Look For MLP Earnings To Confirm Business Fundamentals

The General Partners (GPs) of Master Limited Partnerships (MLPs) have in many cases taken quite a drubbing since the Summer when the sell-off in oil picked up steam. Plains GP Holdings (PAGP) for example has fallen 26% over this time. And yet, midstream MLPs have limited direct exposure to commodity prices. Kinder Morgan (KMI) is now a C-corp following the corporate reorganization that simplified their prior structure which had two MLPs controlled by their C-Corp owned GP. While their corporate structure was altered, their business model wasn't. So KMI still earns 54% of its pre-depreciation earnings from running natural gas pipelines with fully 82% of its 2014 cashflows fee-based rather than driven by commodity prices.

Last week PAGP announced an increase in their quarterly distribution of 9.8% year-on-year, which caused the price of its securities to rally. Other GPs and C-Corps that own GPs will similarly be announcing earnings over the next several weeks. Their results and guidance will reflect the toll-like model that midstream MLPs operate combined with the advantaged economics enjoyed by those that control them. Over the past twelve months some of them have enjoyed stunningly fast distribution growth: Williams Companies (WMB) yields 5.1% and grew last year at 36%; Oneok (OKE) yields 4.7% and grew at 63%. Given the recent indiscriminate selling of energy-related stocks, the earnings announcements of these and related companies will provide a useful reminder about their business fundamentals. It will be an area well worth watching.