



Energy Transfer Partners

Part 1: Interstate and Intrastate Natural Gas Pipeline Segments



- Energy Transfer Partners (ETP), the second largest US Master Limited Partnership (MLP), invests in four major segments aside from its holdings in Sunoco LP (SUN) and Sunoco Logistics Partners (SXL): (1) interstate gas transportation and storage, (2) intrastate gas transportation and storage, (3) liquids transportation and storage, and (4) midstream gathering and processing.
 - Our Drill Down analysis of each segment reveals a “bad news/good news” forecast: limited-to-no organic growth for the two natural gas pipeline segments versus significant opportunities for growth and higher margins in the liquids and midstream units.
 - Plunging production and excess export capacity in major U.S. plays drive our bleak forecast for EBITDA growth in the interstate natural gas segment and a gradual EBITDA decline in the intrastate segment.
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- Growth in the interstate segment hinges on one major natural gas growth project: The Rover Pipeline out of Appalachia to the Midwest and Gulf Coast, which may be in jeopardy because of significant counterparty risk and a lower production profile. Another important project, a pipeline expansion to feed the Lake Charles LNG project, is likely but dependent on a Final Investment Decision (FID) by Royal Dutch Shell.
 - In contrast, key expansions in the liquids segment from the Permian Basin, the Bakken Shale, and the Gulf Coast can be expected to increase EBITDA by 75% over the next five years. ETP’s vertical integration in that segment will provide leverage for future growth opportunities when oil and gas prices recover.
 - The midstream segment’s diverse gathering and processing base has left the segment relatively flat in this weak commodity environment, which speaks to the potential to generate higher returns with stronger prices.

Energy Transfer Partners LP (ETP) is the second-largest U.S. master limited partnership (MLP), with a market capitalization of approximately \$16.6 billion, and its size and scope make it an important bellwether for the overall industry in each of its segments. The company is also currently in the spotlight because of the headline-grabbing drama surrounding the proposed merger between its general partner, Energy Transfer Equity (ETE), and Williams Cos. As this saga plays out, this is a good time to analyze ETP on the basis of its existing operations.

Because ETP is so large and complex, we are issuing our Spotlight Report in two parts. The first will focus on the two natural gas pipeline and storage segments, which generated 30% of the MLP’s adjusted 2015 earnings before interest, taxes, depreciation and amortization (EBITDA). The second report to be issued later this month will cover the liquids and midstream segments and other operations.

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 group subscriptions, send an email to info@rbnenergy.com or call 888-613-8874.

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2. Spotlight Reports from RBN Energy and East Daley Capital

2.1 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. This report, covering Energy Transfer Partners/ Interstate and Intrastate Natural Gas Pipeline Segments is the third edition of the Spotlight report series.

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 publically 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.

2.2 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.