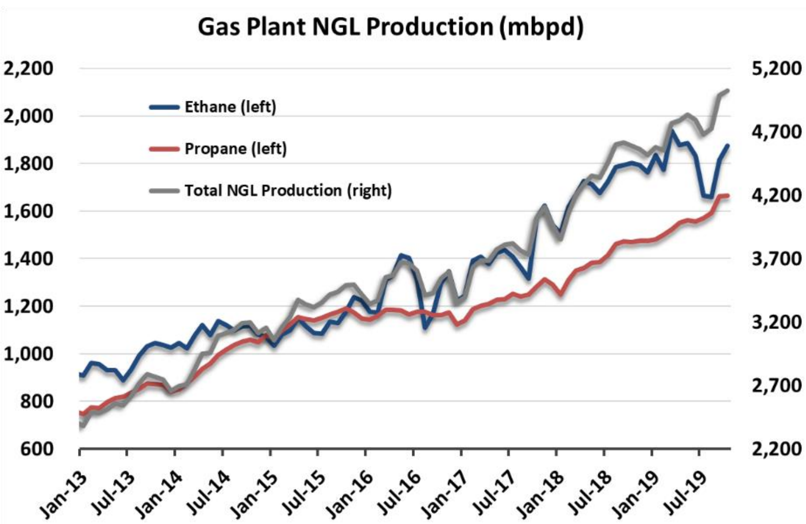


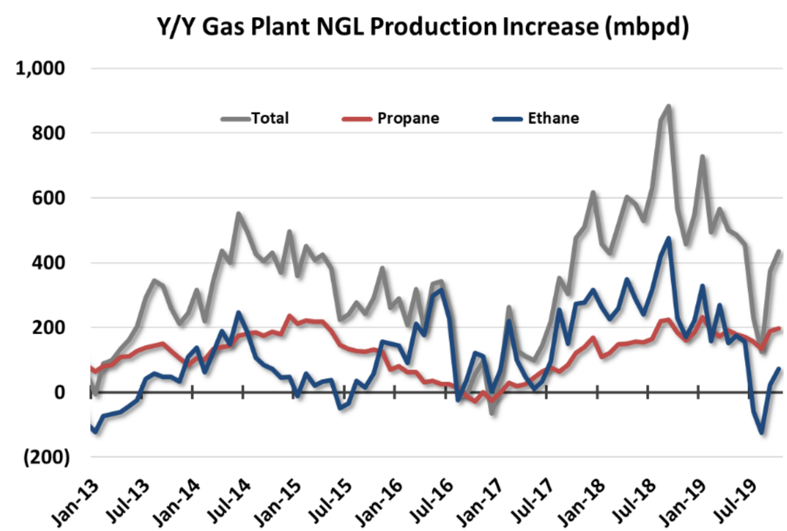
Source: EIA, USCA

NGL Data Points

Below we update select NGL data points with the latest Petroleum Supply Monthly (October data) plus weekly data for propane inventories.

- **NGL Production:** Total gas plant NGL production averaged 5.02 mmbpd in October, up slightly m/m (+33 mbpd) but up solidly on a y/y basis (+434 mbpd). Less ethane rejection offset m/m declines in the heavier NGL components, with ethane production up 59 mbpd m/m vs. C3+ components down 26 mbpd. Total ethane production in October was 1.87 mmbpd (+73 mbpd y/y), while C3+ production totaled 3.15 mmbpd (+361 mbpd y/y).

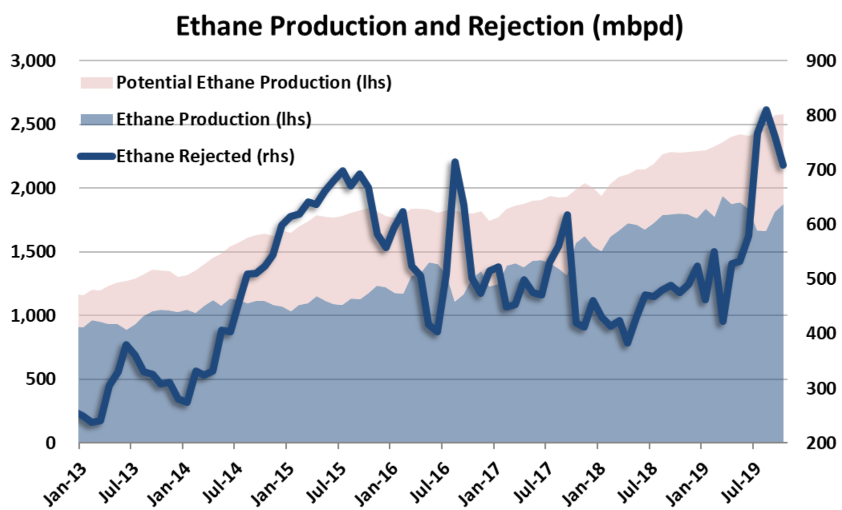


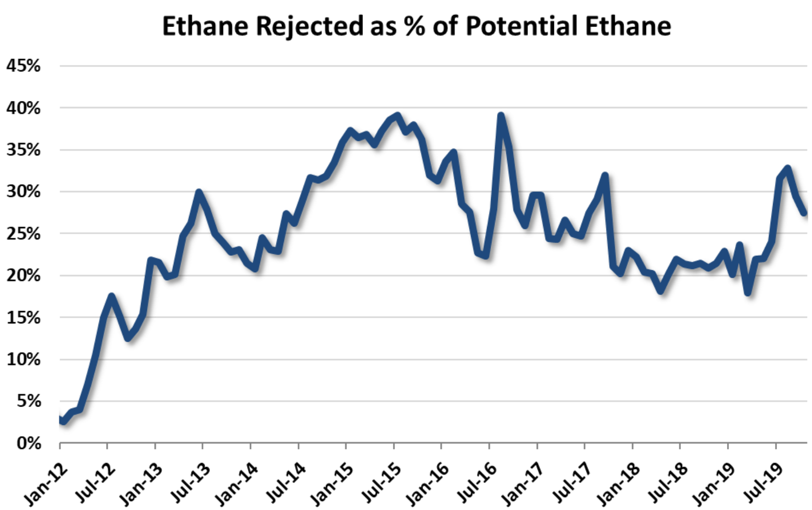


Source: EIA, Bloomberg, USCA

NGL Data Points – cont'd

- **Ethane Rejection:** Estimated ethane rejection pulled back again in October, falling another 52 mbpd, to 708 mbpd. As a percent of potential ethane production, we estimate roughly 27% was rejected during October.





Source: EIA, Bloomberg, USCA

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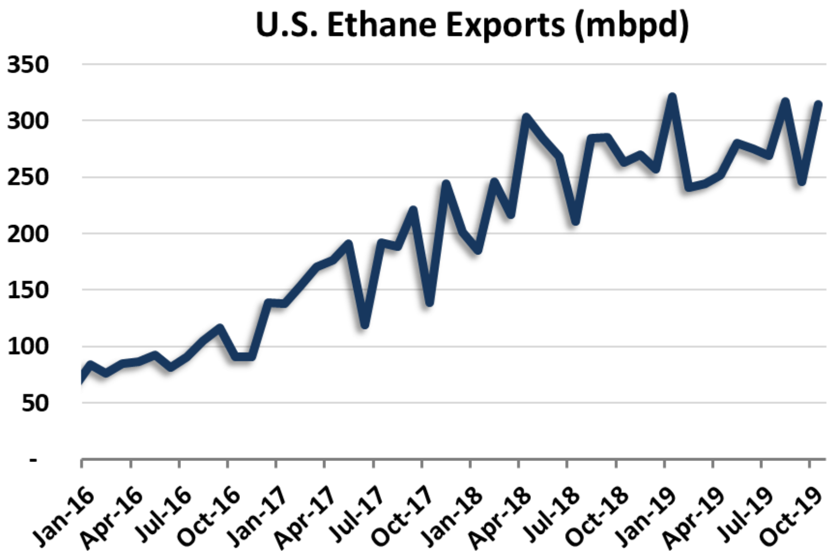
NGL Data Points – cont'd

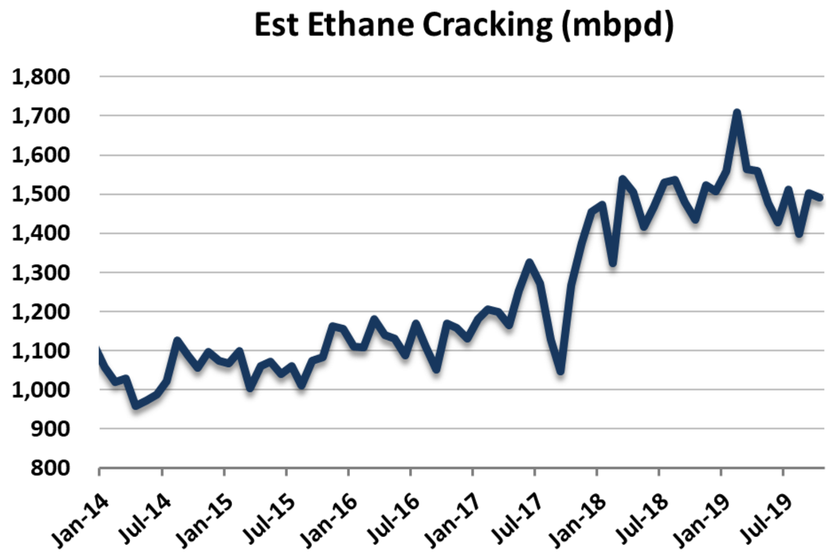
- **Ethane Exports:** October exports changed direction relative to September, up 68 mbpd m/m and averaging 314 mbpd for the month as a whole.



Source: EIA, Bloomberg, USCA

NGL Data Points – cont'd

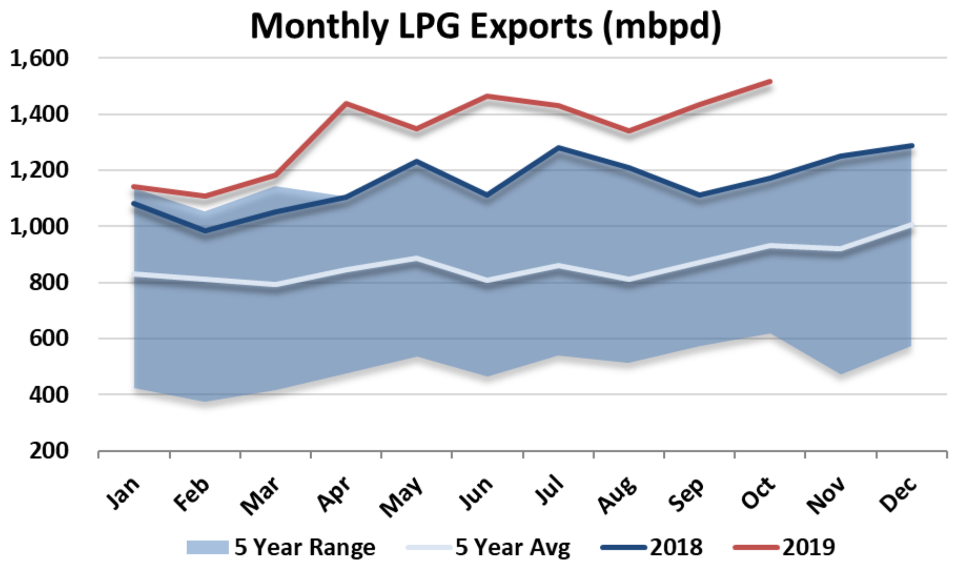
- **Ethane Cracking:** Estimated ethane cracking was ~1.49 mmbpd in October, down 11 mbpd m/m and up 58 mbpd y/y.



Source: EIA, Bloomberg, USCA

NGL Data Points – cont'd

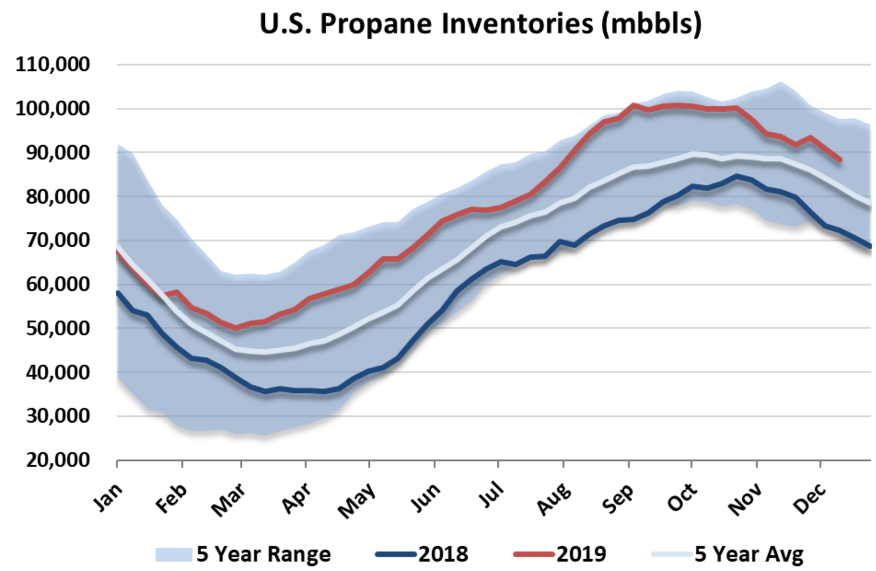
- **LPG Exports:** With new export capacity expansions from EPD and TRGP coming online, October set a record high 1.52 mmbpd of LPG exports during the month.



Source: EIA, Bloomberg, USCA

NGL Data Points – cont'd

- **Propane Inventories:** Inventories now at ~88 mmbbls but relatively stable above the five-year average over the past several weeks. With new LPG export capacity coming online and the spread between Mont Belvieu and NW Europe/Far East propane blowing out, somewhat surprising we have not seen bigger inventory draws.



Source: EIA, Bloomberg, USCA

Midstream Link Library

Below are links to PDF versions of our recent Friday Notes, as well as other USCA Midstream publications.

Recent Friday Notes

- The Power of Survival and Midstream Messaging, KMI Guidance, ENLC and DVN/DOW Transaction, ENB Analyst Meeting Takeaways, Appalachia E&P Yard Sale, Tax Loss Selling Update 12.13.19
- WMB Analyst Day, Money Flows, Tax Loss Selling, NGL Data Points 12.6.19
- ENLC/GIP Update, Fun with 13Fs, DPR Data 11.22.19
- Earnings Recaps, EQM/ETRN Dividend/Spread, ENCL Earnings and GIP Term Loan, CHK Exposure, EPD Liquidity Option Agreement 11.8.19
- Earnings Recaps, Bakken Gas Takeaway, Q3 Commentary by NE Producers, TETCO Rate Settlement, Money Flows, NGL Data Points 11.1.19
- KMI Earnings, Tax Loss Selling, DPR Data 10.18.19
- Midland Notes from the Road, USCA Water Conference, ET/SEMG Proxy 10.11.19
- Money Flows, NE Producers Debt & Equity, NGL Data Points 10.4.19
- ET for SEMG, Majors' Permian Productivity, DPR Data 9.20.19
- WES Dinner, Money Flows, BPL Dorian, Ohio Utica Cresting, Liquids Pipelines Stats 9.6.19

Other Publications

- WMB Analyst Meeting Preview 12.3.19
- USCA Q3'19 Earnings Recap 11.25.19
- ENB Initiation 10.25.19
- USCA Q3'19 Quarterly Preview
- Regional Crude Pipelines Annual Review – Summary 9.6.19
- Major Crude Oil Pipelines Annual Review – Summary 7.26.19
- NGL Pipelines Annual Review – Summary 7.23.10
- Regional Gas Pipelines Annual Review – Summary 7.11.19
- Long Haul Gas Pipelines Annual Review – Summary 6.28.19
- Show Me the Money – Tracking Midstream Returns 5.14.19

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Opinion Key:
USCA uses a Buy, Overweight, Hold, Underweight and Sell rating system.

BUY - The stock has among the best combination of risk/reward and positive company specific catalysts within the sector. Stock is expected to trade higher on an absolute basis and be a top performer relative to peer stocks over the next 12 months.

OVERWEIGHT - The stock has above average risk/reward and is expected to outperform peer stocks over the next 12 months.

HOLD - The stock has average risk/reward and is expected to perform in line with peer stocks over the next 12 months.

UNDERWEIGHT - The stock has below average risk/reward and is expected to underperform peer stocks over the next 12 months.

SELL - The stock's risk/reward is skewed to the downside with possible negative company specific catalysts or excessive valuation. The stock is expected to trade lower on an absolute basis and be among the worst performers relative to peer stocks over the next 12 months.

Risks that may impede achievement of price target(s):
Industry wide risks include but are not limited to environmental and regulatory for both pipeline and E&P, aging infrastructure and availability of midstream infrastructure to accommodate new production. Competition for and availability of service crews and drilling rigs. Commodity prices, the economic outlook, access to capital markets. Interest rates. Asset recontracting. Cost overruns.

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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 20x. 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 20x. 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 that interest or capital gains.

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Distribution of Ratings (as of January 3, 2020):

Recommendation	Count	Percent	Investment Banking Relationship	Count	Percent
Overweight/Buy	31	69%	Overweight/Buy	1	3%
Hold	13	29%	Hold	1	8%
Underweight/Sell	1	2%	Underweight/Sell	0	0%

Historical Ratings and Price Targets may be found by clicking the link below:
USCA Rating and Price Target History

USCA Glossary

For a hard copy of our price target/ratings history or a hard copy of any report, please call 888-601-USCA (8722), or write to U.S. Capital Advisors, 4444 Westheimer Suite G500, Houston TX 77027.

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