S&P Global Ratings

Midstream Energy

Industry resilient on strong credit fundamentals

This report does not constitute a rating action.

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What's changed?

The rise of data centers and the need to power them is a positive for the midstream industry over the next 3-5 years. But the supply mix (renewables vs. natural gas) and infrastructure constraints may offset some of the most optimistic forecasts.

Geopolitical uncertainty/climate factors intensify. Conflicts in the Middle East and Asia tend to have an indirect influence on industry creditworthiness through commodity price volatility and shifting commodity flows, which will influence future capital allocation decisions. Focus on permitting and greenhouse gas emissions will remain an overhang.

Positive discretionary cash flow shrinking. While balance sheets are strong and companies generally have healthy cushions in their credit measures, discretionary cash flow has shifted from positive to negative, or breakeven at best. Higher capital expenditures and shareholder rewards are the cause, but EBITDA growth should offset any harmful credit effects.

What to look out for?

Increased mergers and acquisitions. We expect more industry consolidation, mainly driven by diversified investment-grade companies that will acquire smaller speculative-grade peers. This is unlikely to cause any harm to the acquirer's credit profile.

Infrastructure development. Now that the Mountain Valley Pipeline is in commercial operation, the focus shifts to the need for Permian egress and the next asset to reach final investment decision.

Regulatory changes. Recent Supreme Court decisions are generally positive for the industry but actions by the states, environmental groups, and the presidential election will be an overhang.

What are the key risks around the baseline?

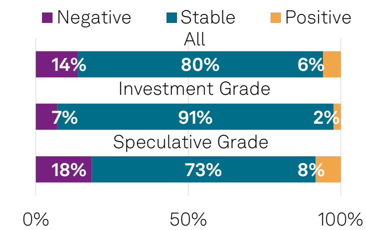
The upcoming election. Uncertainty around the U.S. presidential election could cause companies to accelerate major strategic moves, or delay them until after November.

Economic slowdown/interest rates. Lower inflationary pressure is positive for the industry and could spur refinancing activity. However, the industry's resiliency could be tested if economic growth slows considerably.

Energy transition/secular changes. The growth in renewable energy will continue to slowly make inroads at the expense of hydrocarbon demand, but the supply of renewables will likely not have a meaningful impact for several years.

Rating Trends

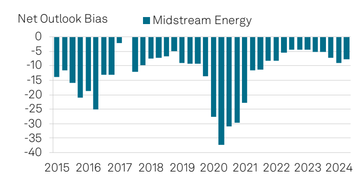
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	42	60	102
Downgrades	1	2	3
Upgrades	2	7	9

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	2.9	4.4
EBITDA growth (Y/Y%)	1.8	6.7
EBITDA margin (%)	59.2	48.9
Capex growth (Y/Y%)	6.5	-6.2
Debt/EBITDA (x)	3.4	4.6
FFO/Debt (%)	23.6	15.0
FOCF/Debt (%)	15.0	6.3

All data as of end-June 2024.
* Year-to-date. Current ratings only.

Related Research

Credit FAQ: Will The TMX Expansion Project Move The Needle On U.S. Refiner's Credit Quality?, April 18, 2024

Key Credit Drivers For North American Midstream Energy Companies In Q2 2024, March 20, 2024

Issuer Ranking: North And South American Midstream Energy Companies, Strongest To Weakest, Feb. 15, 2024