



# Could Private Equity Activity in Midstream Pick Up in 2021?

April 13, 2021

Author: Stacey Morris, CFA

## Summary

- Private equity activity in midstream has served as a catalyst for the space in the past, and a more stable macro environment could lead to additional transactions in 2021 after a relatively quiet 2020.
- Thus far in 2021, there have been some examples of private equity purchasing non-controlling interests in midstream assets.
- Outside of private equity, there has been notable M&A activity in midstream over the last few months.

At various times in recent years, private equity acquisitions in midstream have served as catalysts for the space by highlighting the value of fee-based energy infrastructure assets and providing validation for the midstream business model. Activity understandably slowed in 2020 amid the volatile macro environment. Could a more stable energy landscape lead to more examples of private equity investment in midstream in 2021? With a few transactions announced already this year, it certainly seems possible. Today's note provides an update on private equity involvement in midstream, as well as additional M&A activity in the space.

## Private equity involvement lulled in 2020.

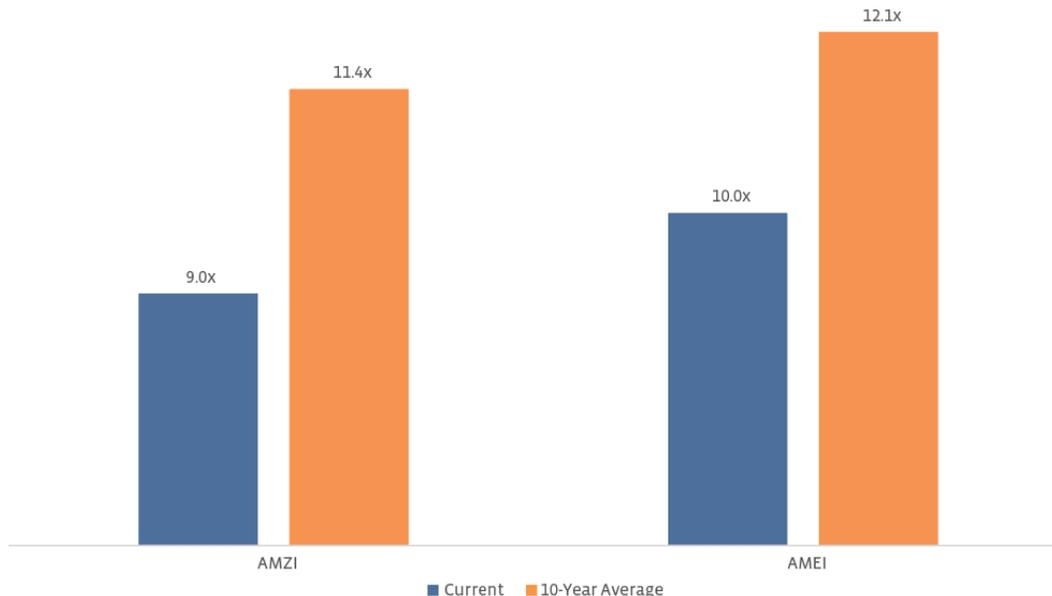
Pre-pandemic, private equity involvement in midstream was fairly regular at both the asset and company level. In particular, there were a number of notable transactions in the second half of 2018 and into 2019 often completed at attractive valuations relative to where public equities were trading ([read more](#)). A prime example was the [acquisition](#) of MLP Buckeye Partners (former ticker BPL) by IFM Investors in 2019 at a 27.5% premium. Though there was some private equity activity in 2020 ([read more](#)), it seemed to slow given the challenging macro backdrop as uncertainty and commodity price volatility likely made deal-making more difficult. Asset owners generally do not want to sell at a perceived bottom, and buyers may be reluctant to purchase assets against a tumultuous macro backdrop.

The headline [transaction](#) from 2020 was arguably Berkshire Hathaway's (BRK.A) approximately \$10 billion purchase of [Dominion Energy's](#) (D) natural gas infrastructure and a 25% interest in Cove Point LNG announced in July 2020. The acquisition enhanced Berkshire Hathaway Energy's existing interstate natural gas pipeline portfolio. With an implied EBITDA multiple of about 10x for the transaction, the valuation was not particularly rich, but the deal still helped highlight the attractiveness of midstream assets and showed confidence in the business model from a renowned investor.

## 2021 has seen a few private equity transactions in addition to other M&A activity.

Thus far in 2021, there have been some examples of private equity purchasing non-controlling interests in midstream assets. In late February, [Kinder Morgan](#) (KMI) and [Brookfield Infrastructure Partners](#) (BIP) [announced](#) the sale of a 25% minority stake in Natural Gas Pipeline Company of America to ArcLight Capital Partners for \$830 million. The implied enterprise value of \$5.2 billion represented an 11.2x multiple to 2020 EBITDA. For comparison, as shown in the chart on the following page, the [Alerian MLP Infrastructure Index](#) (AMZI) and [Alerian Midstream Energy Select Index](#) (AMEI) were trading at 9.0x and 10.0x 2022 EBITDA as of the end of March. To be fair, natural gas pipeline assets tend to garner higher multiples than petroleum pipelines or gathering and processing assets in public markets ([read more](#)). To make a more apples-to-apples comparison, the average 2022 EBITDA multiple for the five AMEI constituents classified as Pipeline Transportation | Natural Gas was 10.0x as of March 31 (includes MLPs and US and Canadian C-Corps), and only one name was trading above 11x. The 11.2x transaction multiple provides added context to comparisons of current multiples relative to historical averages.

## MLP and Midstream EV/EBITDA Valuations Remain Discounted to Historical Averages



Current EV/EBITDA is based on Bloomberg 2022 consensus EBITDA estimates.  
 AMEI's historical average EV/EBITDA is since inception on 4/1/2013.  
 Source: Alerian, Bloomberg as of 3/31/2021

AMZI is the underlying index for the Alerian MLP ETF (AMPL) and the ETRACS Alerian MLP Infrastructure Index ETN Series B (MLPB). AMEI is the underlying index for the Alerian Energy Infrastructure ETF (ENFR).

In the latest example of private equity investing in midstream assets, [Sempra Energy \(SRE\)](#) [announced](#) last week the sale of a 20% interest in Sempra Infrastructure Partners to KKR for \$3.37 billion. In December, SRE [had indicated](#) that it would pursue a sales process for a minority stake in the newly formed Sempra Infrastructure Partners, which includes Sempra LNG and IEnova – an infrastructure company in Mexico focused on pipelines, storage, and renewables. Given the unique asset base of LNG export facilities and infrastructure in Mexico, the transaction admittedly has less read-through for midstream broadly, but it still represents a hefty energy infrastructure investment by private equity.

On the opposite end of the spectrum, there was also a recent private equity exit. In late March, [Crestwood Equity Partners \(CEQP\)](#) [announced](#) a number of transactions resulting in a complete exit by First Reserve after over ten years of ownership. Of First Reserve's 17.5 million common units, 6 million units were sold in a [private placement](#), and CEQP purchased the other 11.5 million units, as well as the general partner interest, for a combined \$268 million. The orderly exit by First Reserve and related strategic updates included a number of positive developments, such as enhanced corporate governance as CEQP transitions to a fully elected board of directors.

To be clear, there has been notable M&A activity in midstream outside of private equity, including sales processes for midstream assets that did not end with a private equity buyer. [Enable Midstream \(ENBL\)](#) was [reported](#) to be up for sale in October 2020 and had been under review by co-parent [CenterPoint Energy \(CNP\)](#) going back as far as [2016](#). In February, [Energy Transfer \(ET\)](#) [announced](#) it would acquire ENBL in an all-equity deal valued at \$7.2 billion, further expanding its natural gas and natural gas liquid infrastructure footprint on the Gulf Coast and in Oklahoma and Arkansas. Though a different set of circumstances, it also bears noting that [Brookfield Infrastructure Partners \(BIP\)](#) [announced](#) plans in February to acquire Canadian energy infrastructure company [Inter Pipeline \(IPL CN\)](#) at a 23% premium to the prior day's closing price and a 28% premium to the 30-day volume-weighted average price. BIP [commenced](#) the offer process on February 22, and it is scheduled to extend until June 7, 2021. IPL's Board has [recommended](#) that shareholders reject the hostile takeover bid and not tender their shares. There have also been inter-family consolidation transactions, such as [TC Energy's \(TRP CN\)](#) recently completed [roll-up](#) of TC Pipelines and [Chevron's \(CVX\)](#) [acquisition](#) of [Noble Midstream \(NBLX\)](#) slated to close this quarter.

## Bottom line

A more stable macro environment could pave the way for additional private equity involvement in midstream beyond the examples of recent transactions. Private equity deals can serve as a catalyst for the space, providing important valuation markers and validation for the multi-year outlook for the midstream business model.

## About Alerian and S-Network Global Indexes

Alerian is a leading independent index provider focused on building innovative, index-based investment strategies. The firm acquired S-Network Global Indexes in 2019, expanding their index offerings and services to partners. Combined, the firm serves the global investment community through indexing, benchmarking and calculation services. Built on a foundation of data rigor and specialty research, Alerian and S-Network Global Indexes offer a comprehensive family of energy, income, and thematic indexes. Today, the firms cumulatively have over \$23 billion in total assets tracking its indexes and over 200 customers world-wide.

## Disclaimers

**This Document Is Impersonal and Not a Solicitation.** In jurisdictions where Alerian, S-Network Global Indexes, or their affiliates do not have the necessary licenses, this document does not constitute an offering of any security, product, or service. Alerian and S-Network Global Indexes receive compensation in connection with licensing its indices to third parties. All information provided by Alerian and S-Network Global Indexes in this document is impersonal and not customized to the specific needs of any entity, person, or group of persons. Alerian, S-Network Global Indexes, and their affiliates do not endorse, manage, promote, sell, or sponsor any investment fund or other vehicle that is offered by third parties and that seeks to provide an investment return linked to or based on the returns of any Alerian or S-Network Global Indexes index.

**No Advisory Relationship.** Alerian and S-Network Global Indexes are not investment advisors, and Alerian, S-Network Global Indexes, and their affiliates make no representation regarding the advisability of investing in any investment fund or other vehicle. This document should not be construed to provide advice of any kind, including, but not limited to, tax and legal.

**You Must Make Your Own Investment Decision.** It is not possible to invest directly in an index. Index performance does not reflect the deduction of any fees or expenses. Past performance is not a guarantee of future returns. You should not make a decision to invest in any investment fund or other vehicle based on the statements set forth in this document, and are advised to make an investment in any investment fund or other vehicle only after carefully evaluating the risks associated with investment in the investment fund, as detailed in the offering memorandum or similar document prepared by or on behalf of the issuer. This document does not contain, and does not purport to contain, the level of detail necessary to give sufficient basis to an investment decision. The addition, removal, or inclusion of a security in any Alerian or S-Network Global Indexes index is not a recommendation to buy, sell, or hold that security, nor is it investment advice.

**No Warranties.** The accuracy and/or completeness of any Alerian or S-Network Global Indexes index, any data included therein, or any data from which it is based is not guaranteed by Alerian or S-Network Global Indexes, and it shall have no liability for any errors, omissions, or interruptions therein. Alerian and S-Network Global Indexes make no warranties, express or implied, as to results to be obtained from use of information provided by Alerian and S-Network Global Indexes and used in this service, and Alerian and S-Network Global Indexes expressly disclaim all warranties of suitability with respect thereto.

**Limitation of Liability.** While Alerian and S-Network Global Indexes believe that the information provided in this document is reliable, Alerian and S-Network Global Indexes shall not be liable for any claims or losses of any nature in connection with the use of the information in this document, including but not limited to, lost profits or punitive or consequential damages, even if Alerian and S-Network Global Indexes have been advised of the possibility of same.

**Research May Not Be Current.** This document has been prepared solely for informational purposes based on information generally available to the public from sources believed to be reliable. Alerian and S-Network Global Indexes make no representation as to the accuracy or completeness of this document, the content of which may change without notice. Alerian and S-Network Global Indexes expressly disclaim any obligation to update the contents of this document to reflect developments in the energy Master Limited Partnership sector. The methodology involves rebalancings and maintenance of indices that are made periodically throughout the year and may not, therefore, reflect real-time information.

**Linked Products.** Alerian and S-Network Global Indexes licenses its indexes to third parties for the creation of investment funds or other vehicles. Alerian and S-Network Global Indexes are not responsible for the information on these websites or for anything that they provide.

**Policies and Procedures.** Analytic services and products provided by Alerian and S-Network Global Indexes are the result of separate activities designed to preserve the independence and objectivity of each analytic process. Alerian and S-Network Global Indexes have established policies and procedures to maintain the confidentiality of material non-public information received during each analytic process. Alerian, S-Network Global Indexes, and their affiliates provide a wide range of services to, or relating to, many organizations, and may receive fees or other economic benefits from these organizations.

**Copyright.** No Unauthorized Redistribution. Alerian and S-Network Global Indexes © 2021. All rights reserved. This document, in whole or in part, may not be redistributed, reproduced, and/or photocopied without prior written permission.

### Alerian

alerman.com  
info@alerman.com // 972.957.7700  
3625 N. Hall St., Suite 1200, Dallas, TX 75219

### S-Network Global Indexes

snetworkglobalindexes.com  
info@snetworkinc.com // 646.467.7928  
267 Fifth Avenue, Suite 508, New York, NY, 10016