



NuStar Energy

Strong Permian Assets Support Growth in EBITDA

After a decade in which unprecedented upstream production growth triggered massive investment in infrastructure to get crude oil, natural gas and NGLs to market, the lion's share of the infrastructure needed to gather, transport, process, and store current and expected hydrocarbon volumes has already been built or is nearing completion. And, despite continued cutbacks in capex by exploration and production companies, output is still forecast to rise in 2020, which should boost earnings growth for the midstream sector. But the prospects for individual entities vary widely because of the strategic decisions they've made on where to build, acquire, expand or divest. Some midstreamers have realigned their portfolios to include primarily stable and growth assets, while others are still burdened with infrastructure in declining or overbuilt basins.

One of the most interesting case studies among the companies forecast to outperform over the next four years is San Antonio-based refined product and crude oil pipeline and storage operator NuStar Energy born in 2001 as a spinoff of assets by major U.S. refiner Valero Energy. In May 2017, as the industry was still recovering from late 2014 oil price plunge, the company made a major play to capture growing Permian production through the ~\$1.5 billion acquisition of Navigator Energy, which owned a crude oil gathering, transportation, and terminaling system in the Midland Basin. The purchase, widely panned as overpriced by analysts and investors, sent NuStar's unit price plummeting as the cost of the transaction slashed its distribution coverage ratio and boosted debt. However, the company's subsequent strategic decisions and investments not only belied analyst and investor fears about the Permian assets, but positioned the company for strong growth in 2019 and for the foreseeable future. The company has a highly integrated U.S. pipeline and terminal system that delivers crude oil to and refined products from refineries, a significant crude oil footprint in the Midland Basin and Eagle Ford Shale, first class Gulf Coast export facilities, and minimal direct exposure to commodity prices.

- The insights in this Spotlight report based on unique in-depth analysis and projections from East Daley Capital include:
- NuStar's Adjusted EBITDA and distributable cash flow are forecast to increase 22% and 34%, respectively, from 2019 to 2022.
- Distribution coverage ratios are forecast to rise, over the same time period, from 1.3x to a very healthy 1.75x while its leverage ratio (East Daley's calculation which excludes preferred equity) declines from 4.3x to 3.6x.
- The Permian system, augmented by high margin expansions and driven by continued high levels of producer activity, has turned into the crown jewel of NuStar's portfolio, with EBITDA projected to almost double from 2019 to \$241 million in 2022.
- Corpus Christi throughput volumes, which doubled in 2019, are expected to boost EBITDA from an estimated \$30 million in 2019 to ~\$60 million in 2020-2022.

- NuStar will get EBITDA boosts from expansions on its systems to ship refined products to Mexico and its West Coast bio fuel terminals as well as the closure of a competing system to its Ammonia Pipeline.
- Earnings from its extensive U.S. refined product pipeline systems, the most stable midstream assets, will increase moderately over the next four years. NuStar's growth capex will decline by 30% in 2020 as the company focuses on high margin, bolt-on expansions to its Permian crude system, Corpus Christi and St. James hubs, West Coast bio-fuels storage system, and Mexico refined product export infrastructure.

This Spotlight Report from RBN Energy and East Daley Capital is available for individual purchase or as part of RBN's Backstage Pass premium content service at rbnenergy.com.

For more information on individual or group subscriptions, send an email to info@rbnenergy.com or call 888-613-8874.

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1. Spotlight Reports from RBN Energy and East Daley Capital

1.1 What is Spotlight?

Spotlight reports provide a deep dive into the fundamentals that shape the outlook for midstream energy companies. In each report we “Spotlight” a midstream energy firm, usually one operating within an MLP structure. Our goal is to provide a comprehensive, fundamental based view of our Spotlight companies based on a bottoms-up analysis of their assets and operations. We tear apart their asset structure to reveal what volumes are flowing, what rates are (and can be) charged, how they are exposed to commodity price risk, how their assets fit together, and what aspects of their operations provide competitive advantages in today’s extremely volatile energy marketplace.

Spotlight is a joint venture of RBN Energy, LLC and East Daley Capital Advisors, Inc. We have joined together with the support of Oil & Gas Financial Analytics, LLC to provide a comprehensive, detailed insight into the companies we select for our analysis. We use publicly available data, combined with the deep experience of our combined teams to get to the answers that can be overlooked in the more high-level assessments that are in the marketplace today. Instead of such a high-level approach, we get into the micro-level detail, integrating fundamentals data, market data and company data in a comprehensive model that provides a clear picture of the company and its prospects.

As with all energy fundamental analysis, Spotlight reports rely on estimates and approximations of volumes, throughputs and fees. No non-public data from the subject company or any other source has been used in the preparation of this report.

1.2 How Can I Get Spotlight?

Spotlight is available to RBN Backstage Pass subscribers. Non-subscribers may purchase individual company Spotlight reports separately. For more information about Spotlight, go to rbnenergy.com/spotlight.