Industry Top Trends Update

Midstream Energy

Sector stable, but future presents challenges

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What's changed?

Improving fundamentals. Commodity prices have strengthened in lockstep with demand as economies reopen. Increased production is improving credit measures as companies spend less on organic growth, leaving them with excess cash flow and increased financial flexibility.

ESG factors. Risk related to climate change and the transition to renewable energy has become more pronounced. The industry's focus on reducing emissions and seeking alternative, low-carbon opportunities will continue to increase.

M&A. Organic growth has slowed considerably. With fewer greenfield projects needed, the industry could be ripe for consolidation. Asset sales are increasing, but large mergers have yet to materialize. We believe asset rationalization will continue as companies focus on core competencies and competitive strengths.

How is recovery taking shape?

Volumes are back. Crude oil and natural gas volumes have rebounded, albeit production is still below pre-pandemic levels. We believe volumes will remain resilient given higher commodity prices, which provide a significant buffer against marginal production costs in most areas.

Financial discipline is holding. Midstream companies are maintaining a disciplined approach to their balance sheets and generating healthy levels of free cash flow. Lower debt levels are providing companies with additional financial flexibility to pursue new projects, partnerships, and acquisitions.

Capital allocation is key. Lower capital spending and stronger EBITDA are making management teams carefully consider how they balance debtholder and shareholder initiatives. We don't view modest share buybacks or distribution increases as harmful to the industry recovery.

What are the key risks around the baseline?

COVID. The recovery in global demand can falter if the virus and its variants overwhelm the benefits of the vaccines and result in another shutdown.

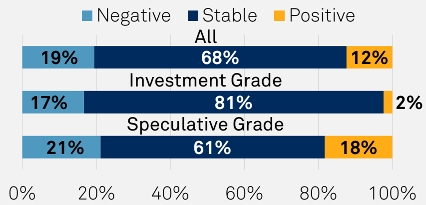
Regulation. The Biden Administration continues to promote its clean-energy plan and has rolled back more favorable Trump-era industry policies. The recovery could falter if climate regulation increases or drilling limits are enacted.

Price or capital market shocks. Supportive OPEC policies and the demand recovery have helped commodity prices and stimulated drilling. The debt capital markets remain accommodating for most midstream companies. Any change to the status quo on these fronts will risk derailing the recovery.

Latest Related Research

- Credit Quality Improves For Permian G&Ps As Volumes Bounce Back, June 22, 2021
- The Energy Transition: ESG Concerns Are Starting To Present Capital Market Challenges To North American Energy Companies, June 14, 2021
- Risk Analysis: How We Assess Midstream Energy M&A, April 29, 2021
- Canadian Midstream Operators Count On Strong Contract Structure And Diversified Customer Bases To Withstand Industry Shocks, March 31, 2021

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	42	72	114
Downgrades	2	8	10
Upgrades	2	8	10

Ratings data as of end-June, 2021

COVID-19 Heat Map

Midstream	
Estimated Recovery To 2019 Credit Metrics	2022
Potential Negative Long-Term Industry Disruption	--

2020 v. 2019		
Revenue Decline	**EBITDA Decline**	**Incremental Borrowings**
5% to 10%	10% to 15%	<5%

2021 Estimates v. 2019	
Revenue Decline	**EBITDA Decline**
0% to 10%	0% to 10%