



4Q20 Midstream/MLP Dividend Recap: Steady Improvement Continues

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Summary

- With only a single cut and a few additional names growing their dividends, the overall picture for dividends has continued to improve.
- For AMNA, a broad midstream composite index containing both MLPs and C-Corps, 37 of 38 dividend-paying names raised or maintained their dividends sequentially for the quarter.
- While midstream yields have moderated from the record highs seen in 2020 as a result of improved performance, they remain well above other income-oriented sectors such as REITs and utilities.

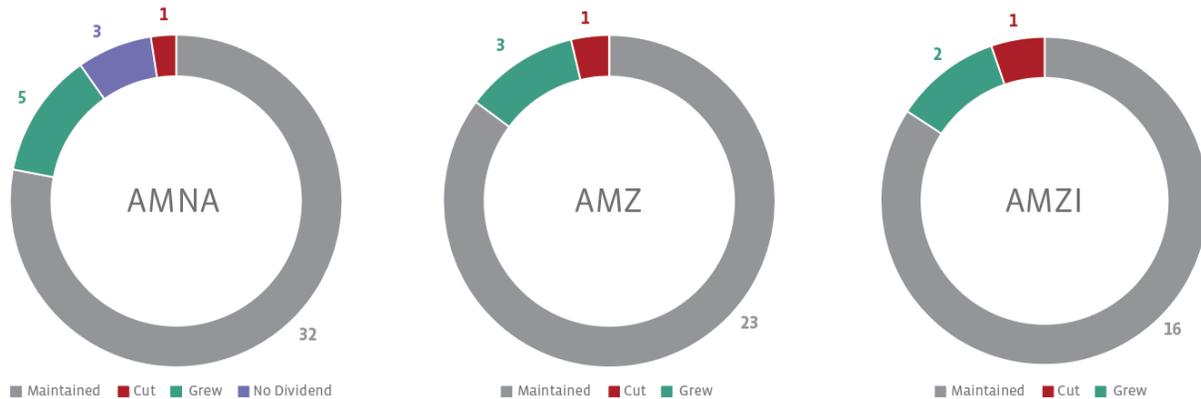
As has largely been the case since 2Q20, midstream dividends for 4Q20 were largely maintained, though there were a few examples of growth. In conjunction with annual investor days or earnings releases, some companies have also guided to dividend growth in 2021, serving as another positive sign of the improving dividend outlook. Even as midstream equities have moved higher over the last few months, midstream yields remain well above other income-oriented sectors. This note recaps 4Q20 midstream dividend announcements and discusses the outlook for dividends from here.

4Q20 Dividends: Steady trend continues with a few growers and a single cut.

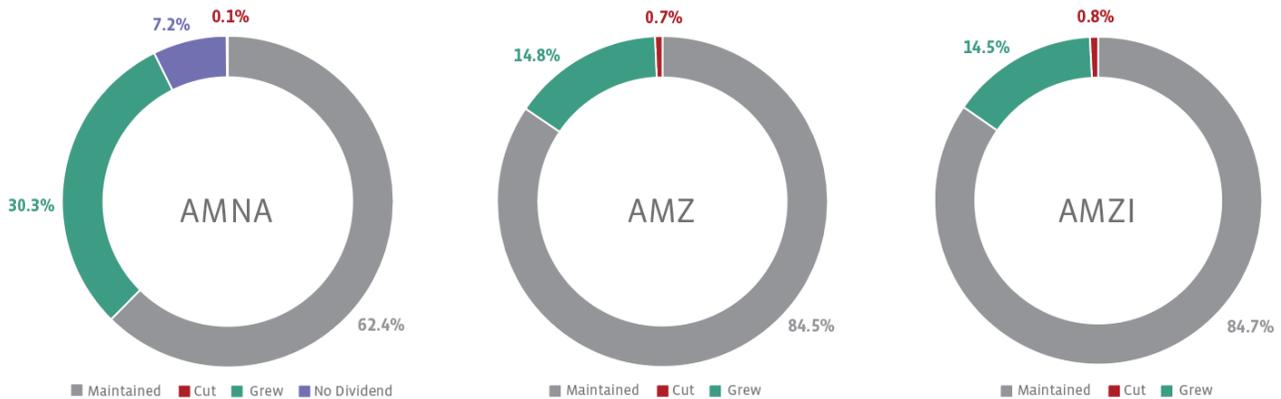
Following the dividend cuts for [1Q20](#), midstream companies largely held their payouts steady in the subsequent quarters. The pie charts on the following page highlight the quarter-over-quarter (Q/Q) changes to distributions/dividends for the constituents of the [Alerian Midstream Energy Index](#) (AMNA), [Alerian MLP Index](#) (AMZ), and [Alerian MLP Infrastructure Index](#) (AMZI) by comparing 4Q20 with 3Q20. For clarity, 4Q20 dividends refer to the dividends paid in 1Q21 as a result of operational performance in 4Q20. The three names in AMNA that do not pay regular dividends are [Cheniere Energy](#) (LNG), [Macquarie Infrastructure](#) (MIC), and [Tellurian](#) (TELL). Notably, MIC [paid](#) out a special dividend of \$11 per share in January in conjunction with its closure of an asset sale.

AMNA, AMZ, AMZI Q/Q Dividends: Steady Trend Continues for 4Q20

Absolute Numbers



By Weighting



Weightings as of February 22, 2021.
IPL CN, KEY CN, and PPL CN pay monthly dividends. For these names, dividends for January 2021 were compared with October 2020.
Source: Alerian, Company Reports as of February 25, 2021

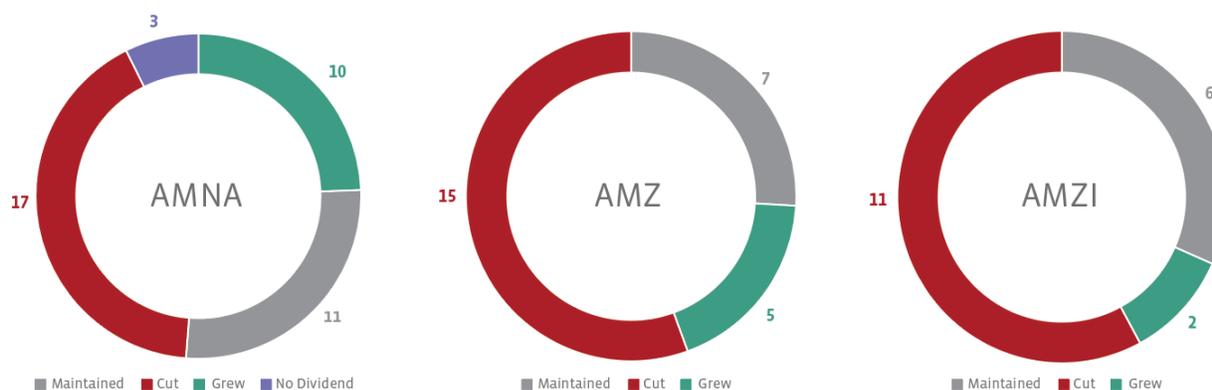
With only a single cut and a few additional names growing their dividends, the overall picture for midstream dividends has continued to improve. While most names maintained, there was an increase in the number of companies who raised their dividends sequentially compared to increases made for 3Q20. For AMNA, a broad midstream composite index containing both MLPs and C-Corps, 37 of 38 dividend-paying names raised or maintained their dividends sequentially for the quarter, representing 92.7% of the index by weighting (companies not paying dividends represent 7.2% of the index). Five midstream companies increased their payouts quarter-over-quarter: MLPs [Enterprise Products Partners \(EPD\)](#) by 1.1%, [Cheniere Energy Partners \(CQP\)](#) by 0.8%, and [Delek Logistics Partners \(DKL\)](#) by 0.6%, and C-Corps [Enbridge \(ENB CN\)](#) by 3.1% and [Williams \(WMB\)](#) by 2.5%. The lone cut in midstream came from [NGL Energy Partners \(NGL\)](#), which [suspended](#) its distribution in conjunction with actions to refinance its revolving credit facility and extend debt maturities.

Noisy year-over-year comparison reflects cuts in the wake of COVID-19.

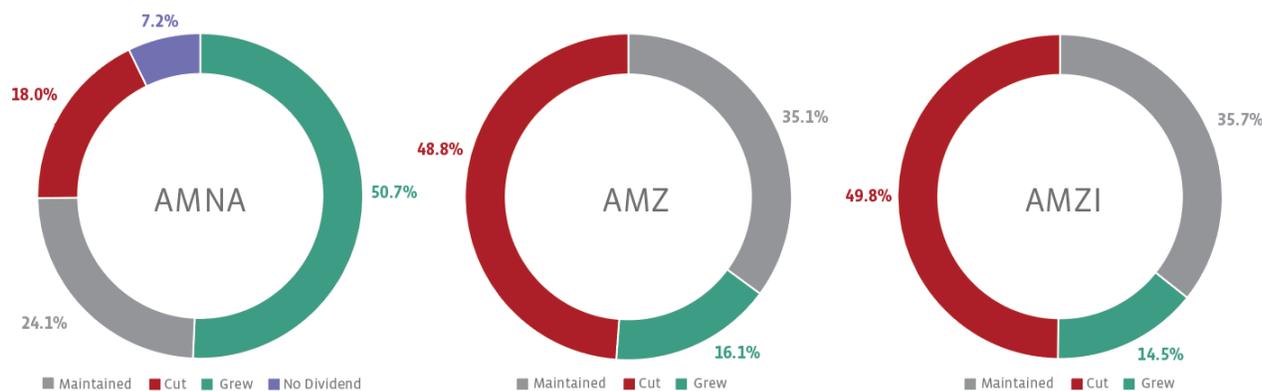
With most midstream companies holding dividends steady sequentially, year-over-year dividend changes reflect cuts that occurred in 2020 on one hand and annual growth for names that traditionally increase dividends for the fourth quarter on the other. The charts below compare 4Q20 dividends with the 4Q19 dividends for the constituents of AMNA, AMZ, and AMZI. Overall, 74.8% of AMNA by weighting grew or maintained dividends year-over-year, while 18.0% cut. Although a large absolute number of companies lowered their dividends in 2020, their relatively small total weighting in the index reflects the dividend consistency of large midstream companies with diverse operations and greater financial flexibility during downturns.

AMNA, AMZ, AMZI Y/Y Dividends: Noisy Comparison Reflects COVID-19 Cuts

Absolute Numbers



By Weighting



Weightings as of February 22, 2021.

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What could be in store going forward?

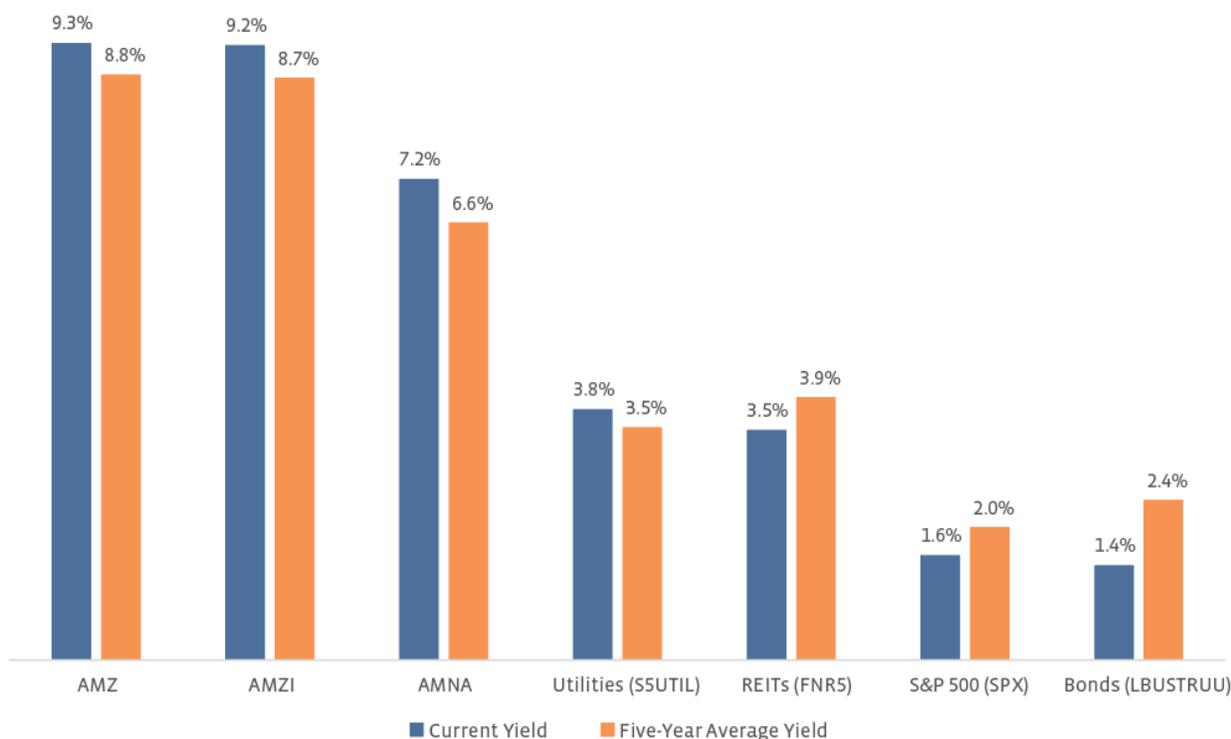
Each year, a few companies announce dividend growth or guidance on an annual basis into year-end or early in the new year. While some of this growth was reflected with 4Q20 payouts, others are growing payouts for 1Q21. [TC Energy](#) (TRP CN) [declared](#) a dividend of \$0.87 per share for 1Q21 in February, representing a 7.4% increase for the dividend payable in April. TRP [continues](#) to guide to future annual dividend growth of 5-7%. Similarly, [Gibson Energy](#) (GEI CN) [announced](#) a 2.9% dividend increase for its dividend payable in April for 1Q21. Natural gas pipeline giant [Kinder Morgan](#) (KMI) [plans](#) to increase its dividend by 3% for 2021 in addition to targeting buybacks of up to \$450 million.

Outside of guidance for growth, other companies have provided color around distributions. For example, [Western Midstream Partners](#) (WES) and [Magellan Midstream Partners](#) (MMP) have guided to maintaining payouts in 2021. [Shell Midstream Partners](#) (SHLX) has [noted](#) that future distributions will be decided by the board on a quarter-by-quarter basis, while [Phillips 66 Partners](#) (PSXP) has [described](#) the distribution as one of two main financial levers that could be utilized in the event of a Dakota Access Pipeline shutdown, with growth capex (the other lever) already significantly reduced. At least one dividend cut seems to be on the horizon for 1Q21. [C-Corp Antero Midstream](#) (AM) is [guiding](#) to annualized dividends of \$0.90/share in 2021, a 26.8% reduction from 2020 subject to quarterly board approval. A smaller dividend would allow AM to accelerate \$65 million of capital spending into 2021 and reduce leverage over time using excess free cash flow. A dividend cut with a view to increased growth capex would certainly be unique within midstream today. While there are exceptions, recent dividend increases and largely positive or stable guidance help to frame a resilient outlook for midstream payouts, especially as companies [increasingly employ buybacks](#) as well.

Midstream yields remain well above other income-focused sectors.

As midstream has rallied in recent months in conjunction with optimism around vaccine distribution and recovering energy demand, index yields have moderated a bit and reside slightly above long-term averages. As of February 26, MLP indexes AMZ and AMZI are yielding 9.3% and 9.2%, 50 basis points above their respective five-year averages. Similarly, midstream composite AMNA is yielding 7.2% or about 60 basis points above its five-year average. While midstream yields have moderated from lofty levels in 2020, they remain well above other income-oriented sectors such as utilities at 3.8% and REITs at 3.5%, as shown in the chart below. For investors, midstream remains an attractive option for income while also providing torque to an economic recovery.

Midstream Yields Remain Above Historical Averages and Attractive Relative to Other Sectors



Utilities are represented by the S&P 500 Utilities Index (SSUTIL). REITs are represented by the FTSE NAREIT Real Estate 50 Index (FNRS). Bonds are represented by the Bloomberg Barclays US Aggregate Bond Index (LBUSTRUU).

Source: Alerian, Bloomberg as of February 26, 2021

Bottom Line

After proactive cuts in 2020 biased to the smaller players in the space, midstream payouts have proven resilient in recent quarters. Even as yields have come off their highs in conjunction with improved performance, midstream's income proposition remains attractive in the current market environment and is complemented by tailwinds from buybacks and an improving macro environment for energy.

AMNA is the underlying index for the ETRACS Alerian Midstream Energy Index ETN (AMNA). AMZI is the underlying index for the Alerian MLP ETF (AMLP) and the ETRACS Alerian MLP Infrastructure Index ETN Series B (MLPB). AMZ is the underlying index for the JP Morgan Alerian MLP Index ETN (AMJ) and the ETRACS Quarterly Pay 1.5x Leveraged Alerian MLP Index ETN (MLPR).

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