Deutsche Bank
Markets Research

North America

Industrials
Master Limited Partnerships

Industry
MLPs and Natural Gas

Date
18 May 2015

Initiation of Coverage

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Midstream is Now Mainstream: Positive Outlook, But Be Selective

Initiating Coverage on the MLP and Natural Gas Sectors

Over the past decade our sector has grown from 40 public entities to over 130, making it the second largest energy sub-sector. As increased US oil and gas production drove the need for infrastructure, our space also benefitted from low interest rates, inflows as investors sought yield, and loosening tax regulations. Today, many of these trends have reversed: rising rates, lower commodities, and c-corp consolidations have many wondering if the cycle is over. We disagree and believe rising US energy production will still support growth. That said, we highlight the relevance of sub-sector differentiation and company specific analysis, and thus we recommend being selective.

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Infrastructure Build-Out = Positive Secular Growth Story. The growth in oil and gas production has brought a massive need for energy infrastructure, which we believe will be a secular tailwind for our sectors ($641b of capex needed through 2035). Key drivers include: E&Ps working to connect production to demand centers, utilities looking for dependable fuel sources, downstream players sourcing advantaged feedstock, and export demand. Sub-sectors with the greatest leverage include: crude logistics (PSXP, MLPX, VLP, TLLP), NGL infrastructure (ETE, SXL, MWE), and large cap diversified (KMI, EPD).

Commodity Headwinds Have A Mixed Impact Across the Sector. The recent commodity price collapse has been mixed for our sector. Contract structures (fee-based, volume commitments) have insulated the direct exposure for some (PSXP, MPLX, VLP), though not all (OKS). Others are instead vulnerable to E&P spending cuts and reduced asset utilization (MWE, SMLP). But the overarching risk is that sustained low prices erode demand for infrastructure, decreasing long-term growth profiles across our entire sector.

High Growth Insulates Impact of Rising Rates. Investor attention is increasingly focused on the anticipated rate hike. While we acknowledge that higher rates are a headwind for valuation, we believe our sector's growth profile will mute this impact versus other yield-oriented products, driving our preference of high growth companies with multi-year visibility (ETE, PSXP).

Wide Dispersion Supports Our Recommendation to be Selective. Strong sector performance has masked a large variation in individual returns. We attribute the dispersion to both sub-sector exposure and company-specific factors. Within our preferred subsectors our bias is toward high-growth names with multi-year visibility, stable cash flow profiles, high coverage, IG ratings, and highly-aligned management or sponsor interests (ETE, PSXP, MPLX, VLP).

Valuation and Risks. We value the group using both target DPU yield and a DDM. Primary risks include sustained commodity price pressure limiting the sector's growth profile, unattractive capital markets preventing funding, and rising rates materially increasing cost of capital / decreasing project returns.

Table Of Contents

Executive Summary

Our top picks are: ETE, PSXP, KMI, and MWE

We have attempted to structure our primer to address the needs of a range of investors – from those new to the MLP and Natural Gas sectors in need of the 101s as well as seasoned investors focused on nuanced Q1 developments.

- Section 1: MLP Overview: basics of sector (# of MLPs, mkt cap) history, org structure basics, key terms (GP, LP, IDRs, PLRs), and breakdown of sub-sectors
- Section 2: Basics of the Midstream Value Chain: description from wellhead through gathering, treating, processing, fractionation, transportation, and storage
- Section 3: Secular Infrastructure Growth Story: overview of major basins (production levels, rig counts), grouping of key E&P and midstream players by basin, crude / gas differentials, and capex forecasts
- Section 4: Commodity Headwinds: recap of commodity environment, aggregation of key E&P cutbacks, key indicators (rigs, storage, diffs)
- Section 5: Recommendations of Sub-Sectors and Stocks to Own: sub-sector outlooks, stock recommendations, valuation framework
- Section 6: Comp Sheet and Company Notes

Sub-Sector and Stock Selection

We focus on three sub-sectors that we think have the strongest fundamental drivers: Crude Logistics, NGL Infrastructure, and Large-Cap Diversified. Given the commodity environment, we are mixed on the G&P names and have a negative bias toward E&P MLPs, variable-rate refining MLPs, and gas storage names. Within these sectors we have a bias toward names with high growth, multi-year visibility, stable cash flows, high coverage, IG ratings, and aligned management or sponsor interests. Top Picks: ETE, PSXP, KMI, MWE.

Figure 1: DB Current Coverage List

			Price	Current Px	Market	Current	CY16 DPU		DPU		Total Coverage	
			Target	5/15/15	Cap	Yield	Yield	2015	2016	2017	2015	2016
Company Name	Ticker	Rating	$/unit	$/unit	$b	%	%	$/unit	$/unit	$/unit	x	x
Energy Transfer Equity	ETE	BUY	$95	$68.87	$37.1	2.8%	3.2%	$2.20	$2.84	$3.68	1.2x	1.3x
Energy Transfer Partners	ETP	BUY	$67	$57.42	$28.7	7.1%	7.3%	$4.18	$4.50	$4.82	1.2x	1.1x
Enterprise Products Partners	EPD	BUY	$38	$33.72	$67.2	4.4%	4.5%	$1.53	$1.62	$1.71	1.4x	1.4x
Kinder Morgan Inc.	KMI	BUY	$49	$42.62	$92.4	4.5%	4.7%	$2.01	$2.21	$2.43	1.2x	1.2x
MarkWest Energy Partners	MWE	BUY	$76	$66.80	$13.3	5.4%	5.5%	$3.70	$3.97	$4.36	0.9x	1.1x
MPLX	MPLX	BUY	$95	$72.83	$5.9	2.3%	2.5%	$1.82	$2.37	$3.07	1.6x	1.6x
ONEOK Inc.	OKE	SELL	$43	$45.69	$9.5	5.3%	5.3%	$2.42	$2.52	$2.68	1.2x	1.1x
ONEOK Partners	OKS	SELL	$38	$40.73	$10.4	7.8%	7.8%	$3.16	$3.21	$3.31	0.9x	0.9x
Phillips 66 Partners	PSXP	BUY	$102	$72.20	$5.9	2.0%	2.3%	$1.66	$2.24	$3.01	1.3x	1.4x
Plains All American Pipeline	PAA	BUY	$54	$48.42	$19.2	5.7%	5.8%	$2.80	$2.99	$3.19	0.9x	1.0x
Plains GP Holdings LP	PAGP	HOLD	$31	$29.09	$6.5	3.1%	3.2%	$0.92	$1.09	$1.26	1.0x	1.0x
Summit Midstream Partners	SMLP	BUY	$34	$31.18	$2.0	7.2%	7.3%	$2.27	$2.43	$2.66	1.1x	1.2x
Sunoco Logistics Partners	SXL	BUY	$48	$40.78	$10.0	4.1%	4.4%	$1.81	$2.20	$2.65	1.2x	1.2x
Sunoco LP	SUN	HOLD	$51	$48.75	$1.7	5.3%	5.7%	$2.78	$3.30	$3.72	1.4x	1.3x
Tesoro Logistics	TLLP	BUY	$69	$57.43	$4.7	4.8%	5.1%	$2.93	$3.46	$4.08	1.4x	1.2x
Valero Energy Partners	VLP	BUY	$60	$49.71	$3.0	2.2%	2.4%	$1.18	$1.50	$1.90	2.0x	2.0x
Western Gas Equity Partners	WGP	HOLD	$67	$62.95	$13.8	2.2%	2.3%	$1.48	$1.86	$2.34	1.0x	1.0x
Western Gas Partners	WES	BUY	$80	$69.12	$10.7	4.2%	4.4%	$3.05	$3.50	$4.03	1.1x	1.2x

Source: Deutsche Bank

History and Overview

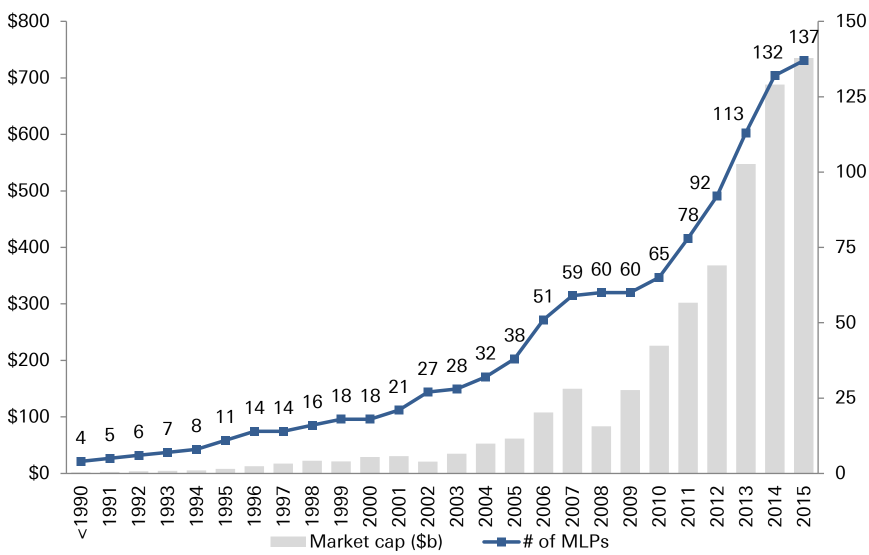
Meaningful Evolution Over the Past Decade.

The Master Limited Partnership (MLP) subsector has meaningfully changed over the past decade. In the early 2000s most investors dismissed owning MLPs because of the onerous associated tax filings (K-1s) versus traditional c-corp stocks (which issue 1099s). Restrictive holding requirements also prevented large mutual fund ownership. And lastly, for investors who made it past both of those hurdles the struggle became the decreased level of transparency associated with complicated GP/LP organization structures as well as less common fundamental metrics such as distributable cash flow/unit.

Historically many investors dismissed owning MLPs because of K1 filings, mutual fund holding restrictions, complicated org structures, and uncommon financial metrics

Today -- MLPs are one of the largest subsectors in energy. There are now 137 publically listed MLPs with a market cap of $735b. The sector is no longer primarily midstream / natural gas pipelines – instead constituents now span the entire energy value chain – making it the second largest subsector in energy, only beaten out by the market cap of Integrated Oils.

Figure 2: Annual Market Cap + # of MLPs (still existing)



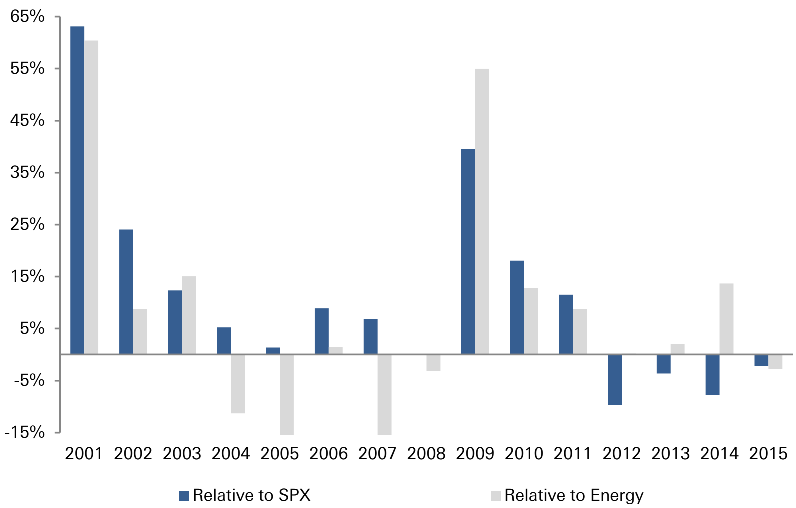
Source: Bloomberg, Deutsche Bank

The sector has increased from roughly 20 names in 2000 to 137 names today

The sector market cap has grown to north of $700b making it the second largest sub-sector in energy

The MLP Index has shifted to underperforming the SPX. While the MLP Index (called the AMZ) has outperformed the S&P Energy Index in 5 of the past 6 years, performance vs. the broader SPX has shifted. In the past 6 years, the AMZ has been 50/50 in outperforming the SPX, which paints a very different picture vs. the prior 10 year period (when the AMZ outperformed the SPX 9 out of 10 times). The magnitude of underperformance has been limited (~5%) and while past performance is not indicative of future performance, we think it is important to note these trends as many energy investors use MLPs to take out of benchmark positions in companies with more stable, visible cash flow profiles. Additionally we highlight the potential for generalist investors to gain energy exposure with less commodity volatility and a better yield + growth profile.

Figure 3: MLP Relative Total Return Versus SPX & Energy



Source: Bloomberg, Deutsche Bank

The past 3 years have marked a shift in AMZ performance vs. the SPX

Latter part of the cycle = increasingly important to be selective. Despite many of the secular tailwinds facing the group the performance of the index has been less compelling over the past three years given: the sheer # of new issuances, an increasingly educated investor base, limited liquidity, and more recently concerns over depressed commodity decks as well as rising interest rates. That said, we believe that many of the secular tailwinds that drove the outperformance still hold – significant need for new infrastructure driven by increased US production of crude oil and natural gas, increased investor demand for yield oriented products, willingness of the market to fund long life cycle projects with stable growth profiles, and capital market inefficiencies given the "newness" of this asset class.

Recent headwinds to sector performance include: the sheer # of new issuances, an increasingly educated investor base, limited liquidity, and more recently concerns over depressed commodity prices and rising interest rates

Figure 4: High Level Tailwinds & Headwinds

Tailwinds	Headwinds
1. Need for new infrastructure to support oil and gas production renaissance	1. Rising interest rates create a headwind for income oriented investment
2. Sector inflows driven by investor demand for income oriented investments (especially with growth)	2. Declining commodity prices (oil and gas) will cause a deceleration in drilling and the need for infrastructure
3. Willingness of the capital markets to fund long life cycle projects with long term stable growth profiles	3. Increase capital / competition will drive down project return profiles and inflate acquisition multiples
4. Relatively inefficient capital market given "newness" of asset class and uncommon financial metrics	4. Complex asset class with less common reported financial metrics, limited liquidity, and onerous tax filing requirements

Source: Deutsche Bank

Mixed drivers ==> stock pickers universe. With 137 MLPs, the sector is no longer mostly midstream names and instead includes everything from E&P to Shipping to Coal. Even within the typical gathering and processing segment the explosion of new basins in the US has only increased the importance of fundamental analysis given the different contract types (e.g. fee based, keep whole, and percent of proceeds) – which are critical to determining the stability and security of cash flows in volatile commodity environments.

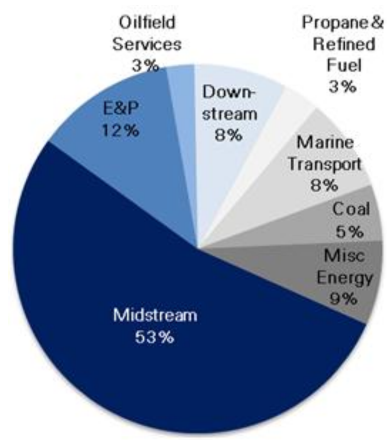
What is a Master Limited Partnership?

MLPs are publicly traded partnerships that do not pay taxes at the corporate level

Master Limited Partnerships (typically referred to as MLPs) are a type of publicly traded partnership. Different from a typical corporation structure, investors buy "units." Units are partnership interests entitled to distributions (which can be thought of as dividends) paid from available cash flow. A key distinction is that these companies are structured as pass-through entities from a tax perspective (think REITs). This means MLPs do not pay corporate-level federal taxes. Instead, taxes are paid at the investor level, and investors then pay taxes at their own respective rates.

Energy and Natural Resources Comprise the Vast Majority of MLPs. To qualify as an MLP the IRS tax code states that ≥ 90% of gross income needs to come from "qualified sources", which can be generally thought of as coming from natural resources activities. More specifically, qualifying income is defined as income from the exploration, production, transportation, processing, storage, and marketing of natural resources, minerals, or industrial-grade CO2. There are also some concessions for timber, fertilizer, and storage and transportation of some renewable fuels (like ethanol). The IRS recently proposed a narrowing of its definition here, which we explore in further detail in our PLR section.

Figure 5: Current MLP Breakdown



Source: Alerian; Deutsche Bank

Dividends and some types of interest income can also count as qualifying income, but given the limited number of public entities this applies to we don't discuss it in this primer. Today, roughly 84% of publicly traded partnerships are involved in energy and natural resources.

There is No Specific Payout Requirement. Lastly, it is important to note that unlike REITs and other tax-advantaged structures, there is no set percentage of distributions that MLPs must pay out from tax law perspective. The only requirement that they must meet is for the source of income. MLPs are only constrained by what they have promised investors in their offering documents, as well as by the criteria mandated for sector index constituents.

There is no payout requirement, only a source-of-income requirement

In practice, MLPs target payouts in the 90% range. The typical organizational structure of an MLP incentivizes management to boost payouts to limited partner (LP) unit holders through incentive distribution rights (IDRs), which we explain in a subsequent section.

Figure 6: MLP Terminology

Key Terms	
MLP = Master Limited Partnership	AMZ = Alerian MLP Index
Units = Shares	GP = General Partner
Distribution = Dividend	IDR = Incentive Distribution Right
DPU = Proxy for EPS	LP = Limited Partner
DCF = Distributable Cash Flow	Drop Down = Acquisition from Parent
Coverage = Ratio of DCF to DPU	PLR = Private Letter Ruling
MQD = Minimum Quarterly Distribution	

Source: Alerian; Deutsche Bank

History of MLP Taxation

MLPs were first created by the Economic Recovery Act of 1981, which included tax-friendly legislation, but notably did not include any requirement for qualifying income, meaning many businesses could adopt the structure.

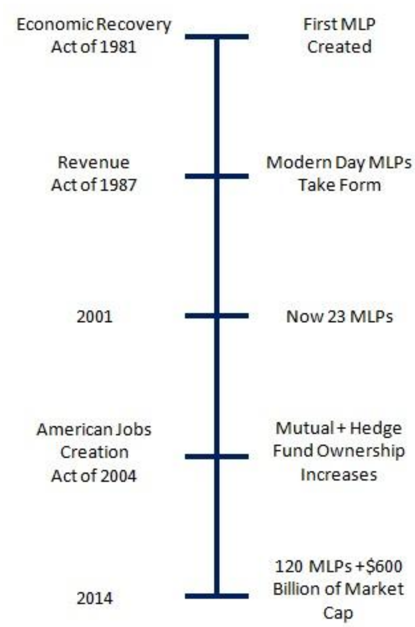
The first energy companies to use the MLP structure were primarily E&Ps. Falling energy prices in the late 80s and depleting reserve profiles drove many of these companies to fail. At the same time, the lack of qualifying income restrictions allowed many other companies to form MLPs such as investment advisors, restaurants, amusement parks, and even the Boston Celtics.

In response, Congress enacted the Revenue Act of 1987 which defined the format of modern day MLPs and introduced the notion of qualified income. The new restrictions shifted the sector toward energy and midstream assets. By 2001 the number of energy MLPs reached 23.

At this point, the main barrier to emerging as a mainstream asset class was the lack of public market investors. In 2004 the American Jobs Creation Act classified MLP distributions as qualified income. Public market equity investors (such as hedge funds and mutual funds) thus began to increase their ownership.

At the same time, the US energy industry underwent a massive structural shift with the discovery of unconventional shale resources. Large inflows of E&P development capital drove a need for midstream infrastructure. While we walk through these secular trends in more detail in a later section, the key takeaway is that the sector grew exponentially almost instantaneously. Today, there are roughly 137 MLPs with an aggregate market cap of $735b.

Figure 7: MLP Tax History Timeline



Source: Deutsche Bank

Tax laws constantly change, but we do not expect any material new legislative changes. Often investors speculate over the impact of this tax-free status and if it could change. We think this is unlikely due to the wide gap in estimated potential tax receipts compared to the amount of capital attracted to the sector. In February the Obama Administration submitted a FY16 budget that included a proposal to remove this status, but the taxes raised at the federal level were only expected to be $1.7b over the next ten years.

Often investors speculate over the impact of this tax-free status and if it could change - we think it is unlikely

For context, US federal government receipts are estimated at $2.2t in the same budget, just for 2015. Compared to the large amount of private capital that flows to infrastructure development through MLPs each year ($1.7b is less than two large overnight equity offerings) and the jobs created as a result of this infrastructure building, we do not think any reversal of the structure is likely to have any credible chance of passing.

Typical MLP Org Structure

The most common organization structure is displayed below in Figure 8. The sponsor (which is normally a corporate parent company or financial investor) owns the general partner as well as a varying percentage interest in the limited partner units. The important things to note about the organization structure are:

- General Partners: Usually own a 2% economic interest and Incentive Distribution Rights (IDRs). We explain the math behind IDRs on the next page. The GP also has managerial and voting control over the MLP and its operations.
- Limited Partners: Have no role in the MLP's operations and no voting rights.
- Subordinated Units: Are owned by the sponsor and typically convert to common units starting after 3 to 5 years, or in some cases after the distribution has increased 150% above the Minimum Quarterly Distribution ("MQD").

MLPs are controlled by their general partners, who hold a 2% interest and IDRs

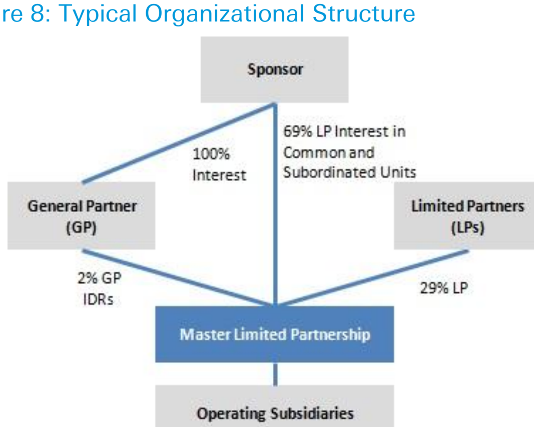
Limited partners have no voting rights

As MLPs have evolved as an asset class so have the iterations of their organizational structures. Investors now have many more options when seeking exposure to these assets and can invest in: LPs, GPs, C-Corps, Up C's, and LLCs. Many companies offer different structures of investment vehicles within the same complex. Energy Transfer, for example, has several public listings in its complex (ETE, ETP, SXL, and SUN), and the expectation for even more (ETGP and ETL).

There are now several possible organizational structures for MLPs

The biggest differences among these options relate to cash flows, taxes, and voting rights. Figure 9 compares an MLP and a corporation. The lack of entity level taxation is a major benefit in owning MLPs and is one of the main reasons MLPs receive a valuation uplift versus typical public companies.

Figure 8: Typical Organizational Structure



Source: Deutsche Bank

Figure 9: Voting and Tax Differences

Characteristic	MLP	C-Corp
Investor Voting Rights	No	Yes
Taxable at Entity Level	No	Yes
Tax Reporting	K-1	DIV-1099
Tax Burden Flow Through to Investors	Yes	No
Tax Deferral on Distributions	Yes	No
General Partner (GP)	Yes	No
Incentive Distribution Rights (IDRs)	Yes	No

Source: Deutsche Bank

Incentive Distribution Rights (IDRs)

IDRs entitle the GP to a growing share of incremental cash flows

Incentive Distribution Rights (IDRs) are a critical component of the MLP structure and are often misunderstood. Traditionally the GP holds a 2% economic interest, IDRs, and managerial and voting control of an MLP, while the LPs hold the remaining 98%. The IDRs entitle the GP to a growing share of incremental cash flows, based on a set scale. Thus as cash flows increase, GPs will receive their assigned 2% (in-line with their direct interest), as well as growing distributions to their IDRs.

IDRs can become a drag on growth in later years as more cash must be paid out to GPs

While IDRs help align different partnership interests (by incentivizing the GP to boost DPU for LPs), they can become a hindrance to growth longer-term as more cash must be paid out to the GP.

IDR payout rates and percentage increases are set by the IDR Schedule

The IDR Schedule. The rate at which IDR payouts increase is set by the IDR Schedule. These schedules usually have five levels, comprising a minimum quarterly distribution (MQD) and four higher tiers, and are based on the LP DPU (not total distribution). The ceiling for each tier is set off of the MQD:

- Tier I is 15% higher than the MQD
- Tier II is 25% higher than the MQD
- Tier III is 50% higher than the MQD
- Tier IV is any level higher than the ceiling of Tier III

Figure 11 on the following page shows an example schedule, and Figure 10 below shows how cash would be paid out according to that schedule at various hypothetical DPU levels. Note again that each level is set off the LP, not total, distribution. As the table shows, the GP receives a larger proportion of total cash distributions as the LP DPU grows.

Figure 10: Distributions to Each Unitholder Class at Various LP DPU Levels

Hypothetical LP DPUs	Distribution to LPs ($)	Distribution to LPs (%)	Distribution to GP ($)	Distribution to GP (%)	Distribution to IDRs ($)	Distribution to IDRs (%)
DPU = $0.50	$0.50	98.0%	$0.010	2.0%	$0.000	0.0%
DPU = $0.55	$0.55	98.0%	$0.011	2.0%	$0.000	0.0%
DPU = $0.60	$0.60	97.4%	$0.012	2.0%	$0.004	0.6%
DPU = $0.70	$0.70	93.9%	$0.015	2.0%	$0.031	4.1%
DPU = $0.85	$0.85	84.0%	$0.020	2.0%	$0.142	14.0%
DPU = $1.00	$1.00	76.2%	$0.026	2.0%	$0.286	21.8%
DPU = $2.00	$2.00	60.4%	$0.066	2.0%	$1.246	37.6%
DPU = $3.00	$5.00	53.7%	$0.019	2.0%	$4.126	44.3%

Source: Deutsche Bank

IDR Math and the GP Multiplier Effect. The basic math for each tier is as follows:

- MQD: LPs collect 98% of distributable cash until they receive $0.50 per unit. GPs collect the remaining 2%.
- Tier I: LPs collect 98% of the next tranche of cash until they have received another $0.075 per unit (bringing them to a total of $0.575 per unit). GPs again collect the remaining 2% of this tranche.
- Tier II: LPs now collect 85% of the next tranche, until they reach another $0.05 per unit (the difference between the ceilings on Tiers I and II). The GP collects its standard 2%, as well as 13% for its IDRs.
- Tier III: LPs collect 75% of the next tranche to get to another $0.125 per unit (the Tier II and III difference). The GP goes to 25% total.
- Tier IV: LPs now collect only 50% of incremental distribution, with the remainder going to the GP.

The key is that each tier is only reached if the below tier is fully paid on every incremental dollar paid out, and the percentage splits only apply to the current tier. So immediately after reaching Tier IV, the percentage payout split is roughly 92.3% to LPs, 2% to the GP, and 5.66% to the IDRs, even though the GP/IDRs are receiving 50% of every higher increase. Because it is based on incremental distributions, the share held by the GP/IDRs can never break 50% - LPs will always be ahead by their MQD and Tier I-III distributions.

The GP Multiplier Effect. IDR growth greatly outpaces LP growth as the MLP goes farther into the high splits. The chart to the right below uses the IDR schedule above and shows that with steady 15% LP DPU growth, GP distributions grow at a 36% CAGR once into the high splits. The reason for this difference can be seen simply with the chart in Figure 10 – if the LP DPU is raised from $0.85 to $1.00 (a 17% increase), the resulting IDR change is $0.14 to $0.29 (a doubling).

This ratio of growth is known as the GP-multiplier (2.4x in this case). Because of this advantaged growth profile, pure-play GP MLPs typically trade at a 200 basis point premium to their underlying MLP.

Purpose and Advantages of IDR for LPs. Beyond the clear advantages for the GP, IDRs are also important for LPs as they incentivize LP growth. This is particularly important for this structure as LPs have no voting control – IDRs thus help align GP and LP interests.

However, as we illustrated above, it becomes increasingly difficult to grow LP distributions as MLPs move farther into the high splits. This generally increases the cost of equity capital and thus lowers the potential growth outlook. While there are remedies like IDR resets and IDR waivers (where the GP agrees to accept lower-than-entitled IDR payments), many players chose instead to eliminate IDRs altogether: MWE and EPD bought out their GPs, while KMI and WMB recently completed/announced consolidations into their C-corps. As more MLPs mature, we expect to see more partnerships follow this path to attempt to improve their costs of capital and respective growth profiles.

Figure 11: Example IDR Schedule

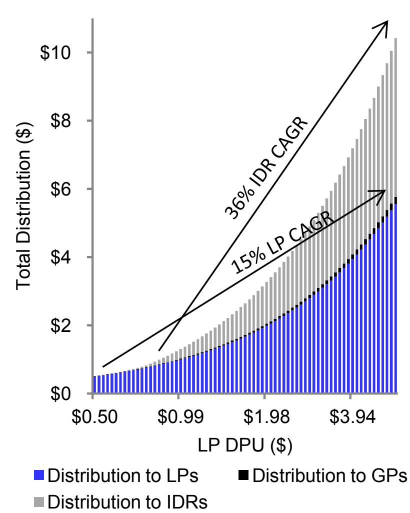
Target	LP DPU Ceiling	Distrib to GP	Distrib to IDRs	Distrib to LPs
MQD	$0.500	2%	0%	98%
Tier I	$0.575	2%	0%	98%
Tier II	$0.625	2%	13%	85%
Tier III	$0.750	2%	23%	75%
Tier IV	>$0.75	2%	48%	50%

Source: Deutsche Bank

The share held by the GP/IDRs can never break 50%...

... but IDR growth greatly outpaces LP growth as the MLP goes farther into the high splits

Figure 12: LP vs. IDR Growth



Source: Deutsche Bank

Private Letter Rulings

Generally speaking, companies with atypical asset profiles need PLRs from the IRS to be declared MLP-eligible

Private Letter Rulings (PLRs) are determinations issued by the IRS to clarify tax laws on a case-by-case basis. They have become increasingly important to the MLP sector over the last decade as non-traditional businesses (beyond typical midstream services) try to adopt the tax-free structure. Generally speaking, these companies need PLRs from the IRS to be declared MLP-eligible. PLRs are also crucial for sponsors determining what assets they can drop-down to existing MLPs.

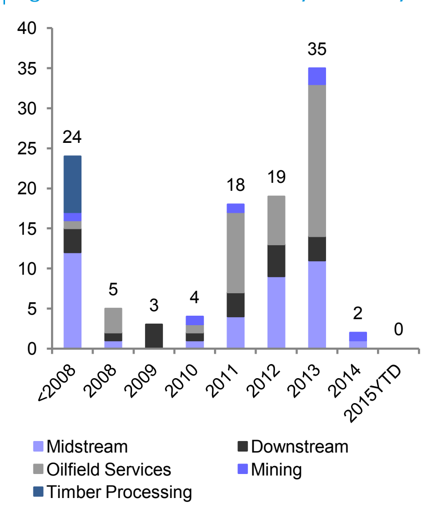
MLP Tax Recap. As a quick reminder, MLPs are considered pass-through entities and do not pay federal income taxes as long as 90% of annual gross income counts as "qualifying." Qualifying income is defined as income from the exploration, production, transportation, processing, storage, and marketing of natural resources, minerals, or industrial-grade CO_2. There are also some concessions for the storage and transportation of some renewable fuels (like ethanol).

Previously issued rulings cannot be used as precedent – each atypical candidate needs its own PLR

Rise of Non-Traditional MLPs. The MLP sector has seen a rise in the number of new issuances as well as a divergence in business model as companies – which didn't match the standard definition of an MLP -- were nevertheless drawn to both the tax benefits and valuation uplift associated with the MLP structure. As illustrated to the right, in recent years the oilfield services sub-sector has dominated PLR issuances. A key detail is that not all companies need a PLR – only those with businesses outside the traditional definition of "qualifying." Moreover, previously issued rulings cannot be used as precedent; each atypical candidate needs its own PLR.

The PLR Pause and Pending Changes. As inquiries rose, the IRS declared a surprise "pause" of issuances in April 2014. The pause ultimately lasted a year and in May 2015 the IRS announced "new" clarifications. While technically just a proposal, and the rules can still change, the definition of qualifying income has been slightly tightened. We think the definition now covers most operations that are linked to qualifying income (for example, waste water disposal), but precludes many processes that cause changes on the chemical level or introduce non-qualifying minerals or natural resources into the final product.

Figure 13: PLR Issuance by Industry



Source: IRS Filings; Deutsche Bank

Therefore it appears that several business lines inside existing MLPs are no longer considered qualifying, most notably olefin cracking / petrochemical refining. The IRS has proposed a ten-year window for affected companies to decide what to do with these assets. Except for a few pure-play names, we do not expect a significant impact on most existing MLPs. Lastly, it is important to note that an MLP remains allowed to hold assets that generate 10% or less aggregated non-qualifying income.

It is crucial for these companies trying to adopt the MLP structure to understand how the IRS defines qualified income. Its scope has not been expressly defined, and the IRS is the only entity allowed to rule one way or the other.

Why Do Companies Create MLPs?

MLPs are typically created by one of two types of entity: a financial sponsor looking for a monetary realization or a parent company with embedded midstream assets. While the motivations of financial sponsors are clear, we highlight four frequent drivers for parent companies:

The primary reason to launch an MLP is as a financing strategy

- Financing Strategy: The primary reason many companies launch an MLP is financing. While the uses of raised capital do vary, it has increasingly become the case that the parent entity is looking to further build out its own midstream assets to increase its own valuation.
- Realizing Valuation Uplift: Given the market premium offered, those with midstream assets have also tried to illustrate the value inherent in their portfolios on a sum-of-the-parts basis.
- Garnering Tax Benefits: MLPs do not pay corporate level taxes, which means companies can save money by moving assets into this type of vehicle.
- Targeting Different Investors: Companies may have investor bases that are not familiar with or interested in midstream. Moving these assets into another entity allows for a more coherent investor base.

The drop-down model emerges when a parent company creates an MLP by contributing some, but not all, of its eligible assets, choosing instead to contribute them over time

Drop-Down Structures. Almost all of these themes come together when we consider the "drop-down growth model" that has become extremely common across the MLP space. The structure emerges when a parent company creates an MLP by contributing some, but not all, of its eligible assets. This creates a backlog (usually quantified by the amount of EBITDA generated by the assets sitting up at the parent) that can be sold or "dropped-down" to the MLP over time. While multiples vary based on asset type, location, and growth profile, recent sector multiples have averaged around x10 EBITDA. This model allows a parent company to continue to control the assets, but also secure more capital.

For MLPs, the drop-down model creates the ability to acquire assets without taking on significant construction or financing risk for new projects. Large parents or private financial backers often assume this risk, shielding the MLP until the assets are flowing cash. Rough math behind the cycle: sponsors/parents build organic projects at 15-20% returns, MLPs acquire them for a 10% return (off of the above 10x multiple), and the market prices MLPs at a 5-6% yield (where our index trades). Overall ==> a very accretive process for both MLPs and their sponsors/parents.

How MLPs Make Money

Because MLPs are pass-through entities investors focus directly on assessing on cash

Investing in MLPs requires a basic understanding of how MLPs make money as well as the most commonly used metrics. Most investors are familiar with analyzing companies based off EBITDA or earnings per share (EPS) as a proxy for the underlying cash generated by the business, but because MLPs are pass-through entities investors focus directly on assessing cash. Cash is passed through in the form of a dividend (referred to as a distribution or DPU) to the unit holders, and the level of cash an entity has available to pass through is called Distributable Cash Flow (DCF).

The below example illustrates the basic math. First, the amount of DCF a company generates is calculated by taking the Net Income, adding back Depreciation, Depletion & Amortization (DD&A), subtracting Maintenance Capex, and then adjusting for any other non-cash related item. This is not too different from most companies, though maintenance capex tends to be lower in our space (~10% of EBITDA).

The health of the business can be assessed by comparing DCF per unit to the DPU…

The health of the business can then be assessed by comparing DCF per unit to the DPU. When a company is first launched this number is referred to as the Minimum Quarterly Distribution ("MQD"). Note that distributions are not a tax requirement (unlike REITs), but instead the expectations of distributions and distribution growth are the basis of the trading yield (annualized current distribution / price) which is a common valuation parameter used in the MLP sector.

… Which gives us our distribution coverage figure

Dividing the DCF per unit by the DPU generates a metric referred to as distribution coverage, which can be seen in Figure 14. Currently the average distribution coverage ratio for the names in the AMZ index is ~1.1x. Companies who run above 1.5x coverage (like EPD or MPLX) garner premium valuations versus peers with similar growth rates as the market is willing to pay more for longer growth visibility / certainty. The theory behind the valuation uplift is that the partnership could tap this "excess coverage" in later years to maintain distributions even if DCF drops in a specific period.

Figure 14: MLPs Pay Out the Majority of Cash Flow

Distributable Cash Flow	
Net Income	**570**
+ Depreciation & Amortization (DD&A)	50
+ Other non-cash items	20
- Maintenance Capex	(40)
Distributable Cash Flow (DCF)	**600**
- Distributions to GP and LPs	(545)
Excess Coverage	55
Total Coverage Ratio (x)	**1.1x**

Source: Deutsche Bank

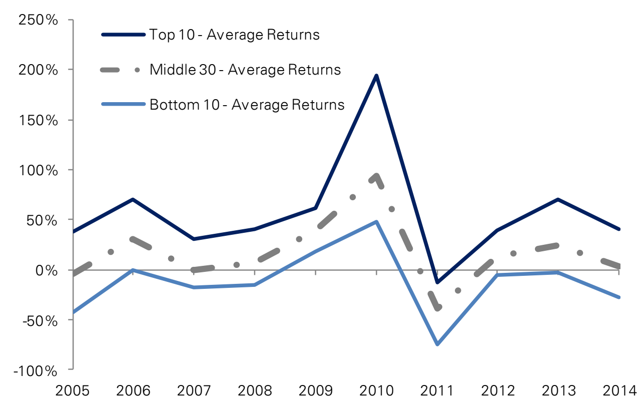
Not all MLPs are the Same

Wide dispersion of performance increases the value of fundamental analysis. While most sub-sectors of energy have high correlations between the names within their indices, MLPs do not. Looking at the AMZ Index highlights the dispersion of MLP performance and the value of fundamental analysis.

Figure 15 shows that the spread over the past decade between the top 10 performers and the bottom 10 performers in the AMZ was on average 65%. As can be seen, the width of the spread has held relatively consistent and has never been narrower than 45% -- largely attributed to the different types of MLPs in the index. Using 2014 as a guide the top 10 performers skewed toward high growth crude logistics names vs. the bottom 10 names skewed toward coal and E&P names. YTD for 2015 the pullback in commodity price has lead to a different trend and the top 10 performers are now split between E&P and crude logistics names. That said, the dispersion remains consistent with the best name up +40% and the worst down -40%.

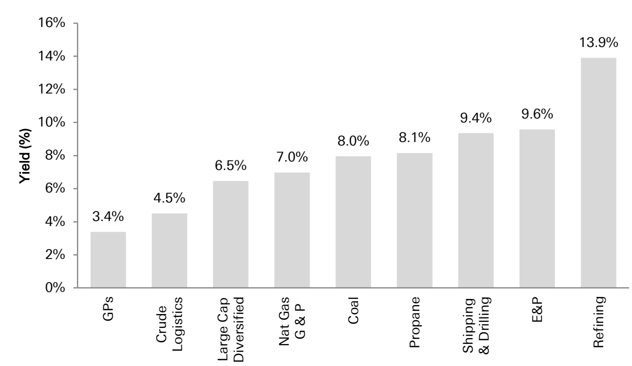
The top 10 performers skewed toward high growth crude logistics names vs. the bottom 10 names skewed toward coal and E&P names

Figure 15: Dispersion of Returns



Source: Bloomberg, Deutsche Bank

Figure 16: Yield Profiles of Different Sub-Sectors



Source: Bloomberg, Deutsche Bank

Typically investors refer to the non-traditional MLPs (seen to the right in Figure 16) as the driver of the dispersion. While these business models (coal, propane, E&P, refining) have highly variable cash flows and do account for a meaningful portion, traditional midstream names also account for a significant amount of the dispersion of returns. For example, within the natural gas gathering and processing (G&P) sub-sector understanding a company's contract types (e.g., fee based, keep whole, and percent of proceeds) is critical to determining the stability and security of cash flows in volatile commodity environments. While we discuss the key variables in both the subsequent Midstream Value Chain section and our Investment Recommendations Section on page 24, we also highlight some key criteria below:

- Assets: Types, Locations, and Barriers to Entry
- Growth Profile: Level and Length of Visibility, Coverage Ratios
- Cash Flow Stability: Contract Structures and Duration
- Balance Sheet: Debt Rating, Leverage Levels
- Other: Aligned Sponsor Interest, GP/IDR levels, Regulatory Risks

The Midstream Value Chain

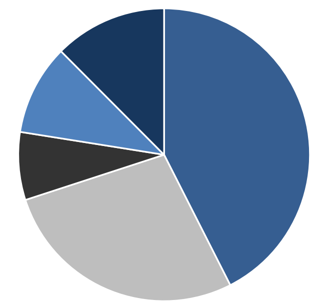
The Midstream Process Begins at the Wellhead. From here wellhead (or inlet) gas needs to undergo the various levels of gathering, treating, processing, and fractionating before it is ready to be transported to various end markets. Figure 18 below depicts the typical stages from wellhead to the end market.

Not All Wellhead Natural Gas is the Same. "Dry gas," meaning streams with very little NGL content, may need some treating but generally require minimal processing before being sent to market. "Wet gas," on the other hand, has a high NGL content and must be treated and processed before the gas can be transported to market. The NGLs are sent on as a separate stream to be fractionated into their various components: ethane, propane, butane, isobutene, and natural gasoline. The composite US NGL "barrel" is shown to the right, illustrating the typical breakdown for wellhead gas stream liquids content.

Measuring NGL Content and Deciding When to Process. The most common way to quantify NGL content is by GPM (gallons per mcf). For example, wellhead gas with a GPM of 5 generates 5 gallons of NGLs from every 1 mcf of gas at the wellhead. Typically a GPM less than 2 is considered dry, while 2+ is considered wet or "rich" and in need of processing and eventual fractionation. The decision is not that simple though, as midstream players must weigh two possibly conflicting needs: economics and takeaway qualifications. Generally, operators want to remove NGLs, as they are usually priced above natural gas on a per-btu basis. But if the spread between these (known as the frac spread) drops below the cost of separation, the economic incentives of processing are removed and thus operators may try to avoid this step. However, most natural gas pipelines have maximum liquids content regulations, which means that NGLs must often be processed out of the stream even if traditional "processing economics" are negative.

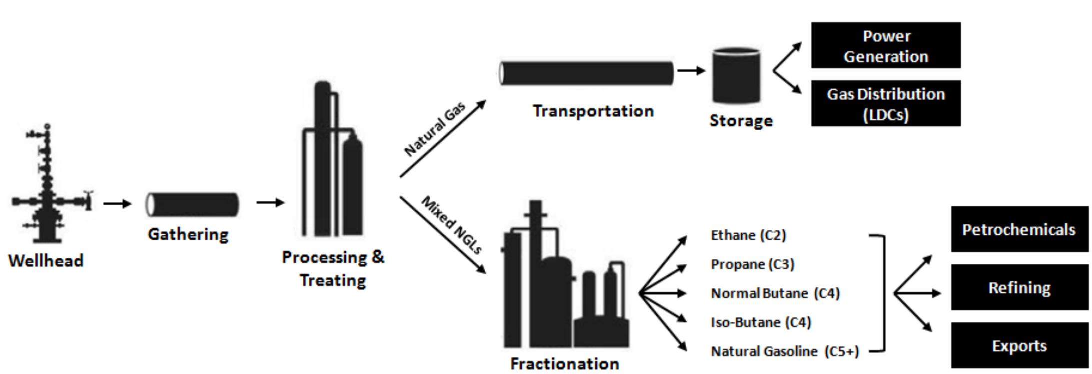
Wet Gas is an Increasingly Large Portion of Wellhead Production. Historically in the United States, natural gas was extracted from conventional gas wells. But, over the last decade the ability to drill for shale natural gas has drastically changed the energy complex. One of the most important features of shale gas is that it is generally richer than conventional gas, which has brought a huge need for processing, fractionation, and NGL handling infrastructure.

Figure 17: Composite NGL Barrel



Source: EnVantage; Deutsche Bank

Figure 18: The Midstream Value Chain



Source: Deutsche Bank

Step 1: Gas Gathering

A gathering system is a network of pipelines that collects natural gas from the wellhead and links to a central point. They are purpose-built for producers ahead of well completions to ensure their gas can move to market.

Traditionally these were linked to a single vertical well at a time, which necessitated a wide network of small-diameter, low pressure laterals. Now, with the advent of high-density, multi-well pad drilling in shale gas plays, a single gathering line can cover many producing wells. These can now reach up to 36 inches, from less than 12 inches historically.

Step 2: Treating and Processing

Treating: The treating process removes unwanted contaminants (e.g. water, sulfur, nitrogen) to get the gas to "pipeline quality standards." If the gas does not meet quality standards it can lead to pipeline erosion, explosions, and many other serious issues. Quality standards differ by carrier, but generally involve:

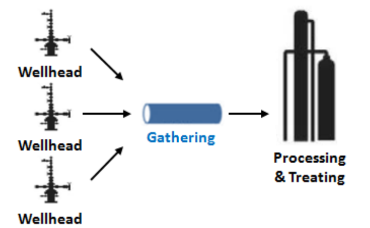
- Heating values (e.g. 950 BTU/cubic foot),
- Temperatures (e.g. less than 120 degrees Fahrenheit), and
- Purity levels (e.g. less than 2% carbon dioxide by volume).

Processing: Once natural gas is gathered and treated if necessary, it is then sent to a processing plant. The primary function of a processing plant is to cool the stream of raw gas to separate the Methane (C1) from the NGLs (C2 through C5). Once processed, two streams are formed: clean, marketable dry gas -- commonly referred to as "residue gas" and mixed NGLs -- commonly referred to as "Y-grade." In theory, if the market value of the "Y-grade" gas falls below the cost to separate the NGLs the producer can choose to "leave in" some of the byproducts into the gas stream. The three main processing techniques used today are as follow:

- Cryogenic Processing – This is the most commonly used process which is employed in almost all new processing plants and has the highest NGL recovery rate (80% of ethane, 100% of all other NGLs). The process reduces gas temperature to -120 degrees Fahrenheit through a turbo expander.
- Refrigeration – A less frequently used process, refrigeration reduces the gas temperature to -30 degrees Fahrenheit. Refrigeration is lower cost than Cryogenic Processing, but also has lower recovery rates.
- Absorption – The oldest and least frequently used process. In this process the raw natural gas is merged with absorption oil. The oil "absorbs" the NGLs and this new mix is then heated until the NGLs boil out. Lowest recovery rates (<30% ethane, +65% for all other NGLs).

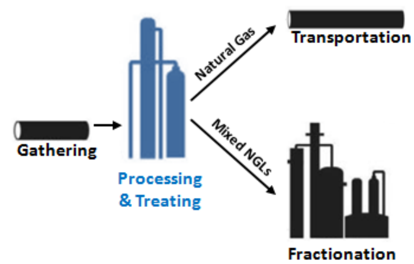
At this stage, the residue gas is pipeline-ready and can be transported via long-haul pipelines to end-consumers or injected into storage facilities. The mixed NGLs, on the other hand, are typically transported via NGL pipelines or trucks to a fractionator to separate the different NGL components.

Figure 19: Gas Gathering



Source: Deutsche Bank

Figure 20: Gas Treating & Processing



Source: Deutsche Bank

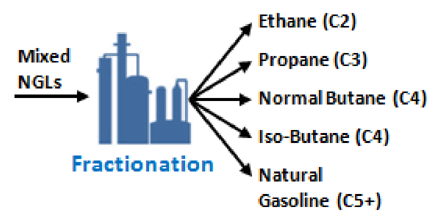
Step 3: Fractionation

Fractionation is the process of separating mixed NGLs into its individual base components through the application of heat. The process involves moving the mixed NGL stream through a series of progressively hotter distillation towers, or fractionators, that are configured to separate out particular NGL components.

As the temperature of the mixed stream increases through each fractionator, individual NGL components are boiled off one-by-one, moving from the lightest (e.g. lowest boiling point) NGL (ethane) to the heaviest (natural gasoline). After an NGL component is separated, it is then cooled and condensed into a liquid form for storage and transportation. The mixed NGL stream flows through the fractionators in the following order:

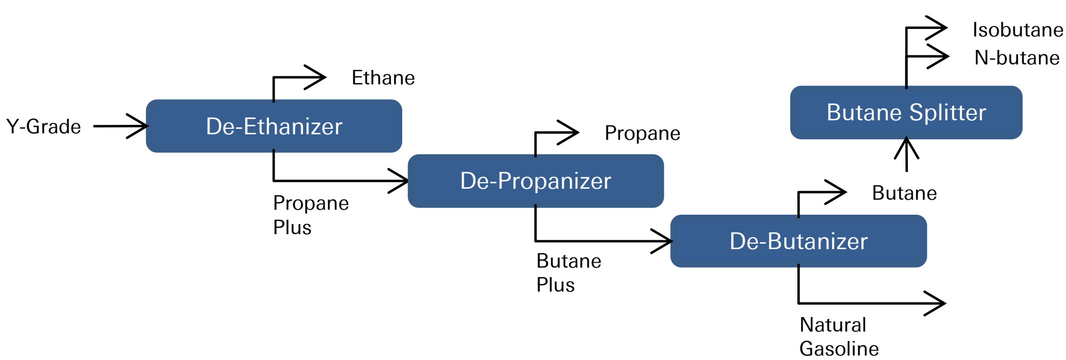
- De-Ethanizer: Removes ethane from the NGL stream, leaving what is known as C3+ (propane and heavier).
- De-Propanizer: Separates out propane, leaving butane, natural gasoline, and heavier hydrocarbons (C4+).
- De-Butanizer: Separates out butane, leaving natural gasoline and heavier hydrocarbons as a final product (C5+, or pentanes+).
- Butane Splitter: Separates normal butane from isobutene after the de-butanizer.

Figure 21: Fractionation



Source: Deutsche Bank

Figure 22: NGL Fractionation Steps

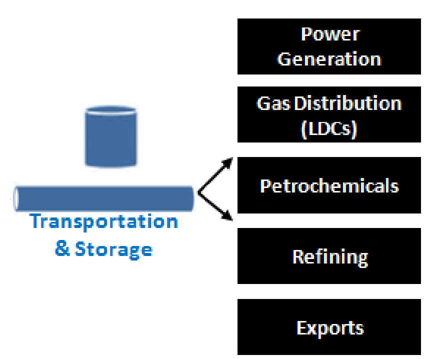


Source: Deutsche Bank

Step 4: Transportation & Storage

Both natural gas and NGLs must be transported from their respective processing, fractionation facilities to the appropriate end markets. It is important to note that pipelines are configured to handle different commodities. For example a long-haul natural gas pipeline will be different from a y-grade pipeline which will be different from a purity ethane pipeline. Additionally the end markets for all of the different products vary as well. Transportation methods include rail, truck, and pipeline connections. Storage facilities include above-ground marine, pipeline, and rail terminals as well as underground salt caverns and depleted aquifers.

Figure 23: Transportation/Storage



Source: Deutsche Bank

Midstream Contract Types

Key characteristics are: type of service, commodity price exposure, volume commitments, and duration

Contract structures between producers and midstream processing operators vary. The key characteristics are: type of service, commodity price exposure, volume commitments, and duration. Historically, processing was mostly done by producers and contracts tended to be "keep-whole". But, keep-whole contracts have high levels of income variability and as midstream operations separated into standalone entities contracts types shifted. Today, most MLPs prefer "fee-based" contracts with minimum volume commitments (MVCs) as investors typically pay higher valuation multiples for cash flow stability and visibility. The most common contracts types are:

A fee-based contract with a combined MVC can be thought of as "take-or-pay"

- Fee-Based: The simplest of the contract types, producers will pay processers a fee which is based on the anticipated volumes to be processed. The processor never takes title to any commodity, leaving the producer with all value associated with the sale of natural gas and NGLs. The most ideal contracts for processors also set minimum volumes commitments (MVCs), and therefore have no direct commodity or volume risk. A fee-based contract with a combined MVC can be thought of as "take-or-pay" – meaning the midstream operator would in theory be agnostic to whether volumes are actually flowing. While we are mostly focusing on processing here, we note that most transportation and gathering contracts are now fee-based.

For POP, processors share in the proceeds generated from the producer's sale of residue gas and/or mixed NGLs

- Percent-of-Proceeds (or Percent-of-Liquids): Here, processors share in the proceeds generated from the producer's sale of residue gas and/or mixed NGL. Terms specify the specific splits and whether the producer is responsible for covering the costs associated with extraction of the NGLs. For example, the producer keeps ownership of 90% of the proceeds (or liquids) and the processor is allowed to keep the remaining proceeds (liquids) and will be reimbursed for any associated costs. In this case, both the producer and processor are long NGL and natural gas.

Keep-Whole contracts have the most commodity sensitivity for processors

- Keep-Whole: For processors, these contracts have the most commodity sensitivity. Here, producers transfer ownership of any NGLs extracted from the raw gas stream to the processor in exchange for their services. The key here is that the processors must return an equivalent-btu basis of natural gas back to the producer as was provided pre-processing / extraction of NGLs. In this way, the producer is kept "whole" on a total btu basis. These contracts are only profitable when the value of NGLs is greater than the value of residue gas stream on a per-btu basis plus the cost of processing.
- Volume Requirements: As mentioned above, in addition to contract types, we believe investors should also focus on volume requirements. Common types are: minimum volume commitments, acreage dedications, firm capacity, interruptible, and at will.

Infrastructure = Positive Secular Growth Story

The growth in oil and gas production out of shale basins and other unconventional plays has brought a massive need for new energy infrastructure across the country, as existing networks were inadequate to handle new volumes / connect production to demand centers. For example, the Northeast is a supply constrained demand center, despite being in relatively close proximity to the Marcellus and Utica.

We believe that continuing demand for energy infrastructure will provide our midstream space with a major, positive secular growth story going forward

The EIA estimates that by 2025 unconventional dry gas plays can boost overall production by 50% and US crude production from the top three new basins can almost double. We believe, despite the recent pullback in energy prices, that this will provide the MLP sector with a major, positive secular growth story going forward. INGAA, a major industry trade group, estimates that $641b in midstream capex will be needed through 2035: $313.1b for natural gas, $271.8b for crude, and $56b for NGLs. We will also be publishing our own bottom-up estimates for midstream capex in an upcoming note.

Within this spend, we see several critical themes: E&Ps connecting production to demand centers, utilities looking for dependable fuel sources, downstream players sourcing advantaged feedstock, and export demand. Sub-sectors with the greatest leverage include: crude logistics (PSXP, MLPX, VLP, TLLP), NGL infrastructure (ETE, SXL, MWE), and large cap diversified (KMI, EPD).

Connecting Supply and Demand

Two major drivers of midstream asset demand have been refiners looking to source new feedstock and gas producers looking to move volumes out of the constrained Northeast

One of the most important drivers for midstream players has been the need to connect supply and demand. While it sounds simplistic, it has been a major undertaking. Two developments in particular have been major drivers:

- Refiners Build to Capitalize on the New US Crude Supply. Massive US oil growth caused regional differentials to emerge as takeaway capacity remained inadequate. The best example was the blow out of the Brent/WTI spread in 2011 to 2013, when some refiners were able to buy crude at a $20/bbl discount to global prices, which drove outsized returns for many refiners and placed them at an advantage to global peers. In response, refiners as well as midstream companies have been aggressively building projects to de-bottleneck constraints.
- Northeast Gas Production Has Overwhelmed Takeaway Capacity. Starting in 2013 the signals of a supply glut in the Northeast emerged as production growth began to exceed takeaway capacity, and many regional pricing points now consistently trade at material discounts to Henry Hub national prices. With this differential reaching over $1.00/mcf at times, there is a clear incentive for producers to contract takeaway capacity. Several lines have expanded in the region, but the majority of capacity will not come online until 2017-18. While this is a headwind for producers, it offers midstream players a multi-year, large-scale organic growth opportunity.

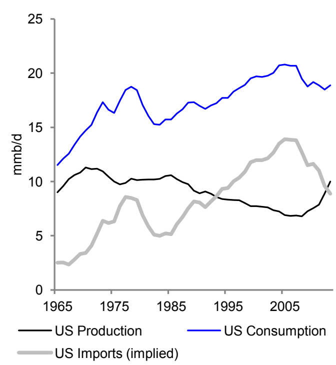
The Shale Revolution

The US energy landscape was changed dramatically by the advent of new drilling technologies the early 2000 which allowed producers to tap previously unavailable reserves trapped in shale formations across the country.

Both oil and gas volumes have grown dramatically in the last ten years

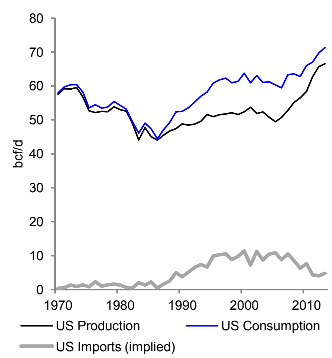
Despite the recent slowdown, the shale boom has been massive. From an oil perspective, the Permian, Eagle Ford, and Bakken alone now represent 5 mmb/d or half of US total production. The EIA expects their production to hit 10.6 mmb/d in 2020. At the same time, gas production from shale plays is equally prolific and comprises almost 70% of total US production. The six main plays now contribute roughly 45 bcf/d out of a US dry gas total of 70 bcf/d.

Figure 24: US Oil Supply/Demand



Source: BP; Deutsche Bank

Figure 25: US Gas Supply/Demand

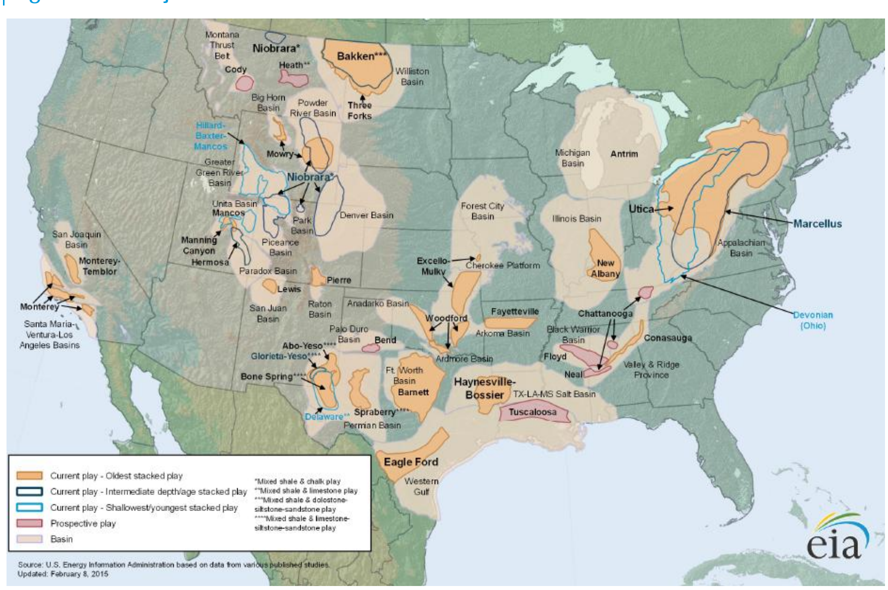


Source: BP; Deutsche Bank

The Permian, Eagle Ford, Bakken, Marcellus, Utica, and Haynesville are the most important plays for our sector right now

We believe there are six key US shale plays for our midstream players, based on current production, potential growth, and continued need for infrastructure: the Permian, Eagle Ford, Bakken, Marcellus, Utica, and Haynesville

Figure 26: Major US Shale Basins



Source: EIA

The Critical Basins and Who Has Exposure

We have laid out a quick overview of each of these plays, with production levels and important midstream and E&P players in each.

Permian

Consisting of several stacked reservoirs in West Texas and SE New Mexico, the Permian is one of the largest hydrocarbon basins in the US. Considered an oil play (2 mmb/d), it also produces significant gas volumes (over 6.4 bcf/d).

The Permian is one of the largest hydrocarbon basins in the US

- Importation midstream players: KMI, EPD, ETP, and SXL.
- Important E&P players: OXY, APA, CVX, COP, and PXD.

Eagle Ford

Running through SE Texas and into Mexico, the Eagle Ford has become the "poster child" for the US shale revolution. Though it was virtually unknown until 2008, it now produces 1.7 mmb/d of oil and 7.5 bcf/d of gas.

The Eagle Ford has become the "poster child" for the US shale revolution

- Importation midstream players: EPD, ETP, KMI, and DPM.
- Important E&P players: EOG, COP, MRO, BHP.AX, and APC.

Bakken

Stretching from Western North Dakota and Eastern Montana north into Canada, the Bakken has emerged as a major oil play. Including the underlying Three Forks formation, the Bakken now produces 1.3 mmb/d, up from less than 300 mb/d in 2010. It also produces significant associated gas: 1.5 bcf/d

The Bakken has emerged as a major oil play

- Importation midstream players: OKE, PAA, KMI, and EEP.
- Important E&P players: WLL, CLR, XOM, HES, and EOG.

Marcellus

Sweeping from Western New York through Pennsylvania and into Ohio and West Virginia, the Marcellus is arguably the most prominent gas play in North America. Production is generally dry to the east and wetter to the west. The field produces 16.7 bcf/d today, up from less than 2 bcf/d five years ago.

The Marcellus is arguably the most prominent gas play in North America

- Importation midstream players: MWE, WPZ, SXL, and ETP.
- Important E&P players: RRC, COG, EQT, AR, and SWN.

Utica

Comprising mostly the same geography as the Marcellus, the Utica is arguably the least explored major basin today. It too has an east/west dry/wet gas divide, but it also has oil and condensate prospects. Production is now 2.5 bcf/d of gas and about 60 mb/d of oil, up from close to zero for both in 2012.

The Utica is arguably the least explored major basin today

- Importation midstream players: MWE, SMLP, WPZ, and AM.
- Important E&P players: GPOR, AELP (private), CHK, AR, and RRC.

Haynesville

Sitting under the Northern Louisiana-Texas border, the Haynesville was one of the first major prolific shale gas plays. While production ramped quickly, it peaked in late 2011 near 10 bcf/d and has since moderated to about 7 bcf/d.

The Haynesville was one of the first major prolific shale gas plays

- Importation midstream players: ETP, KMI, WPZ, EPD, and ENLK.
- Important E&P players: CHK, BHP.AX, XOM, ECA.TO, and CRK.

Other Basins

Other plays have certainly benefited from advances in drilling technologies and will drive increased midstream spending as well. Among the more significant are the Barnett, Fayetteville, Niobrara, and Woodford. Other smaller shale subplays that are just emerging, like SCOOP and STACK in Oklahoma, the Mancos in the Rockies, and the Upper Devonian (sitting geologically above the Marcellus) offer further long-term sector growth. And finally, volumes out of Western Canada should provide additional opportunities in crude logistics.

Lastly, traditional North American hydrocarbon sources, like the Gulf of Mexico (offshore and deep water), the Alaskan North Slope, and California heavy oil plays remain important for total US volumes, but are less significant for our midstream companies as they are in more mature development stages.

Legacy North American hydrocarbon sources remain important for total US volumes, but are less significant for our midstream companies

MLP Breakdown by Basin Exposure

Below we provide a high-level overview of some of the more important regions and business models for MLPs.

Figure 27: Selected MLP Basin Exposure

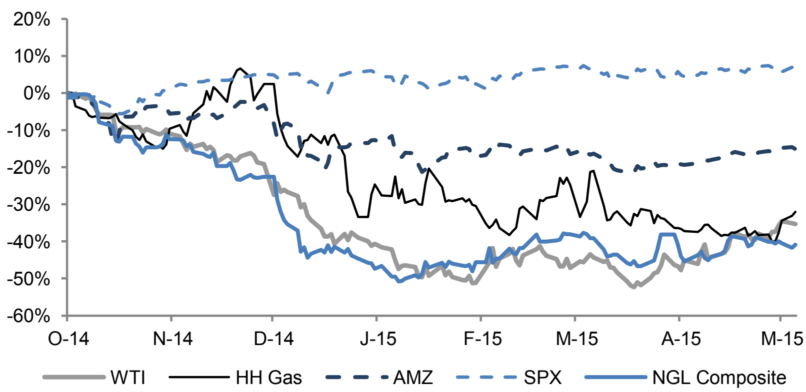
Ticker	Total Regions	Permian	Eagle Ford	Bakken	Marcellus/Utica	Mid-Con/Ark-La-Tex	Rockies	Gulf Coast/GoM
BWP	2		G-P			T		
DPM	4		G-P			G-P	G-P	G-P
ENB/EEP	2			T		T-G-P		
ENBL	2			G		T-G-P		
ENLC/ENLK	4	P	G-P			T-G-P		G-P
EPD	6	T-G-P	T-G-P		T	T-G	T-G-P	T-G-P
EQM	1				T-G			
ETE/ETP	5	T-G-P	T-G-P		T-G-P	T-G-P	T-G-P	
GEL	2		T					T
KMI	7	T-G	T-G-P	T-G	T	T-G-P	T-G	T-G
MMP	2	T	T					
MWE	2				G-P	G-P		
NSH/NS	3		T	T			T	
OKE/OKS	4	T		T-G-P		T-G-P	T-G	
PAGP/PAA	6	T-G	T	T-G		T	T	T-G
SE/SEP	4				T	T-G	T	T
SEMG/RRMS	3			T-G		G-P	T	
SMLP	4			G	G	G	G-P	
SXL	4	T-G			T	T-G	T-G	
TEP	2					T	T-P	
TLLP	2			T-G			T-G-P	
TRGP/NGLS	5	G-P	G-P	G-P		T-G-P		G-P
TRP/TCP	2						T	T
WGP/WES	5	G-P	P		G	G	T-G-P	
WMB/WPZ	5	G			T-G-P	G	T-G-P	T-G-P
Total	**25**	**11**	**12**	**10**	**10**	**19**	**16**	**10**

Source: Company Filings; Deutsche Bank

Understanding Commodity Headwinds

One of the most common questions we hear is how the collapse in commodity prices will affect MLPs. The short answer: it depends. The drop in crude, natural gas, and NGL prices has certainly been severe. Since the end of 3Q14, when the downturn started, WTI has fallen 33%, Henry Hub natural gas has fallen 26%, and the composite NGL barrel at Mt. Belvieu has fallen 43%. The AMZ by contrast, is down 16%, versus the S&P 500 up 8%.

Figure 28: Rebased Price Performance Since the Beginning of 4Q14



Source: Bloomberg; Deutsche Bank

Though our index has traded off with the broader energy sector, in general MLPs should be less directly impacted than other subgroups due to their recurring, toll-like contracts resulting in steadier cash flows. Obviously the level of commodity price exposure varies among our companies (and is a partial driver of our ratings), but as a group they should still do better than the E&Ps, for instance, who have seen a direct, tangible hit to earnings.

MLPs should be less directly impacted than other energy subgroups due to their recurring, toll-like contracts resulting in steadier cash flows

Lower throughput on existing assets as producers pare back volumes creates a near-term risk within our sector. While some contract structures can mitigate this, lower utilization and slower ramps for newlymcommissioned projects can weigh on midstream earnings. To this effect, many investors are now watching rig counts and storage levels to try to gauge when or if the market will definitively recover, but factors like changes in producer operating efficiencies and shut-in wells make this more of an art than a science.

The Biggest Risk is a Narrowing of the Long-Term Opportunity Set. The biggest risk, in our opinion, is the possibility that a sustained downturn in commodity prices could reduce the long-term opportunity set that many of our companies depend on for their growth profiles. A materially lower price deck would lead to permanently suspended drilling plans by producers, which in turn brings lower volume growth and thus reduced demand for assets across the entire midstream value chain. While lower prices have helped boost midstream throughput from the demand side for some products (notably gasoline and distillates), we think this is materially weaker than the growth we would see pushed from the supply side in a higher-price environment.

The biggest risk is the possibility that a sustained downturn in commodity prices could reduce the long-term opportunity for many of our companies

Watching Producer Capex: A Significant Roll-Off for 2015. In our opinion, producer outlooks are more important barometers of opportunities for our sector over the long-term than simple rig count data or storage levels. We have thus been following producer budgets closely – and most E&Ps have cut their 2015 capital budgets dramatically. We examined 70 of the highest spending E&Ps in North American and calculated that 2015 capex is currently estimated to be 40% lower than that of 2014 (this excludes many of the supermajors, who often do note break out guidance by region).

Moreover, we counted 23 North American E&Ps that had to revise their spending guidance lower only a few months or even weeks after issuing it and roughly doubled their original cuts compared to 2014 – see Figure 29 below. We think these adjustments merit special attention as they illustrate the significant negative impact the commodity pullback has had on sentiment.

23 North American E&Ps had to revise their spending guidance lower only a few months or even weeks after issuing it and roughly doubled their original cuts compared to 2014

All is Not Lost: We Think the Long-Term Thesis is Intact. Despite this negative backdrop, we continue to expect a positive trajectory in the demand for MLP infrastructure. While 2015 may end up being a weaker period compared to the first half of 2014, we think the US is still on track to show major production growth over the long term. The weaker names in our sector will likely start to show stress later this year as producer volumes slow, but we think the stronger names will be able to weather this storm.

Figure 29: NAM E&P 2015 Capex Guidance Revisions

Company	Ticker	2014A ($m)	2015E Initial ($m)	2015E Initial (Date)	2015E Latest ($m)	2015E Latest (Date)	Difference, $m (in Guide)	Difference, % (in Guide)	Difference, $m (2014A to 2015E)	Difference, % (2014A to 2015E)
Antero	AR	2.5	2.4	Aug-14	1.6	Jan-15	-0.8	-33%	-0.9	-35%
Apache	APA	9.7	4.0	Nov-14	2.2	Feb-15	-1.8	-45%	-7.5	-77%
Baytex	BTE-T	0.8	0.6	Dec-14	0.5	Mar-15	-0.1	-12%	-0.2	-30%
Bellatrix	BXE-T	0.5	0.3	Dec-14	0.2	Jan-15	-0.1	-33%	-0.3	-61%
Cabot	COG	1.8	1.6	Oct-14	0.9	Feb-15	-0.7	-43%	-0.9	-50%
Cenovus	CVE-T	2.9	2.3	Dec-14	1.6	Jan-15	-0.7	-30%	-1.3	-44%
Chesapeake	CHK	5.1	4.3	Feb-15	3.8	Mar-15	-0.5	-12%	-1.4	-26%
CNRL	CNQ-T	11.7	8.6	Nov-14	6.0	Mar-15	-2.6	-30%	-5.7	-49%
ConocoPhillips	COP	17.1	13.5	Dec-14	11.5	Jan-15	-2.0	-15%	-5.6	-33%
Continental	CLR	5.0	5.2	Sep-14	2.7	Dec-14	-2.5	-48%	-2.3	-46%
Eclipse	ECR	0.8	0.64	Dec-14	0.4	Apr-15	-0.3	-45%	-0.5	-56%
Encana	ECA-T	2.5	2.8	Dec-14	2.1	Feb-15	-0.7	-25%	-0.4	-17%
Enerplus	ERF-T	0.8	0.6	Dec-14	0.5	Feb-15	-0.2	-24%	-0.3	-41%
EQT	EQT	2.4	2.3	Dec-14	1.9	Feb-15	-0.5	-20%	-0.6	-24%
Husky	HSE-T	5.0	3.4	Dec-14	3.1	Feb-15	-0.4	-10%	-2.0	-39%
Linn Energy	LINE	1.6	0.7	Jan-15	0.5	Feb-15	-0.2	-29%	-1.0	-66%
MEG	MEG-T	1.2	1.2	Dec-14	0.3	Dec-14	-0.9	-75%	-0.9	-75%
Murphy	MUR	3.7	3.1	Dec-14	2.3	Jan-15	-0.8	-26%	-1.4	-38%
Oasis	OAS	1.4	0.8	Dec-14	0.7	Feb-15	-0.1	-12%	-0.7	-49%
Range	RRC	1.4	1.3	Dec-14	0.9	Jan-15	-0.4	-33%	-0.6	-39%
Rex	REXX	0.4	0.4	Nov-14	0.1	Mar-15	-0.2	-60%	-0.3	-64%
Southwestern	SWN	2.4	2.6	Dec-14	2.0	Feb-15	-0.6	-23%	-0.4	-17%
Suncor	SU-T	6.5	7.5	Nov-14	6.5	Jan-15	-1.0	-13%	0.0	0%
Total		**87.4**	**70.1**		**52.2**		**-17.9**	**-26%**	**-35.2**	**-40%**

Source: Deutsche Bank; Thomson Reuters; Company Filings

Subsectors/Stocks to Own

Wide Dispersion of Returns Calls for Selectivity

We have divided the more important names in our sector into eight main buckets, leaving out three groups that we see as more ancillary to the midstream space: oilfield services, marine shipping, and coal. Out of our eight main groups, the three we like the most are: crude logistics, NGL infrastructure, and large-cap diversifieds.

We have included below not only our coverage names for each subgroup, but also selected non-rated names and other constituents of the AMZ for context. Despite our subsector-level theses, we take no opinion on the performance of names in these latter groupings.

- Crude Logistics: This sub-segment comprises some of the highest-growth names in our coverage and is our favorite subsector. Many of the crude logistics MLPs were formed by refiners to house their midstream assets and thus have large dropdown inventories. Further, these names benefit from having a constant source of capital and strategically-aligned interests with their parents as the latter seek advantaged feedstock / markets and higher midstream valuations.
    - Our Coverage: PSXP, MPLX, VLP, SXL, TLLP
    - Other/AMZ Constituents (N/R): BPL, EEP, GEL, MMP, NS, RRMS
- NGL Infrastructure: With crude exports banned, LNG export facilities still under construction, and refined products exports already trading in a well-balanced market, we think NGL exports are one of the only US products that can reach global markets and allow shippers to enjoy positive pricing spreads. We thus think companies that can link processing, fractionation, and exports should benefit from this ability. With US natural gas production continuing to grow, NGL players should enjoy this positive backdrop for the next several years. This is our second favorite subsector.
    - Our Coverage: EPD, ETE
    - Other/AMZ Constituents (N/R):
- Large-Cap Diversified: As the name implies, these comprise the biggest players that hold assets across the entire midstream value chain. While their scale means they cannot be bought to play a single theme, they do allow investors to buy into the continuing theme of US energy infrastructure development. Further, many are listed as c-corps, allowing for a wider investor base because of the lack of K-1 filings.
    - Our Coverage: KMI, PAGP/PAA
    - Other/AMZ Constituents (N/R): WMB/WPZ

Figure 30: 2014 AMZ Performance

2014 Performance Rank			
Top 10	1	PSXP	63%
	2	TCP	61%
	3	EEP	41%
	4	MPLX	40%
	5	EQM	38%
	6	KMP	35%
	7	EPB	32%
	8	MMP	28%
	9	SEP	21%
	10	ARLP	19%
# 11 to 20	11	SXL	19%
	12	ETP	15%
	13	NS	13%
	14	WES	12%
	15	BPL	12%
	16	APU	12%
	17	FGP	12%
	18	EPD	6%
	19	TLLP	6%
	20	GMLP	3%
# 21 to 30	21	SPH	0%
	22	ACMP	0%
	23	ENLK	-1%
	24	CLMT	-1%
	25	MWE	-2%
	26	TGP	-2%
	27	PAA	-2%
	28	RGP	-3%
	29	WPZ	-5%
	30	QRE	-8%
#31 to 40	31	DPM	-11%
	32	HCLP	-13%
	33	NGLS	-15%
	34	OKS	-21%
	35	EXLP	-23%
	36	EVEP	-23%
	37	NGL	-24%
	38	APL	-24%
	39	TOO	-27%
	40	GEL	-27%
Bottom 10	41	MEMP	-29%
	42	CMLP	-32%
	43	NMM	-38%
	44	VNR	-38%
	45	SDLP	-44%
	46	ARP	-44%
	47	NRP	-47%
	48	LGCY	-49%
	49	LINE	-52%
	50	BBEP	-52%

Source: Bloomberg; Deutsche Bank

- Natural Gas G&P / Natural Gas Transportation: We have a more mixed view on both natural gas G&P and transportation. These subgroups have the widest dispersions in performance as basin footprints, contract types, and commodity exposures can vary dramatically. We have positive biases on names with fee-based contracts in growing basins (like the Marcellus and Utica) and negative biases on names in less favorable basins or that have more commodity exposure. For standalone natural gas pipeline names, we believe their regulated returns and high expansion costs make it difficult for them to underpin significant growth as standalone assets.
  - Our Coverage: MWE, OKE/OKS, WGP/WES, SMLP
  - Other/AMZ Constituents (N/R): BWP, CMLP, DPM, ENBL, ENLK, MMLP, SEP, TCP, TEP

We have a more mixed view on natural gas G&P and natural gas transportation

- Exploration & Production: E&P MLPs focus on low-cost, low-decline wells, which generally offer lower but steadier cash flows. Nevertheless, they do still generally take ownership of volumes and thus have high exposure to commodity prices. Typically they have large hedging programs to attempt to mitigate this volatility, but have still have a profile we view as less attractive in the MLP structure.
  - Our Coverage: N/A
  - Other/AMZ Constituents (N/R): BBEP, LGCY, LINE, MEMP

We are negative on the E&P MLPs given their direct commodity exposure

- Refining: With only three companies and less than 4 years of total public track records, we believe some investors and c-corp refiners may adopt a "wait and see" approach before potentially investing in this type of vehicle given the concern on how it may perform during the next refining down-cycle and its viability/traction in the longer-run.
  - Our Coverage: N/A
  - Other/AMZ Constituents (N/R): NTI, ALDW, CVRR

We are also negative on the variable rate refiners, and prefer business models with less commodity sensitivity

- Gas Storage and Propane Distribution: We see these subgroups as having low barriers to entry, which erodes margins and has made it difficult to keep cash flows steady.
  - Our Coverage: N/A
  - Other/AMZ Constituents (N/R): APU, FGP, NGL, SPH

Valuation

Framework and Methodologies

Investors often use the expression "valuation is more of an art than a science." Acknowledging this sentiment we attempted to frame our thought process on valuation into four categories. The majority of the primer walks through our thought process on the first two criteria, so in this section we explain both our two valuation methodologies and walk through additional trends that we believe have a bearing on overall sector valuation.

On a company-specific level, we prefer names with high growth profiles, long-term visibility to stable cash flow profiles, high coverage, IG rated balance sheets, and aligned sponsor interests or no-GP / IDRs

- Industry Analysis: we assign higher valuations to sub-sectors with exposure to the key industry trends, high barriers to entry, limited competition, and nominal regulatory issues
- Company-Specific Analysis: we favor high growth profiles, long-term visibility to stable cash flow profiles, high coverage, IG rated balance sheets, and aligned sponsor interests or no-GP / IDRs
- Valuation / Multiple Analysis: we employ targeted distribution yield and a dividend discount model to reflect both near-term and long-term outlooks
- Other Factors: we explore the impact of shifting investor types, sector inflows, capital raises, complexity of financial metrics, and other investment options

We employ **two valuation methods** to provide a framework for both the near-term and long-term opportunity set: **target yield** and **dividend discount model**.

For each target yield we consider it in context of its historic level, relative to its peer-set, and relative to the broader AMZ index

- Target Yield: We employ target yield as a way to frame our near-term outlook. The rational for choosing yield was two-fold: first, most investors are attracted to this sector because of its income-oriented profile; and second, given the complicated nature of these organization structures we believe there is an increased opacity when looking at EPS or EBITDA – so we chose to focus on cash generation. For each target yield we consider it in context of its historical level, relative to its peer-set, and relative to the broader AMZ index.

We also utilize a DDM to frame the longer-term opportunity set

- Dividend Discount Model (DDM): We also utilize a DDM to frame the longer-term opportunity set which we believe is an important differentiator for many of these names (for example – determining how much 5 years of visibility to 30% is worth). Our DDM uses our model forecasts through CY19, then gradually steps down toward a terminal growth rate in 2025, and finally applies a discount rate. Given varying decline rates, asset growth profiles in their terminal states, costs of capital, and risk profiles we set up each of our models so investors can toggle in their own assumptions and have also provided a sensitivity table to bound range outcomes.

Other Factors That Impact Valuation

Lastly, concurrent with our industry, company, and valuation analysis we highlight five sector trends which we believe have an impact our overall sector valuations.

Most notably, the growth of actively managed products has shifted the investor base and increased the level of sophistication

- Ownership Restrictions Shift ==> A More Educated Investor Base. Historically the MLP sector had been mostly owned by retail investors. Tax regulations effectively prevented many investors (such as mutual funds) from owning MLPs due to: timing of K1 receipts, UBTI income regulations, state filing requirements, and non-foreign tax filer certifications. More recently, financial entities structured within the constructs of regulations have emerged – ETFs, ETNs, closed-end funds, open-end funds, separately managed accounts (SMAs), and SWAP products through brokers / dealers. Most notably, the growth of actively managed products has shifted the investor base and increased the level of sophistication.

Many of the names in the sector are very illiquid with low ADVs and small public floats, which limits the ability to aggressively trade the space

- Limited Liquidity + Corp Structures: Restricts Active Investors. Many of the names in the sector are very illiquid with low average daily volumes and small public floats. We highlight this trend as it limits the ability to aggressively trade the space and thus the profile of investors. This limitation is only magnified by the GP ownership structures which effectively prevent activist investor influence on many names.

Figure 31: Breakdown of Ways to Invest in MLPs

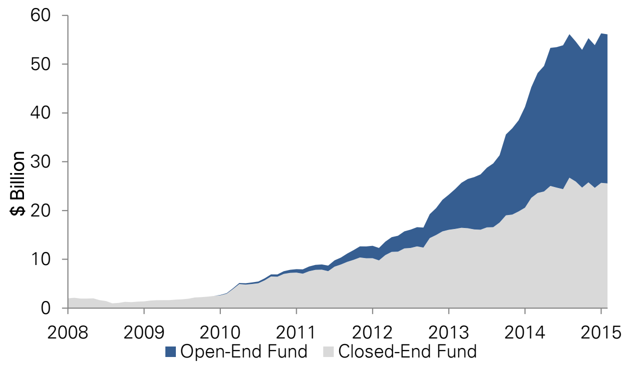
Investment Type	Direct Investment	Separately Managed Account	Exchange-Traded Note	Closed-End Fund		Open-End Mutual Fund		Exchange-Traded Fund	
				100% MLP	<25% MLP	100% MLP	<25% MLP	100% MLP	<25% MLP
Market cap	N/A	N/A	$11.1B	$21.2B	$5.4B	$23.1B	$5.9B	$9.7B	$1.2B
Number of products	N/A	N/A	12	22	10	10	6	5	3
First Fund Launched	N/A	N/A	Jul 2007	Feb 2004	Jun 2005	Mar 2010	Sep 2010	Aug 2010	Jun 2012
Tax Form	Form K-1	Form K-1	Form 1099	Form 1099	Form 1099	Form 1099	Form 1099	Form 1099	Form 1099

Source: Alerian, Deutsche Bank

- Large Sector Inflows Drive Up Valuations. Figure 32 depicts the AUM of Open-End and Closed-Ended Funds which has grown from essentially $0b to $56b over the past 5 years. While more actively managed money increases the level of investor sophistication at the same time it also indicates increased sector inflows. We note that the AUM figures in Figure 32 should not be thought of as all inclusive as they do not reflect MLP holdings in asset classes such as large, diversified mutual funds (which are among the top holders of many of the names in our sector).

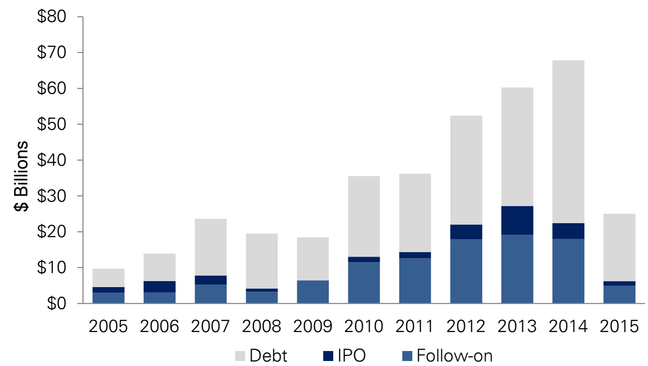
- Capital Raises Create Valuation Headwinds. Counter-balancing the inflow of capital driving up valuations, the level of capital raises also continue to rise. Figure 33 highlights amount of debt and equity issued. While there is no clean way to track equity inflows given the increased ownership in diversified fund, use of SWAPs, and aggregation of SMA – we still continue to keep an eye on general trends due to potential impact on valuations.

Figure 32: Value of Actively Managed MLP Products



Source: Bloomberg, Deutsche Bank

Figure 33: MLP Capital Raises

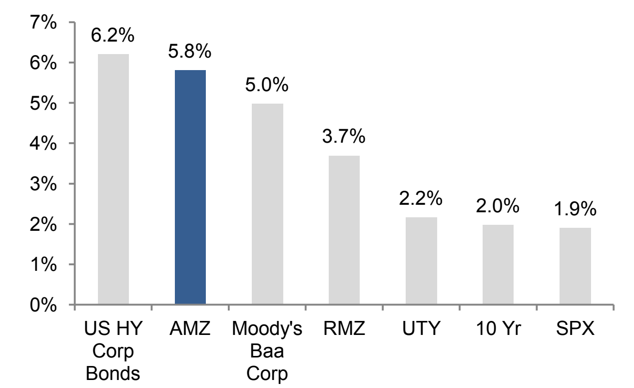


Source: Bloomberg, Deutsche Bank

- High Yield Return Profile Continues to Draw Investors. We highlight the relative valuation of our index to other yield-oriented products. Figure 34 illustrates that the yield of the MLP index at 5.8% continues to offer a bond like yield profile with a equity growth element. As mentioned earlier, we believe that the yield plus growth profile will insulate our sector in period of rising interest rates. Lastly, while no longer frequently used in our sector, Figure 35 highlights the AMZ spread to the 10-yr treasury. Our group looks moderately attractive from an overall yield standpoint – and while this is not a factor in our investment thesis, we highlight it because it could support incremental sector inflows.

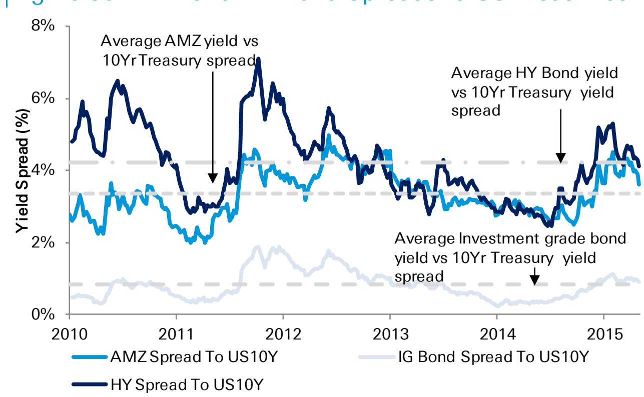
The MLP index at 5.8% continues to offer a bond like yield profile with a equity growth element

Figure 34: AMZ Yield vs. Other Products and Indices



Source: Bloomberg, Deutsche Bank

Figure 35: AMZ and HY Bond Spreads to US Treasuries



Source: Bloomberg, Deutsche Bank

Comp Sheet

Figure 36: Comparative Valuation

Company Name	Ticker	Rating	Price Target $/unit	Current Px 5/15/15 $/unit	Upside / Downside %	Market Cap $b	YTD Return %	LTM Return %	Current Yield %	Implied CY16 Yield %	DPU 2015 $/unit	DPU 2016 $/unit	DPU 2017 $/unit	DPU Growth 2015 %	DPU Growth 2016 %	DPU Growth 2017 %	DPU Yield 2015 %	DPU Yield 2016 %	DPU Yield 2017 %	Total Coverage 2015 x	Total Coverage 2016 x	EV/EBITDA 2015 x	EV/EBITDA 2016 x	Net Debt/EBITDA 2015 x	Net Debt/EBITDA 2016 x
C-CORPS & GPs																									
ENERGY TRANSFER EQUITY	ETE	BUY	$95	$68.87	38%	$37.1	20.0%	34.8%	2.8%	3.0%	$2.20	$2.84	$3.68	38.3%	29.1%	29.6%	2.3%	3.2%	4.1%	1.2x	1.3x	15.4x	12.7x	4.2x	3.4x
KINDER MORGAN INC.	KMI	BUY	$49	$42.62	15%	$92.4	0.7%	27.4%	4.5%	4.5%	$2.01	$2.21	$2.43	15.4%	10.0%	10.0%	4.1%	4.7%	5.2%	1.2x	1.2x	18.4x	16.4x	6.0x	5.6x
ONEOK INC.	OKE	SELL	$43	$45.69	(6)%	$9.5	(8.2)%	(26.9)%	5.3%	5.8%	$2.42	$2.52	$2.68	3.9%	4.1%	6.3%	5.1%	5.3%	5.5%	1.2x	1.1x	15.2x	13.9x	6.7x	6.6x
PLAINS GP HOLDINGS LP	PAGP	HOLD	$31	$29.09	7%	$6.5	13.3%	3.5%	3.1%	3.5%	$0.92	$1.09	$1.26	22.6%	19.1%	15.1%	2.6%	3.2%	3.8%	1.0x	1.0x	16.9x	13.5x	5.4x	4.7x
WESTERN GAS EQUITY PARTNER	WGP	HOLD	$67	$62.95	6%	$13.8	4.5%	20.3%	2.2%	2.8%	$1.48	$1.86	$2.34	31.3%	26.2%	25.5%	1.8%	2.3%	3.0%	1.0x	1.0x	25.2x	18.8x	3.8x	3.3x
CRESTWOOD EQUITY	CEQP	--	--	$5.34	--	$1.0	(34.1)%	(58.9)%	10.3%	--	$0.54	$0.55	$0.56	(2.4)%	2.6%	1.6%	10.3%	10.1%	10.3%	--	--	14.9x	13.9x	4.2x	3.9x
EQT GP HOLDINGS LP	EQGP	--	--	$32.50	--	$8.7	--	--	1.1%	--	$0.37	N/A	N/A	--	--	--	--	1.1%	--	--	--	--	--	--	--
NUSTAR GP HOLDINGS	NSH	--	--	$38.23	--	$1.6	11.1%	9.4%	5.7%	--	$2.19	$2.31	$2.53	0.4%	5.6%	9.3%	5.7%	5.7%	6.0%	--	--	21.5x	19.8x	0.0x	(0.1)x
SEMGROUP CORP.	SEMG	--	--	$81.30	--	$3.6	18.9%	24.2%	1.9%	--	$1.77	$2.47	$3.24	30.1%	39.4%	31.3%	1.7%	2.2%	3.0%	--	--	12.8x	11.0x	3.4x	3.6x
TALLGRASS ENERGY GP LP	TEGP	--	--	$31.98	--	$5.0	--	--	2.0%	--	$0.62	N/A	N/A	--	--	--	--	2.0%	--	--	--	--	--	--	--
SPECTRA ENERGY CORP.	SE	--	--	$36.55	--	$24.5	0.7%	(7.8)%	4.0%	--	$1.50	$1.62	$1.76	8.8%	8.6%	8.1%	3.8%	4.1%	4.4%	--	--	14.7x	13.2x	5.7x	5.7x
TARGA RESOURCES CORP.	TRGP	--	--	$101.23	--	$5.7	(4.5)%	(9.9)%	3.3%	--	$3.62	$4.36	$5.08	--	20.6%	16.4%	--	3.6%	4.3%	--	--	15.3x	12.9x	2.8x	2.9x
WILLIAMS COMPANIES INC.	WMB	--	--	$53.80	--	$40.3	19.7%	18.0%	4.3%	--	$2.41	$2.80	$3.06	22.9%	16.3%	9.1%	3.6%	4.5%	5.2%	--	--	17.1x	14.3x	5.9x	5.3x
LARGE CAP DIVERSIFIED MLPs																									
ENERGY TRANSFER PARTNERS	ETP	BUY	$67	$57.42	17%	$28.7	(11.7)%	2.3%	7.1%	6.8%	$4.18	$4.50	$4.82	8.3%	7.7%	7.1%	6.7%	7.3%	7.8%	1.2x	1.1x	9.2x	7.4x	4.0x	3.8x
ENTERPRISE PRODUCT PARTNER	EPD	BUY	$38	$33.72	13%	$67.2	(6.6)%	(7.9)%	4.4%	4.3%	$1.53	$1.62	$1.71	5.5%	5.6%	5.8%	4.3%	4.5%	4.8%	1.4x	1.4x	15.7x	14.3x	4.1x	4.1x
ONEOK PARTNERS LP	OKS	SELL	$38	$40.73	(7)%	$10.4	2.8%	(24.9)%	7.8%	8.5%	$3.16	$3.21	$3.31	2.9%	1.6%	3.0%	7.5%	7.8%	7.9%	0.9x	0.9x	11.9x	11.0x	5.5x	5.2x
PLAINS ALL AMERICAN PIPELINE	PAA	BUY	$54	$48.42	12%	$19.2	(5.7)%	(15.3)%	5.7%	5.5%	$2.80	$2.99	$3.19	7.3%	6.6%	6.7%	5.4%	5.8%	6.2%	0.9x	1.0x	12.2x	10.3x	4.6x	4.2x
NATURAL GAS & NGLs																									
MARKWEST ENERGY PARTNERS	MWE	BUY	$76	$66.80	14%	$13.3	(0.6)%	6.7%	5.4%	5.3%	$3.70	$3.97	$4.36	4.5%	7.2%	10.0%	5.3%	5.5%	5.9%	0.9x	1.1x	18.2x	12.9x	4.7x	3.9x
SUMMIT MIDSTREAM PARTNERS	SMLP	BUY	$34	$31.18	9%	$2.0	(17.9)%	(30.4)%	7.2%	7.3%	$2.27	$2.43	$2.66	6.8%	7.3%	9.4%	6.8%	7.3%	7.8%	1.1x	1.2x	11.7x	8.8x	4.2x	4.3x
WESTERN GAS PARTNERS	WES	BUY	$80	$69.12	16%	$10.7	(5.4)%	(3.9)%	4.2%	4.5%	$3.05	$3.50	$4.03	15.1%	14.8%	15.1%	3.8%	4.4%	5.1%	1.1x	1.2x	15.0x	11.2x	3.7x	3.2x
CHENIERE ENERGY INC.	LNG	--	--	$75.86	--	$17.9	7.8%	31.3%	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
DCP MIDSTREAM PARTNERS	DPM	--	--	$37.58	--	$4.3	(17.3)%	(31.0)%	8.3%	--	$3.15	$3.22	$3.33	3.3%	2.2%	3.4%	8.1%	8.4%	8.6%	--	--	10.4x	9.6x	3.8x	4.3x
EQT MIDSTREAM PARTNERS	EQM	--	--	$82.46	--	$7.4	(6.3)%	5.9%	3.0%	--	$2.63	$3.14	$3.71	--	19.6%	18.1%	--	3.2%	3.8%	--	--	15.3x	10.5x	1.5x	2.7x
MARTIN MIDSTREAM PARTNERS	MMLP	--	--	$35.43	--	$1.3	31.8%	(12.4)%	9.2%	--	$3.26	$3.33	$3.39	2.5%	2.1%	1.9%	9.0%	9.2%	9.4%	--	--	13.1x	12.1x	4.6x	4.6x
SPECTRA ENERGY PARTNERS	SEP	--	--	$51.95	--	$15.7	(8.8)%	2.6%	4.6%	--	$2.46	$2.65	$2.87	7.2%	7.9%	8.2%	4.4%	4.7%	5.1%	--	--	12.8x	11.7x	3.9x	4.1x
TARGA RESOURCES PARTNERS	NGLS	--	--	$46.51	--	$8.6	(2.9)%	(27.3)%	7.1%	--	$3.34	$3.48	$3.64	6.0%	4.2%	4.5%	6.8%	7.2%	7.5%	--	--	13.9x	11.9x	4.6x	4.1x
CRUDE LOGISTICS																									
MPLX	MPLX	BUY	$95	$72.83	30%	$5.9	(0.9)%	21.9%	2.3%	2.5%	$1.82	$2.37	$3.07	29.1%	29.9%	29.8%	1.9%	2.5%	3.2%	1.6x	1.6x	16.7x	9.9x	2.8x	2.7x
PHILLIPS 66 PARTNERS	PSXP	BUY	$102	$72.20	41%	$5.9	4.7%	22.7%	2.0%	2.3%	$1.66	$2.24	$3.01	34.7%	34.9%	34.2%	1.7%	2.3%	3.1%	1.3x	1.4x	20.1x	10.4x	5.4x	4.9x
SUNOCO LOGISTICS PARTNERS	SXL	BUY	$48	$40.78	18%	$10.0	(2.4)%	(11.9)%	4.1%	4.5%	$1.81	$2.20	$2.65	20.8%	21.6%	20.7%	3.7%	4.4%	5.4%	1.2x	1.2x	13.2x	9.7x	4.8x	4.0x
TESORO LOGISTICS	TLLP	BUY	$69	$57.43	20%	$4.7	(2.4)%	(16.5)%	4.8%	5.0%	$2.93	$3.46	$4.08	16.5%	17.9%	18.1%	4.4%	5.1%	6.0%	1.4x	1.2x	11.1x	8.9x	4.4x	4.4x
VALERO ENERGY PARTNERS	VLP	BUY	$60	$49.71	21%	$3.0	14.9%	13.0%	2.2%	2.5%	$1.18	$1.50	$1.90	25.3%	27.1%	26.7%	1.9%	2.4%	3.0%	2.0x	2.0x	19.4x	10.7x	2.8x	2.4x
DELEK LOGISTICS PARTNERS	DKL	--	--	$45.02	--	$1.1	26.9%	35.4%	4.7%	--	$2.22	$2.54	$2.92	17.0%	14.4%	14.8%	4.2%	4.9%	5.6%	--	--	9.7x	8.3x	3.2x	2.9x
GENESIS ENERGY	GEL	--	--	$47.78	--	$4.8	12.6%	(13.1)%	5.1%	--	$2.85	$2.79	$3.04	24.6%	(2.1)%	8.8%	4.8%	6.0%	5.8%	--	--	18.0x	15.8x	4.8x	4.4x
HOLLY ENERGY PARTNERS	HEP	--	--	$33.60	--	$2.0	12.3%	(2.2)%	6.4%	--	$2.20	$2.32	$2.45	5.9%	5.3%	5.6%	6.2%	6.5%	6.9%	--	--	12.2x	10.9x	4.0x	3.7x
MAGELLAN MIDSTREAM PARTNE	MMP	--	--	$82.30	--	$18.7	(0.4)%	4.0%	3.5%	--	$3.01	$3.37	$3.75	--	12.0%	11.2%	--	3.7%	4.1%	--	--	19.9x	18.3x	3.4x	3.5x
PBF LOGISTICS	PBFX	--	--	$24.70	--	$0.8	15.7%	(8.2)%	5.7%	--	$1.47	$1.70	$1.95	86.1%	15.8%	14.7%	3.2%	6.0%	6.9%	--	--	14.6x	11.8x	3.5x	3.5x
TALLGRASS ENERGY PARTNERS	TEP	--	--	$48.85	--	$3.8	9.3%	33.5%	4.3%	--	$2.20	$2.61	$3.03	37.8%	18.5%	16.0%	3.3%	4.5%	5.3%	--	--	16.3x	11.4x	4.2x	4.1x
WESTERN REFINING LOGISTICS	WNRL	--	--	$29.97	--	$1.4	(1.7)%	(14.3)%	4.6%	--	$1.47	$1.72	$1.97	10.7%	16.5%	14.9%	4.4%	4.9%	5.7%	--	--	14.0x	8.8x	3.3x	2.8x
OTHERS																									
SUNOCO LP	SUN	HOLD	$51	$48.75	5%	$1.7	(2.0)%	11.1%	5.3%	6.5%	$2.78	$3.30	$3.72	28.1%	18.6%	12.7%	4.5%	5.7%	6.8%	1.4x	1.3x	8.1x	4.6x	6.8x	5.0x

Source: Deutsche Bank, ThomsonOne
Note: Numbers for DB rated stocks are DB forecasts. Numbers for other names are consensus estimates.

Rating
Buy

North America
United States

Industrials
Master Limited Partnerships

Company
Enterprise Products

Reuters	Bloomberg
EPD.N	EPD US

Date
18 May 2015
Initiation of Coverage

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‘To Protect and Serve’ – Good to Own in Current Price Environment

Initiating Coverage on EPD with a Buy and $38 Price Target

Enterprise Products Partners LP (EPD) is the largest publicly traded energy MLP and a key provider of midstream services in North America. Operations are primarily fee-based and span the entire midstream value chain and across hydrocarbon classes. While the industry has been rocked by the volatile commodity environment, EPD remains well positioned ‘to protect and serve’ its owners given its integrated business model, visible growth backlog, low cost of capital, and management's track record of successful innovation. EPD is a stock to own, not trade.

- Using the Integrated Business Model to Create Opportunities. We believe EPD’s level of integration across businesses and geographies is a key competitive advantage providing: 1) increased flexibility to capture new opportunities and 2) a strong foundation to weather financial, commodity, and economic cycles. In addition to these business model attributes, we believe EPD will benefit from the shift of investors in flight to safety mode.
- Organic Growth Backlog More than Supports 5% DPU Growth. One of the key differentiators of EPD versus other large-cap midstream stocks is its ability to achieve long-term distribution growth guidance with only a fraction of its identified organic growth projects. Running various financing and return scenarios, we believe EPD only requires $1b to $2b of organic growth capex annually to support 5% DPU growth – which, given its $7.4b backlog, potentially supports the next 3-6 years of growth.
- Don’t forget about M&A. A common misnomer is that EPD is primarily an organic growth story. However, this could not be further from the truth. EPD has completed roughly $24b of acquisitions since its inception and, more importantly, EPD’s acquisitions have established a platform for future growth and new business opportunities. We expect the same from the OILT deal as it is tied into the ECHO facility and Mont Belvieu complex.
- Simple structure and low cost of capital = advantages. We believe EPD’s simple structure (non-economic GP), low cost of capital (no IDRs, strong balance sheet), and solid financial flexibility (high coverage) will enable EPD to take advantage of the recent market environment and provide protection that will be appreciated by investors and reflected in valuation.

Valuation and Risks

Our $38 price target is derived by using a 4.25% target yield on our CY16 DPU estimate unit and a DDM which employs a 7.0% discount rate. The three biggest risks to our price target are rising rates, illiquid/unattractive capital markets, and wide commodity price movements which could hurt EPD.

EPD: Enterprise Products Partners

Rating	BUY
Current Price (15-May-2015)	$33.72
Price Target	$38.00
Market Cap	$67.2b
Enterprise Value	$88.9b

Source: Deutsche Bank

EPD: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA ($m)	5,218.3	5,647.6	6,225.0
% EBITDA Gwth YoY	10%	8%	10%
DPU	$1.45	$1.53	$1.62
% DPU Gwth YoY	6%	6%	6%
EV/EBITDA	17.2x	15.6x	14.1x
DPU Yield (%)	4.0%	4.5%	4.8%
Coverage Ratio	1.5x	1.4x	1.4x
Leverage Ratio	4.1x	4.1x	4.1x

Source: Deutsche Bank, EPD Company Filings

North America
United States

Industrials
Master Limited Partnerships

Company
Energy Transfer Complex

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Midstream in Motion: Initiating Coverage of Energy Transfer

Initiating: ETE (Buy, $95), ETP (Buy, $67), SXL (Buy, $48), SUN (Hold, $51)
The Energy Transfer Complex is the largest in our sector with four public entities (ETE, ETP, SXL, and SUN) and line of sight to two more (ETL and ETGP). The opportunity set for the complex is equally expansive with the build out of the Northeast, crude transportation from the Bakken, NGL opportunities along the Gulf Coast, and an upcoming LNG export facility. While the drivers and growth profiles of each of the public entities vary, we view the complex's management team as one the most financially savvy in the sector and believe Energy Transfer will continue to be at the forefront of industry development.

- Initiating Buy on ETE with a $95 Price Target: Energy Transfer Equity is the parent MLP at the top of this complex and holds economic interests in each of the three subordinated partnerships. As such, we view ETE as the ultimate beneficiary of this evolving business model -- set to earn considerably higher cash flows as ETP, SXL, and SUN grow. We also have line-of-sight on two positive catalysts: 1) an LNG export facility plus the associated new issuance (ETL) and 2) a new public c-corp (ETGP) which should both expand the potential investor base and widen the M&A opportunity set. Overall, given our expectation of 30% LT DPU growth, we believe ETE is a high conviction buy. Our valuation uses a 3% yield on our CY16 DPU of $2.84 and a ten-year DDM.

- Initiating Buy on ETP with a $67 Price Target: Energy Transfer Partners is holds the majority of ETE's operating assets. We have visibility on an $11b organic backlog, which we believe will support high single-digit DPU growth through 2017. Near-term, we expect synergies following the recently closed merger with Regency to provide upside. And lastly, ETP holds the GPs and large LP stakes in SXL and SUN, offering exposure to their growth. While IDRs will weigh on it slightly, we still expect ETP to show compelling returns at current prices and rate it a buy. Our valuation uses a 6.75% yield on our CY16 DPU of $4.50 and a ten-year DDM.

- Initiating Buy on SXL with a $48 Price Target: Sunoco Logistics Partners is a high-growth crude oil, refined products, and NGL logistics MLP. Stability is underpinned by tariff-based cash flows and a strong, closely aligned GP. Our estimated 20% DPU CAGR, supported by growing throughput and a large organic backlog, underpins our buy rating. Our valuation uses a 4.5% yield on our CY16 DPU of $2.20 and a ten-year DDM.

- Initiating Hold on SUN with a $51 Price Target: Sunoco, LP is a major wholesale and retail fuels distribution MLP. While we expect high DPU growth in the next two years from dropdowns from ETP, the longer-term growth outlook is less clear. We rate SUN a hold. Our valuation weighs a 6.25% yield on our CY16 DPU of $3.30 against a ten-year DDM, with more weight given to the latter as we expect DPU growth to decline after YE16.

Companies Featured	
Energy Transfer Equity (ETE.N),USD68.87	Buy
Energy Transfer Partners (ETP.N),USD57.42	Buy
Sunoco Logistics Partners L (SXL.N),USD61.73	Buy
Sunoco LP (SUN.N),USD48.75	Hold

Source: Deutsche Bank

Rating
Buy

North America
United States

Industrials
Master Limited Partnerships

Company
Kinder Morgan, Inc.

Reuters: KMI.N
Bloomberg: KMI UN

Date
18 May 2015
Initiation of Coverage

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New Simplicity = New Opportunities. Initiate at Buy

Initiate Coverage with a Buy and $49 Price Target

Kinder Morgan, Inc. (KMI) is the largest energy infrastructure company in North America. With a presence across every midstream vertical and in every major basin, investors shouldn't buy KMI to gain exposure to a certain asset type or shale play. Instead, KMI should be used to buy into the buildout of US energy infrastructure; we believe it has the footprint, financial scale, and management team to capitalize on the nation's need for midstream.

- Large, integrated c-corp = opportunity creation, downside protection, and 1099s. We see three key benefits to KMI's position as a large, integrated c-corp. First, a diversified midstream footprint means that while no one standalone asset / basin will drive stock upside, it also means that it has the ability to offset near-term weakness in the commodity-sensitivity segments (like CO2). Second, a larger footprint allows KMI to consider a broader opportunity set to have potential synergies / strategic advantages from a larger set of assets. And third, we believe that KMI as a standalone 1099 entity will attract a wider investor base.
- Simplicity really is bliss: lower cost of capital supports growth. We see KMI's decision to transform its org structure -- from four public listings into one – as key to our thesis. First, it lowers KMI's cost of capital which translates into a lower hurdle rate on new projects (4% from 9%). Second, a lower hurdle rate allows KMI to pursue more projects and underbid peers ($18b announced backlog with $6b potential incremental near-term). Lastly, it creates a more attractive M&A currency.
- 10% DPS growth guidance – requires both organic growth and M&A. Management has guided to 15% DPS growth in 2015 and 10% annual growth thereafter through 2020. We estimate KMI will spend $24.3b on organic growth projects through 2019. Assuming an 11% return (9x multiple), this implies ~$2.6b in incremental EBDA or an 8% growth CAGR though 2019 – less than DPS guidance. While we do not see this as an immediate headwind, as capex skews NT and last year's reorganization created $20b of tax credits, we highlight the gap to explain our belief that KMI will have a larger M&A focus as the commodity downturn continues.

Valuation and Risks

Our $49 PT is derived using two types of valuation: DPS yield based on $2.21 CY16 DPS with a 4.5% yield and a DDM, which uses our DPS estimates through YE19 and then steps down to a 3% terminal growth rate in 2025, with an overall 9% discount rate. Key risks to our price target include: rising interest rates causing multiple compression / increasing financing costs, unattractive capital markets impeding financing for growth projects, depressed commodity prices decreasing growth opportunities, or M&A that changes the asset profile.

KMI: Kinder Morgan Inc

Rating	BUY
Current Price (15-May-2015)	$42.62
Price Target	$49.00
Market Cap	$92.4b
Enterprise Value	$137.2b

Source: Deutsche Bank

KMI: Forecasts and Ratios

Year End - Dec	CY14A	CY14E	CY16E
Adj. EBITDA ($m)	7,368.0	7,443.1	8,386.0
% EBITDA Gwth YoY	40%	1%	13%
DPS	$1.74	$2.01	$2.21
% DPS Gwth YoY	9%	15%	10%
EV/EBITDA	13.0x	18.0x	16.0x
DPS Yield (%)	4.1%	4.7%	5.2%
Coverage Ratio	1.1x	1.2x	1.2x
Leverage Ratio	5.5x	6.0x	5.6x

Source: Deutsche Bank, KMI Company Filings

Rating
Buy

North America
United States

Industrials
Master Limited Partnerships

Company
MPLX LP

Reuters	Bloomberg
MPLX.N	MPLX US

Date
18 May 2015
Initiation of Coverage

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Growth Profile as Sweet as Dietsch's Chocolates - Initiating with Buy

Initiating with a Buy with a $95 Price Target
MPLX is one of the simplest stories to understand in the MLP space. Interests between MPC and MPLX are aligned, the magnitude of droppable assets is one of the highest in the sector, and MPC's desire to get the market to re-value its imbedded midstream assets is the catalyst driving an acceleration in its pace of drop downs. With multi-year visibility into 25%+ distribution growth guidance, which we view as conservative, and a stable fee-based earnings profile, we have a high conviction on our Buy rating on MPLX.

Secular dynamics are driving increased crude oil infrastructure spend. This relationship is critical as refiners increasingly focus on midstream investments to improve their returns and capture regional differentials. We believe the current elevated pace of midstream spend (35% of MPC's capex) will continue over the medium-term, driven by the surge of U.S. shale production growth, regional logistics constraints, and the inability to export U.S. unrefined crude. Based on MPC and MPLX's announced projects, we have line of sight on $2b of investments which could generate $300m+ of EBITDA.

Significant profile of droppable assets provides LT visibility to 25%+ distribution growth. We estimate that MPC owns MLP-able midstream assets that currently generate $1.6b of EBITDA (a ratio of 6.2 to 1x potential droppable to current EBITDA). Coupling this large profile of assets with new projects being funded at MPC + MPLX, investors have line of sight on close to $2b of incremental EBITDA. Post the upcoming acquisition of $115m of marine assets EBITDA, we expect MPLX's distribution coverage to approach 2x which increases our belief that MPLX could exceed its mid-20% distribution growth guidance over 5+ years.

MPC's desire for market re-rating of its midstream assets could drive accelerated drops or other strategic option. On a standalone basis it is hard to argue that MPLX needs to increase its distribution growth (again). The stock is up 22% LTM and has meaningfully outperformed both the SPX (up 13% LTM) and the AMZ (down 9% LTM), and it only trades at a 25bps yield discount to faster growth names. That said, we believe there are potential strategic reasons for MPLX to grow over mid-20% long-term guidance: 1) unlock unrealized value of MPC's midstream assets, 2) take advantage of the current favorable capital markets and low cost of capital environment, or 3) accelerate the timeframe in which MPLX can issue larger portions of debt.

Valuation and Risks. Our $95PT is derived by using 2.5% yield on CY16 DPU and our DDM. The four biggest risks are: 1) rising rates, 2) illiquid /unattractive capital markets, 3) wide commodity price movements which could hurt MPC and drive a shift in its strategy, and 4) acquisitions by MPLX that increases its commodity sensitive or decrease cash flow stability / growth.

MPLX: MLPX LP

Ratings	BUY
Current Price (15-May-2015)	$72.83
Price Target	$95.00
Market Cap	$5.9b
Enterprise Value	$6.5b

Source: Deutsche Bank

MPLX: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA ($m)	166.3	355.7	599.1
% EBITDA Gwth YoY	50%	114%	68%
DPU	$1.41	$1.82	$2.37
% DPU Grwth YoY	20.8%	29.1%	29.9%
EV/EBITDA	36.6x	18.2x	10.8x
DPU Yield (%)	1.9%	2.5%	3.2%
Coverage Ratio	1.3x	1.7x	1.9x
Leverage Ratio	3.7x	2.8x	2.7x

Source: Deutsche Bank, MPLX Company Filings

Rating
Buy

North America
United States

Industrials
Master Limited Partnerships

Company
MarkWest Energy Partners

Reuters	Bloomberg
MWE.N	MWE UN

Date
18 May 2015
Initiation of Coverage

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Growing, Growing, Gone? Initiating at Buy

Initiate Coverage with a Buy and $76 Price Target

MarkWest Energy Partners (MWE) is a growth-oriented natural gas and natural gas liquids gathering and processing MLP. The story centers on MWE's dominance of the Northeast market – they operate ~61% of processing capacity in the fastest growing and most economic basins in the US (Marcellus, Utica). While near-term headwinds from commodity prices and equity issuance will depress MWE's distribution growth, we believe MWE's level of interconnectivity to takeaway capacity, regional expertise, and strong producer relationships create high barriers to entry and an enviable footprint – which make it a great company and potential takeout candidate. Buy.

- Great footprint in a compelling basin. MWE has the dominant footprint (~2/3rds of processing and fractionation capacity) in one the most compelling natural gas basins in the United States (+15bcf/d growth in the Marcellus / Utica since 2008 with sub $1 break-evens in some regions). With 19 facilities under-construction (vs. 36 operational), we estimate the Marcellus / Utica will be the biggest driver of MWE's long-term growth and will account for ~75% of operating income by 2019.
- No GP + low cost of capital = more expansion opportunities. Due to the 2008 consolidation of its GP (which eliminated its IDRs), MWE's current cost of capital of 5% is lower that most of its peers. We believe this will continue to facilitate its high (+$1.7b) capex and Northeast expansion.
- MWE is vulnerable to commodity weakness. Mgmt has considerably reduced MWE's commodity exposure (now ~73% fee-based contracts). While this mix shift limits the near-term direct impact of lower commodity prices, the indirect effects are more significant such as lower utilizations, longer new plant ramp-up periods, and decreased opportunity sets. Long-term, persistently lower prices could reduce our YE19 EBIT by 25%.
- Great company vs. great stock? We believe management's current build out strategy not only increases their capacity but also creates a long-term competitive advantage and barriers to entry. That said, at the same time we acknowledge sentiment that high capex and equity issuances are depressing NT DPU growth and creating a headwind for the stock.
- Enviable asset base → compelling takeout target. MWE has assembled an impressive asset base in the Marcellus/Utica. Coupling the high barriers to entry created by MWE's network of interconnects with its credible growth profile leads us to view MWE as a compelling acquisition target.

Valuation and Risk. Our $76 PT is based on a 5.25% yield on CY16 DPU and a DDM employing a 9.5% discount rate. The biggest risks to our PT are: rising rates, unattractive capital markets preventing MWE from financing its growth plans, or sustained commodity pullback causing volume declines/delays.

MWE: MarkWest Energy Partners

Rating	BUY
Current Price (15-May-2015)	$66.80
Price Target	$76.0
Market Cap	$13.3b
Enterprise Value	$18.2b

Source: Deutsche Bank

MWE: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA ($m)	874.3	1,004.0	1,412.5
% EBITDA Gwth YoY	44%	15%	41%
DPU	$3.54	$3.70	$3.97
% DPU Gwth YoY	5%	4%	7%
EV/EBITDA	18.3x	18.2x	13.7x
DPU Yield (%)	5.3%	5.5%	5.9%
Coverage Ratio	1.1x	0.9x	1.1x
Leverage Ratio	4.0x	4.7x	3.9x

Source: Deutsche Bank, MWE Company Filings

North America
United States

Industrials
Master Limited Partnerships

Company
ONEOK LP & GP

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18 May 2015
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A "ONE" Stop Shop, But Only "OK" Stocks - Initiate with Sells

Initiating Coverage on OKE (Sell, $43PT) and OKS (Sell, $38PT)

ONEOK is a single business with two investment vehicles - ONEOK Inc. (OKE) and ONEOK Partners LP (OKS). OKS is one of the largest MLPs and provides natural gas gathering, processing, transportation, and storage services as well as NGL fractionation and logistic services throughout the Williston, Powder River, Permian, and Mid-Continent regions. OKE controls the 2% GP interest, IDRs, and 36% of the LP interest in OKS. While the ONEOK complex's leverage to the major domestic shale plays has resulted in 8%+ DPU and 20%+ DPS CAGR since 2011, we think the current market conditions present more headwinds than opportunities over the next 12-18 months.

- Headwinds from Commodity Environment; Another Guidance Cut? The commodity downturn has highlighted OKEOK's commodity sensitivity, resulting in breaking the track record of 22 consecutive quarterly distribution increases and an outlook of sub-1.0x coverage for CY15. While we are only half way through the year, without an improvement in prices, we think OKS right now is positioned to come in at the low end of current guidance of 3-5% and see risk of reducing guidance (again) / providing nominal to no growth guidance going into CY16. We note, since new guidance was issued at 4Q14 earnings release, WTI oil price has vacillated in the range of $44-$61/bbl vs. management's full year expectation of $50/bbl, while natural gas prices have fallen to roughly $2.50/mmbtu vs. ONEOK's expectation of $3.50/mmbtu. Lastly, we note that OKS's hedging profile meaningfully declined from ~70% in CY15 toward ~15% in CY16.
- Slower Capex Reduces Growth Profile, But Protects B/S: Management has significantly cut its 2015 capex program by over 55% from $2.8b to $1.2b. Given the near-term headwinds we believe the reduction was the right decision (e.g. reduces equity raises which lowers OKS payout obligations), but also acknowledge that it corresponds to a loss of $270m of long-term potential EBITDA which will limit the long-term growth profile.
- Strategic Alternatives Could Fix It All: We highlight three strategic alternatives to ameliorate OKS headwinds: 1) an IDR waiver, 2) an IDR reset, or 3) a GP/LP fold-in. Commodity prices are volatile and the market may improve near-term, but when we weight the risks (higher yield, more costly capital, having to cut the DPU, and AMZ index removal), we believe management may pursue one of these three strategic alternatives.

Valuation and Risks

Our $43PT on OKE and $38PT on OKS are based on target yield and DDM valuation methodologies. The three biggest risks to our investment theses are: 1) headwinds from high commodity leverage, 2) rising rates, and 3) illiquid/unattractive capital markets.

OKE: OKEOK Inc

Rating	SELL
Current Price 15-May-2015	$45.69
Price Target	$43.00
Market Cap	$9.5b
Enterprise Value	$21.5b

Source: Deutsche Bank

OKS: ONEOK Partners

Rating	SELL
Current Price (15-May-2015)	$40.73
Price Target	$38.00
Market Cap	$10.4b
Enterprise Value	$18.4b

Source: Deutsche Bank

OKE: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA	1,431.7	1,431.7	1,542.4
% EBITDA Gwth YoY	10%	-1%	9%
DPS	$2.33	$2.42	$2.52
% DPS Gwth YoY	53%	4%	4%
EV/EBITDA	12.2x	13.5x	12.8x
DPS Yield (%)	4.7%	5.3%	5.5%
Coverage Ratio	1.3x	1.2x	1.1x
Leverage Ratio	4.9x	6.7x	6.6x

Source: Deutsche Bank, OKE Company Filings

OKS: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA	1,558.6	1,540.0	1,667.0
% EBITDA Gwth YoY	24%	-1%	8%
DPU	$3.07	$3.16	$3.21
% DPU Gwth YoY	6%	3%	2%
EV/EBITDA	10.7x	11.6x	10.8x
DPU Yield (%)	7.7%	7.8%	7.9%
Coverage Ratio	1.1x	0.8x	0.9x
Leverage Ratio	4.5x	5.5x	5.2x

Source: Deutsche Bank, OKS Company Filings

North America
United States

Industrials
Master Limited Partnerships

Industry
Plains LP & GP

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Plain and Simple - Initiating PAA with Buy, PAGP with Hold

Initiating Coverage on PAA (Buy, $54PT) and PAGP (Hold, $31PT)

Compared to many of the multi-entity complexes in our sector, the Plains story is simple -- it's one business, with two investment vehicles. All assets sit at Plains All American (PAA), while Plains GP Holdings (PAGP) is a levered play on cash flow growth. The current sector backdrop of commodity volatility and uncertainty has set the stage to highlight: the strength of PAA's diversified footprint, the benefits of patiently waiting for M&A, a $4.4b organic growth backlog that could standalone support distribution growth guidance, and the value of roughly a decade of work cultivating a strong credit profile.

Volatility in Crude Will Highlight PAA's Strengths.

PAA is widely considered one of the savviest players in the U.S. crude oil market. To put this in context, in 2014 PAA handled 3.8 mmb/d of crude oil, equivalent to roughly 40% of U.S production. As the energy industry adjusts/corrects over the next 12-24 months, we believe PAA's knowledge of the crude markets coupled with its diversified footprint (especially its Supply & Logistics segment which tends to outperform in periods of volatility) will set the company up for a strong 2015/2016.

Downturn Might Create the M&A Opportunities PAA's Been Waiting For….

Historically PAA was an M&A story and completed a staggering 70+ acquisitions from 2001-2012. But as massive inflows of capital pushed up midstream valuations, PAA sat on the sidelines. We expect as 2H15 earnings illustrate that not all midstream stocks are equally immune to commodity downturns that this will change and multiples will come in. We estimate PAA's balance sheet could fund a $3.1b deal without equity and only be 4.0x levered.

Backlog of Organic Growth Projects Alone Can Support Distribution Guidance.

In lieu of M&A, PAA could support the 7% DPU growth guidance with its shadow backlog. Rough math, assuming a 12.5% IRR across the $4.4b shadow backlog implies $550m of potential EBITDA. Starting in 2017 our model requires roughly $200 of new EBITDA annually, which means as long as management can contract its backlog at an 8x multiple, guidance is supported through 2018.

Solid B/S + Great Track Record Supports Valuation + Cost of Capital.

Two often overlooked facts are: PAA's premium credit rating (BBB+ vs. most MLPs which are BBB- or below) and management's track record of outperforming guidance (since 2010 on average have performed above guided EBITDA by +13% and DCF by +19%). But, both are particularly relevant given the impact on cost of capital and valuation.

Valuation and Risks.

PAA: Our $54 price target is derived using a 5.5% yield on $2.99 CY16 DPU and our DDM. **PAGP:** Our $31 price target is derived using a 3.5% yield on $1.09 CY16 DPS and our DDM. The 3 biggest risks to our target prices are: 1) rising rates, unattractive capital markets, and a prolonged commodity pullback.

PAA: Plains All American

Rating	BUY
Current Price (15-May-2015)	$48.42
Price Target	$54.00
Market Cap	$19.2b
Enterprise Value	$28.5b

Source: Deutsche Bank

PAGP: Plains GP Holdings

Ratings	HOLD
Current Price (15-May-2015)	$29.09
Price Target	$31.00
Market Cap	$17.6b
Enterprise Value	$29.9b

Source: Deutsche Bank

PAA: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA	2,200.0	2,329.7	2,756.6
% EBITDA Gwth YoY	-4%	6%	18%
DPU	$2.61	$2.80	$2.99
% DPU Gwth YoY	10%	7%	7%
EV/EBITDA	13.0x	11.8x	10.0x
DOU Yield (%)	5.1%	5.8%	6.2%
Coverage Ratio	1.1x	0.9x	1.0x
Leverage Ratio	4.4x	4.6x	4.2x

Source: Deutsche Bank, PAA Company Filings

PAGP: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA	2,179.0	2,090.9	2,615.1
% EBITDA Gwth YoY	4%	-4%	25%
DPS	$0.75	$0.92	$1.09
% DPS Gwth YoY	na	23%	19%
EV/EBITDA	12.3x	14.3x	11.7x
DPU Yield (%)	2.9%	3.2%	3.8%
Coverage Ratio	1.0x	1.0x	1.0x
Leverage Ratio	4.7x	5.4x	4.7x

Source: Deutsche Bank, PAGP Company Filings

Rating
Buy

North America
United States

Industrials
Master Limited Partnerships

Company
Phillips 66 Partners

Reuters	Bloomberg
PSXP.N	PSXP US

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So Good, It's Off On An Island By Itself - Initiate Buy

Initiate Coverage with a Buy and $102 Price Target

Phillips 66 Partners (PSXP) is one of the highest growth MLPs. But there is much more to this story than just multi-year visibility to super high distribution growth based on a very stable cash flow profile. What really differentiates PSXP is the relationship with parent Phillips 66 (PSX). Not only are their interests aligned, but PSX's desire to nearly double the size of its current midstream business by 2018 potentially transforms PSXP into a multi-year 30-40% distribution growth play on the strategic benefits that midstream assets bring to the energy landscape. We consider PSXP a high conviction Buy.

- PSX relationship + aligned interest underpin the story. PSX is in the middle of a transformation. Midstream is now the first segment depicted in PSX's slide decks, discussed on earnings calls, and will account for almost all of its growth capex through 2017. We see the benefits of this focus as circular. PSXP acquires $250m of EBITDA / yr which amply supports PSXP's growth guidance. PSX then uses the $2.5b / yr of proceeds to fund $8b of midstream growth capex through 2017. Newly-developed midstream assets refill the backlog of droppable assets, provide visibility to PSXP's long-term growth, and support PSXP's premium valuation, which in turn creates a continuous source of capital to further PSX's business mix toward midstream and a revaluation of its own stock.
- Line of sight to exceed NT 30% DPU guidance. We believe PSXP has the potential to grow above management's 30% DPU growth guidance based on two buckets of assets at PSX: **1)** $750m of existing EBITDA (which is one of the highest ratios of current to droppable EBITDA in the sector at 5.5 to 1x) and **2)** $1.45b of under-development / identified EBITDA = $2.2b of potential EBITDA. All together, based on 1Q15 run-rate EBITDA of $190m + roughly $200m drops / year = $1.1b of EBITDA by 2018. Lastly, given the size of the next set of droppable assets (Sweeney Frac 1, Freeport LPG should generate $500m of EBITDA) we could easily see larger drops and the potential to exceed +30% DPU growth guidance NT.
- IG rating = 1st step in execution. Lastly, we believe PSXP's recent IG credit rating increases the potential for PSXP to exceed NT guidance and maintain +35% growth beyond 2017 as its ability to issue attractively priced debt will lend to larger acquisitions and allow PSXP to increasingly fund its own organic growth projects ($200m / yr).

Valuation/Risk/Reward: Our $102 PT is derived using our two valuation methodologies: a target 2.25% yield on our CY16 DPU of $2.24 and a DDM which employs an 8% discount rate. The biggest risks to our target price are: rising rates, illiquid/unattractive capital markets, changes to PSX's midstream strategy, and new assets at PSXP which add commodity sensitivity or decrease the growth profile.

PSXP: Phillips 66 Partners

Rating	BUY
Current Price (15-May-2015)	$72.20
Price Target	$102.00
Market Cap	$5.9b
Enterprise Value	$6.2b

Source: Deutsche Bank

PSXP: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA ($m)	136.7	308.7	600.5
% EBITDA Gwth YoY	na	126%	95%
DPU	$1.23	$1.66	$2.24
% DPU Gwth YoY	na	35%	35%
EV/EBITDA	40.1x	21.3x	10.9x
DPU Yield (%)	1.8%	2.3%	3.1%
Coverage Ratio	1.3x	1.4x	1.5x
Leverage Ratio	3.1x	5.4x	4.9x

Source: Deutsche Bank, MPLX Company Filings

Rating
Buy

North America
United States

Industrials
Master Limited Partnerships

Company
Summit Midstream

Reuters: SMLP.N
Bloomberg:

Date
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Still Climbing - Initiate Buy

Initiate Coverage with a Buy and $34 Price Target
Summit Midstream Partners (SMLP) is a hybrid organic growth and dropdown story with growing exposure to the Appalachian Basin. Contract structures provide more near-term cash flow protection than peers, while drop-down from its private equity backed parent (Summit Investments) and ramping organic spending should drive high single-digit DPU growth near-term. That said, SMLP's ability to hit our long-term low double digit growth target is sensitive to the current commodity environment and the Summit Complex's ability to execute on / timing of $1b of incremental growth projects.

- Contracts provide near-term commodity protection, but long-term growth is still at risk. SMLP's near-term commodity risk is limited, as ~90% of revenues are fee-based and supported by minimum volume commitments as well as acreage dedications (sensitivities are: ~$0.5m / $0.50 move in gas and $1.5-2.0m / $10 move in WTI). Assets to be dropped from Summit Investments are entirely fee-based, so SMLP's contract profile will only improve going-forward. That said, the bigger risk is that persistently lower commodity prices will limit organic growth opportunities -- preventing SMLP from returning to low double-digit distribution growth longer-term.
- Both dropdowns + organic spending support DPU growth. Long-term we expect low double-digit distribution growth driven by drops from its Summit Investments ($2b) + organic growth opportunities + if the commodity environment recovers we have line of sight on +$1b additional opportunities. That said, near-term we expect lower ~7% DPU growth (for 2015, 2016) which is inline with guidance (of 7-8% with drops).
- Foothold in Appalachia Basin + willing sponsor seller => takeout candidate. The Summit Family (SMLP + SI) has a sizeable foothold in the Appalachian Basin, which we see as one of the most compelling natural gas plays over the next decade. We believe being one of the few large, independent G&P players in the basin makes SMLP a compelling takeout candidate. Additionally, having a financial (vs. strategic) sponsor only increases the likelihood of a transaction.

Valuation and Risk
Our $34 price target is based on a combination of two methodologies: yield-based and dividend discount model. We put a 7.25% yield on our CY16 DPU estimate of $2.43, implying a $34 target. Our DDM assumes high single-digit growth to 2019, falling to 2% terminal growth, on an 11% discount rate, for a $34 target. Risks include uncooperative capital markets, a rise in rates, commodity weakness, and further guidance cuts.

SMLP: Summit Midstream Partners

Rating	BUY
Current Price (15-May-2015)	$31.18
Price Target	$34.00
Market Cap	$3.0b
Enterprise Value	$3.2b

Source: Deutsche Bank

SMLP: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA	193.8	242.4	324.7
% EBITDA Gwth YoY	33%	25%	34%
DPU	$2.12	$2.27	$2.43
% DPU Gwth YoY	18.1%	6.8%	7.3%
EV/EBITDA	15.4x	12.6x	11.4x
DPU Yield (%)	5.6%	7.3%	7.8%
Coverage Ratio	1.1x	1.1x	1.2x
Leverage Ratio	4.0x	4.2x	4.3x

Source: Deutsche Bank, SMLP Company Filings

Rating
Buy

North America
United States

Industrials
Master Limited Partnerships

Company
Tesoro Logistics LP

Reuters	Bloomberg
TLLP.N	TLLP US

Date
18 May 2015
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Transforming into a Full Service MLP – Initiating at Buy

Initiating Coverage on TLLP with a $69 Price Target

TLLP is one of the oldest refining logistics MLPs. At slightly north of 4 years old, TLLP has worked through roughly a third of its initial backlog of existing droppable assets ($200m+ of EBITDA dropped to date) and has only $400m of developed, MLP-eligible assets left. Having effectively helped de-lever TSO's balance sheet post the Carson refinery acquisition, management's focus has shifted and CEO Goff is now transforming TLLP into a full-service logistics company. Over the next few years, organic growth projects at both TSO + TLLP plus the recently acquired QEP platform will drive 15-20% distribution growth and the next leg of upside for the stock. Buy.

- Logistics Take Center Stage ➔ will be 30% of TSO's EBTIDA by 2017. Logistics now dominates TSO's dialogue (it even has its own section at the analyst day), and management's goal to grow logistics to 30% of TSO's EBITDA by 2017 (up from 0% in 2010) shows this is not just lip service. The critical underpinning behind this transformation is that both companies have aligned interests. TSO benefits from higher refinery utilization rates and increased access to cost-advantaged crudes, while TLLP benefits from diversified, fee-based revenues, increased cash flow stability, and longer-term visibility to 15-20% distribution growth.
- Clear Trajectory to $1b of EBITDA by 2017. Historically, Goff has delivered, and we do not think this will be any different. High level math: $287m CY14 EBITDA (excluding QEPFS) + $275m from QEPFS contribution + $225m from TSO drop-downs + $200m in organic growth & optimization ➔ $1b+ of EBITDA. We think even this number could prove conservative as: 1) management can easily expand / accelerate the drop-down schedule and 2) we have identified $350m+ of under development or consideration MLP-eligible assets that could be added to droppable inventory over time.
- QEP Midstream Acquisition = Misunderstood. These assets are in some of the more pressured basins after the commodity pullback and E&P capex cuts. But what we think the market is missing here is that utilization on these assets was low at the time of acquisition, and that volumes were likely from more dependable sources such as LDCs / base-load power generation, which should limit downside to current numbers. Additionally we believe that the market is underestimating TLLP's ability to attract new customers, now that it can provide an increased service offering (which likely caused TLLP to lose out on some contracts historically).

Valuation and Risks.

Our $69 PT is derived by using 5% yield on our $3.46 CY16 DPU estimate and a ten-year DDM with a 10% discount rate. The three biggest risks to our price target are: rising rates, illiquid/unattractive capital markets, and wide commodity price movements which could hurt TSO.

TLLP: Tesoro Logistics LP

Rating	BUY
Current Price (15-May - 15)	$57.43
Price Target	$69.00
Market Cap	$4.7b
Enterprise Value	$7.6b

Source: Deutsche Bank

TLLP: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA ($m)	314.2	688.9	856.3
% EBITDA Gwth YoY	110%	119%	24%
DPU	$2.52	$2.93	$3.46
% DPU Gwth YoY	19%	17%	18%
EV/EBITDA	19.4x	10.3x	8.3x
DPU Yield	4.3%	5.1%	6.0%
Coverage Ratio	1.2x	1.5x	1.3x
Leverage Ratio	3.8x	4.4x	4.4x

Source: Deutsche Bank, TLLP Company Filings

Rating
Buy

North America
United States

Industrials
Master Limited Partnerships

Company
Valero Energy Partners

Reuters	Bloomberg
VLP.N	VLP UN

Date
18 May 2015
Initiation of Coverage

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Nothing like a Good Cup of "Joe" - Initiating at Buy

Initiate Coverage with a Buy Rating and $60 Price Target

Valero Energy Partners (VLP) is one of the fastest growing MLPs. Management's focus on assets with ratable income and contracts that limit both price and volume sensitivity provide high quality stability to current cash flow. More importantly, the vast $800m+ portfolio of MLP-eligible EBITDA sitting up at parent Valero Energy (VLO) provides an above average level of visibility to the 20-25% distribution growth guidance. Lastly, having a strategic, aligned sponsor and a nascent balance sheet add to our belief that VLP will be able to exceed management's distribution growth guidance and maintain its premium valuation multiple for the next couple of years.

- Long runway for growth plus a lot of visibility. Since going public 1.5 years ago, VLP has gradually provided more insight on its growth potential. Most notable has been the disclosure of $800m+ of EBITDA sitting up at / being developed by VLO, implying a 4.8 to 1.0x ratio to CY15 EBITDA.
- Easy to exceed 20-25% distribution growth guidance. Coupling the magnitude of MLP-eligible EBITDA with the market's positive reaction to the March acquisition ($671m for $75m of EBITDA), we easily see the potential for an acceleration beyond VLP's $1b annual acquisition target. Any acceleration would correspond to both higher distribution coverage (already 2x CY15) and an increase of distribution growth guidance.
- Right LT strategy: refilling the backlog = key to VLP's multiple. Since becoming VLO's CEO, Joe Gorder has brought a much appreciated level of capital discipline to VLO and prioritized VLO's deployment of discretionary capex toward logistics. Rough math, $500-$750m of VLP acquisitions / year = $70m draw from eligible EBITDA. VLP's multiple is based on high growth and LT visibility. Gorder gets this. So, applying a 15% IRR to VLO's $715m logistics CY16 capex:**1)** implies annual replenishment of VLP's backlog and **2)** eschews the notion of VLP as solely a financing vehicle.
- Lack IG debt rating = limitation + still some unknowns around strategy. Low cost debt is the primary headwind to financing VLP's organic growth / acquisitions. To start the rating agency dialogue, VLP needs $200-$250m of EBITDA (our YE15 run-rate). Once here we expect the rating will be IG (one notch below VLO as is common with sponsored MLPs). The final unknown is the strategy for VLO's fuels distribution business. We see this as NT noise as we do not believe it is a good fit for VLP.

Valuation and Risks: Our $60 price target is derived by using 2.5% yield on our CY16 DPU estimate and a DDM which employs an 8.0% discount rate. The biggest risks to our price target are: 1) rising rates, 2) illiquid / unattractive capital markets, 3) wide commodity price movements which could hurt VLO, and 4) a change in the commodity profile at VLP.

VLP: Valero Energy Partners

Rating	BUY
Current Price (15-May-2015)	$49.71
Price Target	$60.00
Market Cap	$3.0b
Enterprise Value	$3.2b

Source: Deutsche Bank

VLP: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA ($m)	$75.4	167.0	302.2
% EBITDA Gwth YoY	na	122%	81%
DPU	$0.94	$1.18	$1.50
% DPU Gwth YoY	na	25%	27%
EV/EBITDA	29.9x	19.3x	10.7x
DPU Yield (%)	2.2%	2.4%	3.0%
Coverage Ratio	1.3x	2.1x	2.2x
Leverage Ratio	na	2.8x	2.4x

Source: Deutsche Bank, VLP Company Filings

North America
United States

Industrials
Master Limited Partnerships

Company
Western Gas

Date
18 May 2015
Initiation of Coverage

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Don't Pass on Western Gas - Initiating on WES with Buy and WGP with Hold

Initiating Coverage on WES (Buy, $80PT) and WGP (Hold, $67PT)
Western Gas is a single business with two ways to invest--Western Gas Partners LP (WES) and Western Gas Equity Partners LP (WGP). WES is a growth-oriented, logistics MLP specializing in natural gas, NGLs, and crude oil gathering, processing, and transportation services. Our 15% distribution CAGR (2015-2019) is supported by asset drop-downs from its sponsor Anadarko Petroleum Corp. (APC) and organic growth projects. Stability is underpinned by long-term, fee-based agreements and fixed-price contracts via hedges with APC. WGP, on the other hand, is the sole GP holder of WES, benefiting from ~2x leverage to WES' underlying fundamentals and distributions.

Good Growth Visibility + Growth Levers. WES and WGP are well positioned to achieve 2015 DPU growth guidance of 15% and 30%, respectively, without any additional M&A for 2015. We expect this growth profile will hold for the next several years based on: 1) $300m of EBITDA from remaining assets at APC, 2) $300m of annual APC organic midstream capex in 2016+, 3) $600m of WES annual organic growth spend, and 4) 3rd party acquisition opportunities.

Strategic Relationship with Aligned Interests. An important aspect to WES' story is the benefit of having APC as a sponsor. High level – the relationship is symbiotic. APC depends on WES to move its production to market, while APC's scale and expertise has allowed WES to grow rapidly. Positive considerations for WES/WGP: 1) flexible, accelerated drop-downs, 2) favorable contract structures, and 3) replication of midstream build out in other growth production areas are balanced against potential risks of: 1) lower midstream capex at E&P due to commodity pullback and 2) delayed well connects.

WES: Initiating with a Buy Rating. We believe WES presents an attractive investment opportunity due to its high growth visibility, cash flow stability, good track record of operating & financial performance, and compelling valuation. Our 15% DPU CAGR estimate (2015-2019) is supported by asset drop-downs from APC, organic growth projects at both APC and WES, and 3rd party acquisitions. Our $80PT is derived using a 4.25% yield on $3.50 CY16 DPU and our DDM.

WGP: Initiating with a Hold Rating. We view WGP as a levered play on WES with less compelling valuation. Distributions grow at 1.8x the rate of WES + growth from equity issuances. While we have a positive view on the assets and high regard for management, our hold rating is a valuation-based, relative call. Compared to the high growth (25%+) peer-set we believe the WGP's valuation is fair as other names with higher growth, higher coverage, and longer-term visibility trade at similar multiples. Our $67PT is derived using a 2.75% yield on $1.86 CY16 DPU and our DDM.

Risks on WES: Headwinds from commodities decrease LT growth profile, unattractive capital markets limit ability to finance growth, and rising rates depress valuation. Risks on WGP: Potential upside due to accelerating WES / APC organic growth and higher APC capital needs drive accelerated drops. Downside risks include commodity headwinds. For more risks, see page 16.

WES: Western Gas Partners

Rating	BUY
Current Price (15-May-2015)	$69.12
Price Target	$80.00
Market Cap	$8.8b
Enterprise Value	$11.5b

Source: Deutsche Bank

WGP: Western Gas Equity Partners

Rating	HOLD
Current Price (15-May-2015)	$62.95
Price Target	$67.00
Market Cap	$13.8b
Enterprise Value	$19.0b

Source: Deutsche Bank

WES: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA ($m)	646.0	769.1	1,025.7
% EBITDA Gwth YoY	41%	19%	33%
DPU	$2.65	$3.05	$3.50
% DPU Gwth YoY	16%	15%	15%
EV/EBITDA	17.3x	14.7x	11.0x
DPU Yield (%)	3.6%	4.4%	5.1%
Coverage Ratio	1.3x	1.1x	1.3x
Leverage Ratio	3.6x	3.7x	3.2x

Source: Deutsche Bank, WES Company Filings

WGP: Forecasts and Ratios

Year End - Dec	CY14A	CY15E	CY16E
Adj. EBITDA	631.5	754.8	1,013.1
% EBITDA Gwth YoY	36%	20%	34%
DPU	$1.13	$1.48	$1.86
% DPU Gwth YoY	37%	31%	26%
EV/EBITDA	33.3x	26.3x	20.5x
DPU Yield (%)	1.9%	2.3%	3.0%
Coverage Ratio	1.0x	1.0x	1.0x
Leverage Ratio	3.7x	3.8x	3.3x

Source: Deutsche Bank, WGP Company Filings

Appendix 1

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
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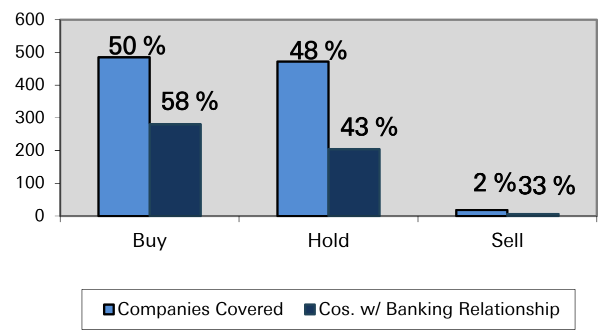
    Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
    Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



North American Universe

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