MIDSTREAM Monitor

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THE ANTERO DEAL

Win Win Win

EMILY PATSY
HART ENERGY

Antero Resources Corp. (NYSE: **AR**) said Oct. 9 it will consolidate its midstream affiliate into a simplified corporate structure the Appalachia shale producer anticipates will fuel share buybacks.

Antero Midstream Partners LP (NYSE: **AM**) and its general partner, Antero Midstream GP LP (NYSE: **AMGP**), are set to combine through the acquisition of all outstanding AM units held by the public and Antero Resources in a stock and cash transaction.

As part of the agreement, the combined midstream entity will then convert into a corporation and upon closing of the transaction, expected first-quarter 2019, emerge under the new moniker of Antero Midstream Corp.

Antero's simplification transaction comes months after **other companies made similar moves** due to a change in tax policy by the U.S. Federal Energy Regulatory Commission (FERC) that removed certain benefits for MLPs earlier this year. In response to the changes, pipeline operator Enbridge Inc. (NYSE: **ENB**) released a statement in May that said under the new FERC tax policy, "holding certain interstate pipelines in MLP structures is highly unfavorable to unitholders and is no longer advantageous."

Analysts with Capital One Securities Inc. viewed Antero's transaction as a positive for both the E&P and its midstream affiliate.

Under terms of the simplification agreement, Antero Resources will receive a combination of $3 cash and 1.6023

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shares of new Antero Midstream stock for each AM unit owned. The company currently holds 98.9 million of the 188.1 million outstanding units in Antero Midstream Partners.

In total, Antero Resources is expecting to receive roughly $300 million in cash proceeds, which it will use to partly fund a new $600 million share buyback program launched Oct. 9.

"Antero Resources keeps all the benefits of a 31% owner in the new midstream company" plus will receive cash proceeds to help support its share buyback program, Capital One analysts said in the firm's research note on Oct. 9. The remainder of the share repurchase program will be funded through free cash flow expected to be generated over the next 12 to 18 months.

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Public unitholders will receive $3.415 in cash and 1.635 shares of new Antero Midstream stock per unit and can elect to receive all cash, all stock or a combination of both.

Antero Resources will also have the option to receive a larger portion of cash or stock consideration based on public holders' decision to ensure Antero Midstream unitholders receive about $598 million in total cash consideration.

For Antero Midstream, the simplification will eliminate all incentive distribution rights and series B units, "aligning economic interests across the Antero enterprise," Capital One analysts said.

Antero projects the simplification transaction will drive PV-10 value tax savings of about $800 million and double-digit accretion for Antero Midstream Partners and its general partner on a discounted cash flow per share basis through 2022.

"The new Antero Midstream will remain focused on top-tier dividend growth, low leverage, and return on invested capital," Capital One analysts said.

Paul Rady, Antero's co-founder, chairman and CEO, described the company's midstream simplification transaction as a "win-win-win" for the Antero family.

"By maintaining our integrated structure, we continue to hold a competitive advantage as we develop our core liquids Appalachian Basin assets in a coordinated effort alongside our midstream provider, Antero Midstream Corp.," Rady said in a statement. "We remain focused on executing on our five-year development plan announced at the January analyst day as Antero joins an elite group of E&Ps with scale, attractive production growth, low leverage and free cash flow generation."

HEADLINES

Hurricane Michael's Effect On Oil, Gas Production

Hurricane Michael caused roughly 42% of U.S. Gulf of Mexico oil production to be shut in as it marched across the eastern Gulf. About 32% of natural gas production was also shut in, according to the Bureau of Safety and Environmental Enforcement (BSEE).

Overall, 89 production platforms, or 13% of manned platforms in the Gulf of Mexico, were evacuated, cutting off 718,000 barrels per day of oil and 812 million cubic feet per day of gas production, the BSEE said.

The Energy Information Administration reported that crude output lost in the two days of the storm represents about 9% of U.S. production. Nearly 30 million people in the southeast U.S. found themselves in the crosshairs of the category 4 storm.

FRAC SPREAD

Too High, Too Fast?

JOSEPH MARKMAN | HART ENERGY

Stronger natural gas prices and slipping NGL prices cut into NGL margins at both the Mont Belvieu, Texas and Conway, Kan., hubs last week, even as the Mont Belvieu hypothetical barrel remained above $40 for the first time in over four years.

This is not your father's commodities environment. This is not even *your own* commodities environment from last year.

CURRENT FRAC SPREAD (CENTS/GAL)				
OCTOBER 12, 2018	**Conway**	**Change from Start of Week**	**Mont Belvieu**	**Last Week**
Ethane	12.68		45.45	
Shrink	20.46		21.31	
Margin	-7.78	43.15%	24.14	-18.45%
Propane	79.00		104.19	
Shrink	28.27		29.44	
Margin	50.73	-3.42%	74.75	-5.98%
Normal Butane	103.93		124.20	
Shrink	32.00		33.33	
Margin	71.93	-2.32%	90.87	-4.95%
Isobutane	128.30		125.12	
Shrink	30.74		32.01	
Margin	97.56	-1.78%	93.11	-7.16%
Pentane+	128.30		160.64	
Shrink	34.22		35.65	
Margin	94.08	-16.52%	124.99	-2.09%
NGL $/Bbl	29.07	-3.92%	40.16	-3.59%
Shrink	11.27		11.74	
Margin	17.80	-10.02%	28.42	-6.65%
Gas ($/mmBtu)	3.09	7.60%	3.21	4.73%
Gross Bbl Margin (in cents/gal)	40.85	-9.71%	66.41	-6.82%
NGL Value in $/mmBtu (Basket Value)				
Ethane	0.70	-6.63%	2.50	-9.01%
Propane	2.74	0.25%	3.62	-3.18%
Normal Butane	1.12	0.53%	1.34	-2.53%
Isobutane	0.80	0.31%	0.78	-4.38%
Pentane+	1.65	-11.21%	2.07	-0.66%
Total Barrel Value in $/mmbtu	7.02	-3.35%	10.31	-4.19%
Margin	3.93	-10.50%	7.10	-7.75%

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.

Crude oil traders are bullish, despite higher inventories and an easing of prices that typically takes place this time of year following the summer driving season, said **EnVantage Inc.** in a report. But the global markets are roiling because the globe is roiling.

Iranian crude exports are in a free fall ahead of the planned impositions of U.S. sanctions on Nov. 4. They averaged 1.1 million barrels per day (bbl/d) for the week of October, which is 31% below the daily average in September and 58% below the high for the year in April.

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The CEO of Trafigura Group, a Geneva-based trading house, said recently that he would not be surprised to see crude oil pass $100 a barrel next year. On Oct. 10, Brent was around $83/bbl and West Texas Intermediate (WTI) was about $73/bbl.

Goldman Sachs is not so bullish. A senior executive **told CNBC** that it would take a complete elimination of Iranian exports and another meltdown of an oil producer a la Venezuela to push crude over $100.

EnVantage concurs, though it notes the possibility of China also cutting off Iranian oil as well as doubts emerging that the OPEC-Russia coalition even has the spare capacity to add 600,000 bbl/d to the world market. Still, the analysts are cautious in their outlook.

"That is not to say we are becoming very bearish on the market," they wrote. "But, oil prices have a tendency to overshoot the fundamentals and a move too fast, too high, can cause a correction."

DGO Continues Appalachia Buildout

Diversified Gas & Oil Plc (DGO) said Oct. 11 it continued its "contrarian" strategy in the Appalachian Basin with the acquisition of privately held Core Appalachia Holding Co. LLC in a cash-and-stock transaction worth about $183 million.

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The acquisition, which includes both upstream and midstream assets in southwestern Appalachia Basin, also interlocks with DGO's recent **$575 million purchase from EQT Corp.** (NYSE: **EQT**). DGO expects significant, near-term synergies, as a result, said the company's CEO, Rusty Hutson.

"Core's assets are highly contiguous to the assets we acquired from EQT earlier this year and materially expand our midstream footprint in Southern Appalachia," Hutson said in a statement. "We expect to deliver both immediate and near-term synergies by combining these assets, resulting in higher revenues and lower operating expenses, which will support our exceptional EBITDA margins across the portfolio and drive dividend payouts higher." **—EMILY PATSY** | HART ENERGY

Grow Long! Utica Vies With Marcellus

It's football season again, and similar to a quarterback gaining enough trust in a receiver that he gives him a hot read to "go long," the Appalachian Basin has become even better with experience as the Utica Shale's prolific output over the last seven years has given new life to the Midwest's energy sector.

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The Utica has become so strong that it's hard to tell if it or its older brother, the Marcellus Shale, is the strongest play in the Appalachian Basin.

The Utica's strength is best represented by the growth of production out of Ohio, which is home to the majority of the play. According to the Ohio Department of Natural Resources, gas production was up 5% to 4.3 billion cubic feet per day (Bcf/d) at the year's midpoint. Crude production was down 17% from the previous year, but was still an impressive figure at more than 4 million barrels total.

—FRANK NIETO | CONTRIBUTOR

Contact Information:

JOSEPH MARKMAN Senior Editor
jmarkman@hartenergy.com

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HARTENERGY
1616 S. Voss, Suite 1000 • Houston TX 77057-2627 • USA