



3Q21 Midstream Dividends: No Cuts, Growth Profile Improving

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Summary

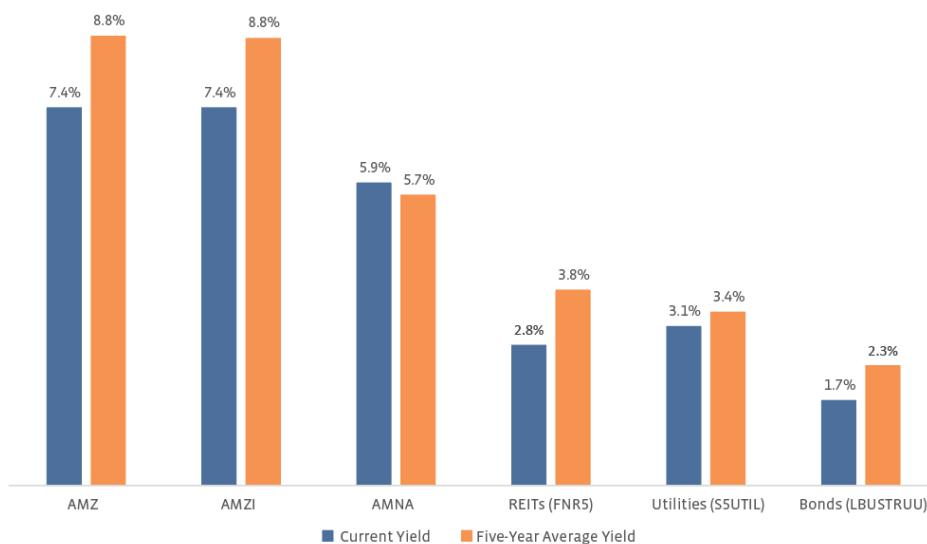
- With no dividend cuts this quarter and some companies resuming growth for the first time since the pandemic, midstream/MLP payouts seem to be garnering positive momentum.
- The combination of an improved macro backdrop, solid operational performance in 2021, significant free cash flow generation, and equity yields more in-line with historical averages makes for a more conducive backdrop for midstream distribution growth.
- Dividend increases and buyback activity are clear signs of management teams' confidence in their businesses. While midstream investors can anticipate more guidance on 2022 payouts in the months ahead, the data points and commentary thus far contribute to a positive outlook.

For the first quarter in two years, there were no dividend cuts across Alerian's midstream indexes for 3Q21 payouts. While that alone is positive, multiple examples of growth this quarter – including from companies that had not grown payouts since the pandemic – and commentary around future dividend growth are welcome developments for investors. Today's note recaps 3Q21 midstream dividend announcements and why investors should be encouraged by the outlook for dividends.

3Q21 Dividend Recap: No cuts and some growth as backdrop improves.

The combination of an improved macro backdrop, solid operational performance in 2021, significant free cash flow generation, and equity yields more in-line with historical averages (see chart below) makes for a more conducive backdrop for midstream distribution growth. This is evidenced by commentary from some companies about future dividend growth (discussed more below), and two large MLPs growing their distributions for the first time since the pandemic – notably while also repurchasing units. Magellan Midstream Partners (MMP) [announced](#) a 1% distribution increase alongside an incremental \$750 million buyback authorization as the company exhausted its prior authorization by repurchasing \$390.7 million in units in 3Q21. MPLX (MPLX) [announced](#) a 2.5% increase to its base distribution, a special distribution of \$0.575 per unit, and completed \$155 million in unit buybacks in 3Q21. For the space broadly, many companies were active with buybacks in the quarter, as will be detailed in a future note. Meanwhile, others continued to provide sequential distribution growth, including Cheniere Energy Partners (CQP), Delek Logistics Partners (DKL), Hess Midstream (HESM), and Western Midstream Partners (WES).

Midstream Yields Remain Attractive Relative to Other Sectors

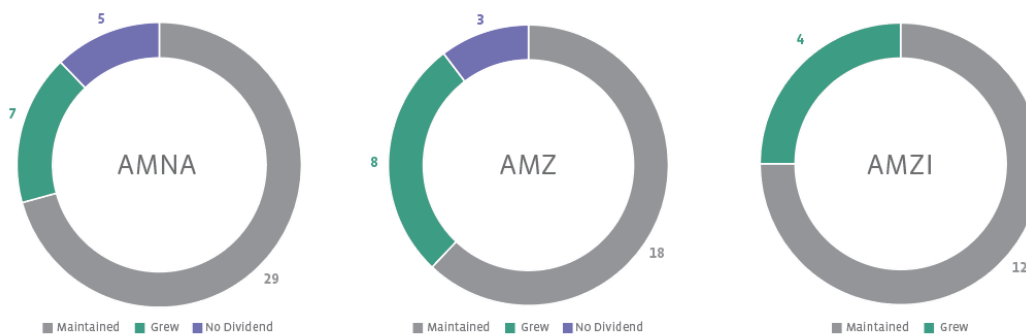


Utilities are represented by the S&P 500 Utilities Index (SSUTIL). REITS are represented by the FTSE NAREIT Real Estate 50 Index (FNRS). Bonds are represented by the Bloomberg Barclays US Aggregate Bond Index (LBSTRUU).
Source: Alerian, Bloomberg as of October 29, 2021

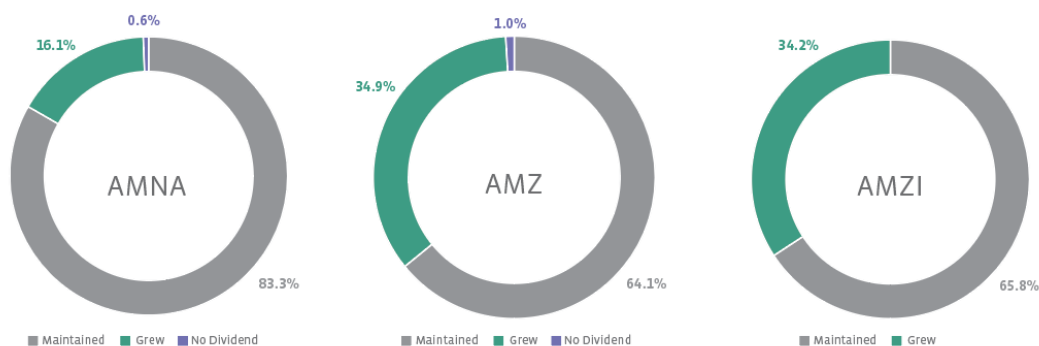
The pie charts below show the quarter-over-quarter changes to dividends for the [Alerian Midstream Energy Index \(AMNA\)](#), [Alerian MLP Index \(AMZ\)](#), and [Alerian MLP Infrastructure Index \(AMZI\)](#) by comparing 3Q21 with 2Q21. To be clear, 3Q21 dividends refer to the dividends that will be paid in 4Q21 as a result of operational performance in 3Q21. Of note, Cheniere Energy (LNG) [initiated](#) a quarterly dividend of \$0.33 per share this quarter. Additionally, Macquarie Infrastructure (MIC) paid a special dividend of \$37.39 per unit in October from the proceeds of an asset sale and [continues](#) to expect its merger with an entity managed by Argo Infrastructure Partners to close in 1H22, resulting in a distribution of \$3.83 per unit.

Q/Q Comparison: Steady Dividends with Examples of Growth in 3Q21

Absolute Numbers



By Weighting



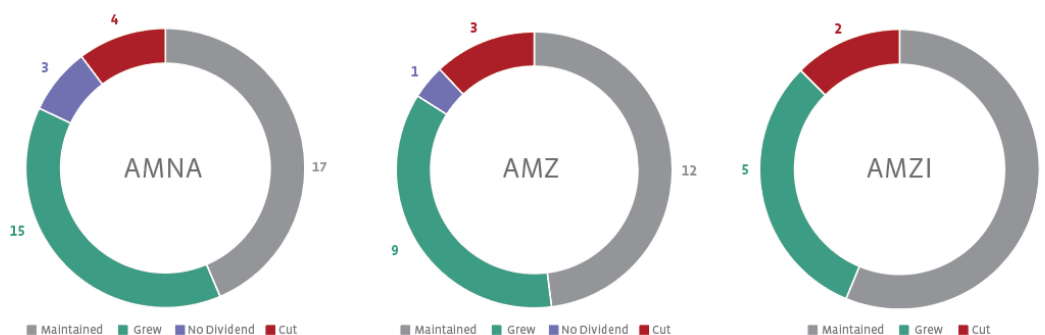
Weightings as of November 3, 2021.
 KEY CN and PPL CN pay monthly dividends. For these names, dividends for October 2021 were compared with June 2021.
 Source: Alerian, Company Reports as of November 3, 2021.

Year-over-year Comparison: Steady overall, decent examples of growth, few cuts.

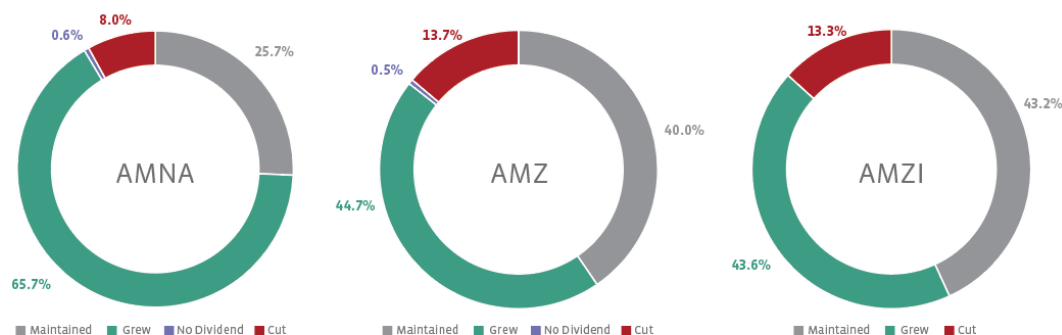
Looking at year-over-year trends for dividends, most names have grown or maintained their payouts with only a few examples of cuts. Perhaps surprisingly, when looking at the changes by weighting, a greater portion of companies have grown dividends than maintained them relative to 3Q20 payouts. Because some companies tend to increase their dividends once per year, often with the fourth quarter or first quarter payout, the year-over-year comparison can be more informative than the sequential trends. Please note that companies not in the index for both periods have been excluded from the comparison.

Y/Y Comparison: Most Names Growing or Maintaining with Only a Few Cuts

Absolute Numbers



By Weighting



Weightings as of November 3, 2021.
KEY CN and PPL CN pay monthly dividends. For these names, dividends for October 2021 were compared with October 2020.
Constituents that were not in the index the prior year were excluded.
Source: Alerian, Company Reports as of November 3, 2021.

Outlook: Commentary points to future growth.

Company commentary on earnings calls and in press releases reinforces expectations for future dividend growth with more clarity likely in the coming months. Consistent with the past, Enterprise Products Partners (EPD) plans to announce distribution growth guidance for 2022 in January. Enbridge (ENB) expects to provide 2022 dividend guidance at its Investor Day in December. Williams' (WMB) management noted on their earnings call that steady dividend growth should be expected. While not specific to dividend increases, Energy Transfer (ET) noted that strong 2021 performance is creating the potential for dividend increases and/or buybacks beginning in 2022. Others have provided more explicit dividend guidance, for example:

- Cheniere Energy Partners (CQP) [guided](#) to 2022 distributions of \$3.00 - \$3.25 per unit, compared to 2021 distribution guidance of \$2.60 - \$2.70 per unit.
- Crestwood Equity Partners (CEQP) [expects](#) to raise its distribution to \$2.62 per unit annually upon closing the acquisition of Oasis Midstream Partners (OMP), which represents an approximate 5% increase.
- Targa Resources (TRGP) [plans](#) to recommend to its board an increase in its quarterly dividend to be paid in February 2022 to \$0.35 per share from \$0.10 per share currently. TRGP expects to be able to deliver modest annual dividend growth beyond 2022.
- TC Energy (TRP) [adjusted](#) its annual dividend growth target to 3-5% from 5-7% to allow the company to manage its leverage and internally fund more of its growth capital.

Bottom line:

Dividend increases and buyback activity are clear signs of management teams' confidence in their businesses. An improving macro energy landscape, moderating equity yields, and significant free cash flow generation create a more constructive backdrop for dividend growth. While midstream investors can anticipate more guidance on 2022 payouts in the months ahead, the data points and commentary thus far contribute to a positive outlook.

AMZI is the underlying index for the Alerian MLP ETF (AMLPE) 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). AMNA is the underlying index for the ETRACS Alerian Midstream Energy Index ETN (AMNA).

Related Research:

[Robust Free Cash Flow Generation Sets Midstream Apart](#)
[Midstream/MLP Buyback Update](#)

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