MLP Earnings Provide Update on Fundamentals

Energy investors have seen their holdings buffeted of late by the price of oil, and Master Limited Partnerships (MLPs) have been no exception to this. Their prices have moved as if they have substantial exposure to oil, whereas midstream MLPs are most notable for their cashflows being predominantly fee-driven. Over the past few days several firms reported quarterly earnings, showing business operations that are far less exciting than their security prices suggest.

Before we get to that, it's worth contrasting recent news on planned capital investment from Royal Dutch Shell (RDS) with plans at Kinder Morgan (KMI). RDS announced they were cutting 6,500 jobs (out of a total workforce of 94,000) and reducing their planned capital spending by $7BN (to $30BN) as a result of weak oil prices which they expect to persist. There is a substantial timelag between shifts in the price of oil and changes in supply, but here's one example of a reduction in future supply in response to lower prices. Kinder Morgan (as we noted in a previous blog post Kinder Morgan Isn't Greek) recently increased its backlog of projects from $18.3BN to $22BN during the most recent quarter (these cover several years so longer than the one year over which RDS cut its planned investments). Both companies are in the Energy sector, and yet they're experiencing the fluctuations in oil prices very differently.

To return to recent earnings, results from the companies we care about were generally good. Williams Companies (WMB) affirmed its 10-15% dividend growth through 2020 and currently yields 4.8%. Enterprise Products Partners (EPD) raised its distribution by 6% year-on-year and yields 5.25% with very conservative 1.3X coverage. Western Gas Equity Partners (WGP), the General Partner for Western Gas, LP (WES), increased its

distribution by 34% year-on-year and reaffirmed its outlook for 30% growth going forward. It yields 2.5%. Finally, U.S. Silica (SLCA), whose main business provides sand to companies for use in fracking, saw its revenues fall 28% and sand volumes drop 13%, less than expected, resulting in a 15% jump in its stock price on the day of the release (although admittedly it remains lower than we originally expected.

In short, fundamentals on individual names are showing that the energy infrastructure business remains sound in spite of the weakness in their stock prices. Everybody would like to know when prices will rise; while we can note several solid earnings reports and can opine on business conditions, calling equity markets is hard. But the news we received over this past week was positive.