MIDSTREAM Monitor

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FEATURES

M&A Forecast: 'Mixed But Promising'

JOSEPH MARKMAN
HART ENERGY

The sky is no longer falling in the oil and gas M&A market, KPMG energy finance analysts say, but the corporate appetite for deals in the sector is still expected to drop by about 10% in 2018 compared to 2017.

The "appetite" is measured by forward P/E ratios, the analysts said in the company's annual **"M&A Predictor"** report that forecasts deal activity in four major sectors—consumer markets, financial services, industrial markets, and technology, media and telecommunications—as well as utilities and oil and gas.

"We anticipate a mixed but promising year for energy sector M&A transactions in 2018 as the market continues to stabilize and companies increasingly position themselves for greater earnings growth," wrote Henry Berling, managing director and head of U.S. energy investment banking at KPMG, and Manuel Santillana, global energy and natural

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resources deal advisory lead partner for the firm in Spain.

KPMG's data points to an 11% increase in corporate capacity to fund oil and gas M&A growth. The utility sector increase is only 2%.

"The gap between the bid and the ask in the oil and gas markets could fully close in 2018, prompting the beginning of an increase in deal activity," Berling said.

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The analysts cite an 11% hike in total energy deal value during first-quarter 2018 to $184 billion. The increase came as deal volume slowed by 18%, meaning that the average deal in the quarter was valued at $380 million, by far the highest in 10 years.

Also promising, wrote Santillana, is the 2018 renewable energy M&A market.

"We expect activity to continue moving toward clean energy businesses over the next year or two—the trend toward cleaner generation sources is happening and will continue," he said. "Specifically, Southeast Asia, China and India will continue their healthy growth into renewable energies and transactions."

The latest run-up in oil prices could usher in a new phase of upstream M&A activity, said Simon Flowers, Wood Mackenzie's energy chairman and chief analyst, in a **recent post**. M&A slumped following the oil price crash in 2014 and buyers were keen on finding low-priced assets, he said.

The Shifting Balance Of Global Energy Power

HOUSTON—Much has changed in the global energy sector from when KPMG held its last Global Energy Conference a year ago. The mood last year was glum as phrases such as "lower-for-longer" dominated the conversation. This year's meeting was noticeably more optimistic, with an air of confidence evident among the attendees at the Royal Sonesta Houston Galleria.

"Our industry is driving the future, but at the same time, we're at the nexus of converging forces," said Regina Mayor, the U.S. national sector leader of energy and natural resource for KPMG, upon opening the firm's 16th Global Energy Conference. "There are geopolitical risks and uncertainties that continue to build, rapidly accelerating technology developments and we have cultural shifts with the demographic changes that we're facing."

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Despite those rapid changes, Mayor cited a recent KPMG study of 1,300 CEOs around the world that showed 90% are confident in their company's growth prospects. Meanwhile, 67% said they weraz e confident in global economic growth.

Additionally, Mayor said the 18% year-over-year growth in the Dow Jones Industrial Average, as well as a 20% growth in the energy mix, are evidence of the growing confidence of executives in the markets.

She also noted the marked change in confidence specific to the energy sector. Oil prices have risen from the $50s to the $70s, with Brent hitting $80 in May. Rigs counts have risen 18% since last year's event, she noted. Oil production has risen by 1.4 million barrels per day.

"With all of these incredible statistics and uber-positive confidence, we should feel wildly optimistic about what's to come," she said, "but there is more to the story. —**LEN VERMILLION** | HART ENERGY

FRAC SPREAD

Ethane Stars In 30-Something Reboot

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The Mont Belvieu, Texas, ethane price broke through 30 cents per gallon (gal) last week for the first time since March 2014—a 51-month stretch. The ethane margin at Mont Belvieu rose 29.22%, sailing past 11 cents/gal.

CURRENT FRAC SPREAD (CENTS/GAL)				
JUNE 15, 2018	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	7.88		30.73	
Shrink	17.76		19.36	
Margin	-9.88	-9.47%	11.37	29.22%
Propane	67.45		88.63	
Shrink	24.53		26.75	
Margin	42.92	-9.06%	61.88	-4.18%
Normal Butane	78.03		99.98	
Shrink	27.77		30.29	
Margin	50.26	-6.49%	69.69	3.58%
Isobutane	115.10		135.95	
Shrink	26.67		29.09	
Margin	88.43	7.25%	106.86	-12.65%
Pentane+	115.40		149.93	
Shrink	29.70		32.39	
Margin	85.70	-14.01%	117.54	-1.65%
NGL $/Bbl	24.33	-5.22%	34.34	-1.04%
Shrink	9.78		10.67	
Margin	14.54	-8.27%	23.67	-1.45%
Gas ($/mmBtu)	2.68	-0.30%	2.92	-0.10%
Gross Bbl Margin (in cents/gal)	33.41	-8.24%	55.06	-1.59%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.43	14.20%	1.69	9.05%
Propane	2.34	-6.06%	3.08	-2.99%
Normal Butane	0.84	-4.38%	1.08	2.44%
Isobutane	0.72	5.40%	0.85	-10.23%
Pentane+	1.49	-10.85%	1.93	-1.32%
Total Barrel Value in $/mmbtu	5.82	-4.59%	8.63	-0.59%
Margin	3.14	-7.96%	5.71	-0.83%

Price, Shrink of 42-gal NGL barrel based on following: Ethane, 36.5%; Propane, 31.8%; Normal Butane, 11.2%; Isobutane, 6.2%; Pentane+, 14.3%, Fuel, frac, transport costs not included. Conway gas based on Midwest region, Mont Belvieu based on Houston region. Shrink is defined as Btus that are removed from natural gas through the gathering and processing operation.

Overall NGL prices were static, with the hypothetical Mont Belvieu barrel slipping 36 cents to $34.34.

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Mont Belvieu ethane has rallied for the last month, climbing 24.2% while the barrel is up only 1.6%. Will it last?

Probably not in the short term, said **En*Vantage Inc.** in a report. The analysts stuck to their contention that higher prices and frac spreads will prevail over the long term.

"As much as we thought that ethane was oversold in mid-May," they wrote, "Mont Belvieu ethane might be overbought currently."

That could be because the market overreacted to the idling of Chevron Phillips Chemical Co.'s Sweeny #22 cracker in mid-May. Then there was the ordered shutdown by the Pennsylvania Public Utility Commission of the Mariner East 1 pipeline because of sinkhole issues. The result of that, they said, was a redirection of ethane from Marcus Hook, Pa., to Morgan's Point on the Houston Ship Channel.

The U.S. Energy Information Administration's (EIA) report of a decline in ethane inventories in March, En*Vantage said, came as extraction hit an all-time high. Traders may also be trying to get ahead of the upcoming demand push with ExxonMobil Chemical Co.'s Baytown ethane cracker expected to start up in July.

There was also the recurring theme from the recent Midstream Texas Conference in Midland: the era of ethane rejection is winding down.

Delays To Halt $10 Billion Worth Of Crude

MIDLAND, Texas—With capacity hitting a wall and U.S. oil exports soaring, the midstream sector should expect production to flatline, according to Ken Snyder, chief commercial officer of Frontier Energy Services LLC.

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Snyder told attendees at Hart Energy's Midstream Texas Conference and Exhibition on June 6 that the upside of completions, rising exports, recovering world oil prices and technology like longer laterals took the industry by surprise. Output has outpaced pipelines—producing too much, too fast—making bottlenecks inevitable. Moving crude by trucks and rails, he said, won't be enough.

"All of a sudden we had more production then we thought we were going to get…producers were way out-stripping their expectations," he said. "Things were clicking in our direction [then] all of a sudden we got tight."

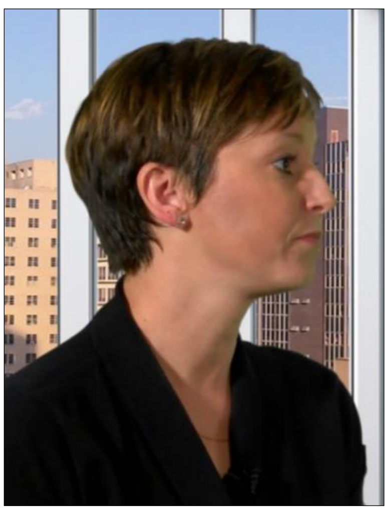
He said that the Permian Basin's production will rise by 70,000 barrels a day (bbl/d) per month between May 2018 and September 2019, which would require 400 to 500 trucks and drivers to commute 40,000 bbl/d of that crude to market.

"If we sent that many drivers out of the basin, it's going to cause a bigger domino problem in the basin and at some point, it's going to cost more than $20 for the truck. So it'll go up exponentially if we pull on it too hard," he explained.

—MARY HOLCOMB | HART ENERGY

VIDEO

EnLink's Cindy Jaggi Talks GIP, Permian Growth



In this video interview, Cindy Jaggi, senior vice president of strategic process transformation at EnLink Midstream, discusses social outreach in the Permian Basin and why EnLink Midstream created its Project Playbook, which Jaggi said was created after taking a step back to look at best business practices for EnLink Midstream as a company.

She also describes how she, as a leader, tries to manage change within an organization while letting others know what to expect. **—JESSICA MORALES** | HART ENERGY

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Contact Information:

JOSEPH MARKMAN Senior Editor
jmarkman@hartenergy.com

Contributing Editors: Velda Addison, Darren Barbee, Nissa Darbonne, Brandy Fidler, Leslie Haines, Terrance Harris, Paul Hart, Mary Holcomb, Jessica Morales, Emily Patsy, Erin Pedigo, Larry Prado, Jennifer Presley, Chris Sheehan, Steve Toon, Len Vermillion, Brian Walzel, Alexa West, Peggy Williams

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