Company

Global Markets Research

North America United States
Industrials Integrated Oil

Deutsche Bank

8 June 2011

MLP Round Up

The over-discounted DC Threat - 1Q11 Round Up

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Forecast Change

Companies featured	
Amerigas Partners (APU.N),USD43.50	Hold
Breitburn Energy Partners (BBEP.OQ),USD19.51	Hold
Buckeye Partners (BPL.N),USD60.85	Hold
Boardwalk Pipeline Partners (BWP.N),USD27.91	Hold
Calumet (CLMT.OQ),USD21.84	Hold
Enbridge Energy Partners (EEP.N),USD29.36	Hold
Enterprise Products Partner (EPD.N),USD40.48	Buy
Energy Transfer Equity (ETE.N),USD42.39	Buy
Energy Transfer (ETP.N),USD45.56	Hold
Genesis Energy (GEL.N),USD27.36	Hold
Kinder Morgan, Inc. (KMI.N),USD29.79	Hold
Kinder Morgan Energy (KMP.N),USD72.35	Hold
Kinder Morgan Management (KMR.N),USD63.23	Buy
Magellan Midstream Partners (MMP.N),USD57.98	Buy
NuStar Energy (NS.N),USD62.79	Hold
NuStar GP Holdings (NSH.N),USD34.59	Hold
Plains All American Pipelin (PAA.N),USD60.64	Buy
Teekay LNG Partners (TGP.N),USD35.14	Buy
Teekay Offshore Partners (TOO.N),USD28.42	Hold
Western Gas (WES.N),USD34.04	Buy

This note changes certain price targets as highlighted on p.4
For once, as we write our round up, we find that the MLPs have under-performed the market with few exceptions. No MLP has materially out-performed the S&P500 nor Nasdaq this year. Of course, the weaker performance comes after the MLPs held up very well to a withering economic/energy demand environment, and saw strong relative price performance in 2009 and 2010. But a major issue beyond that seems to have been a tax threat which we are convinced is over-stated in the mind of the market. Our Washington contacts see a change as highly unlikely.

Although potentially a disaster for MLP valuation, we don't see it happening
In May, the National Association of Publicly Traded Partnerships (NAPTP) highlighted a Treasury proposal to tax pass-through entities (like S Corps and MLPs) with gross revenues exceeding $50m at the corporate rate. This proposal prompted a broad selloff in MLPs as it would eliminate the tax advantages of the MLP structure, a development from prior legislation regarding partnerships and the issue of "carried interest". However the issue seems to have lost steam. Such a proposal will unlikely be passed by a Republican-controlled House, especially when Ways and Means Committee Chairman Dave Crump (R-MI) has stated it's "not something I'd be inclined to consider." And while Finance Committee Chairman Max Baucus (D-MT) said, "We're going to maybe have to look at pass throughs, say they've got to be treated as corporations if they earn above a certain income. It's one possibility," that would be in the realm of tax reform that is very difficult to envisage moving forward before 2013. Simply, with 2012 elections, nobody wants to stir the wasp's nest of changing the tax status of such a widely held retail investment product. Indeed, Baucus indicated that pipeline MLPs may be exempted. And in the past, when MLPs were targeted by Democrats for taxation, most of the talk has focused on financial partnerships and PE funds and explicitly exempted energy-related partnerships. And even then, with a Democrat-controlled House and Senate, the proposed legislation on financial partnerships fell short; the split in Washington, between D Senate, R House, and Tea Party, makes major moves such as this highly unlikely pre-election, in our view.

C-corp KMI provides leverage to the midstream MLP business
In a simultaneously published separate note, we initiate on KMI with a HOLD recommendation. Price target changes in this note are limited to adjustments to BBEP, MMP, TOO, ETE and NSH, essentially to maintain our existing recommendation deck but account for outsized performance moves in those names relative to previous price targets.

Valuation and Risks
We value MLPs primarily using a dividend discount model (DDM). Please see details in the individual companies' sections. Key risks to MLP valuations include inflation, economic growth, interest rates, and regulatory changes in Washington which we do not anticipate, are nevertheless a major risk. *This report changes many PTs and estimates for companies under coverage. See pages 3-5 for details on valuation and risks.*

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Valuation and Risks

Summary

In summary we are making the following changes that are a reflection of our overall stance as follows:

- We are initiating on **C-corp GP**, KMI (PT - $30), with a HOLD. We believe the C-corp GPs provide an excellent leverage to the midstream MLP business through a corporate structure without the complexity associated with MLP tax filings. Kinder Morgan has the biggest cross section of exposures to the overall theme of energy under-investment and need for new infrastructure. We believe its GP, KMI, provides an attractive leverage to this theme; but we worry that it lacks the growth implied by its relatively low yield.
- We continue to seek **mega-themes.** We like oil vs. gas, and Enterprise (EPD) along with Western Gas (WES) are plays on this. We see continued mandated ethanol growth, and Magellan (MMP) offers exposure here, with its PPI linked tariffs. We believe in continued strong growth in LNG supply globally, and with growth in need for ships, TGP should continue to do well. A high risk oil market environment and a particularly transparent management that meets or beats guidance makes us favor Plains All American, BUY. We remain on the sidelines for NS and CLMT with oil demand exposure and BBEP with natgas exposure. We continue to reiterate our Buy recommendation on ETE, for its exposure to an economic recovery in gas demand through ETP’s massive gas transport business.
- **Support strong managements with strong parents** – we say time and time again that you do not buy cheap oil companies and sell expensive ones; you buy good managements. It is almost entirely on this theme that we continue to recommend Kinder’s i-units, KMR – PT $69. The idea of strong parents comes from MLPs that have a strong GP or other owner that can backstop the MLP, for example by forgoing incentive distribution rights (eg EPD), or dropping down assets at attractive prices (TGP).
- **Lower cost of capital**. In the last year or so, we have seen few LPs buy out its GP, MMP, EPD, BPL and GEL in our coverage. Among these, we favor Enterprise (EPD) for frac spread, Magellan for its exposure to favorable ethanol markets.
- Seek **high coverage** partnerships that can clearly sustain their distributions during troubled times. Western Gas is a clear favorite here with a good >1.5x coverage and a business we favor.

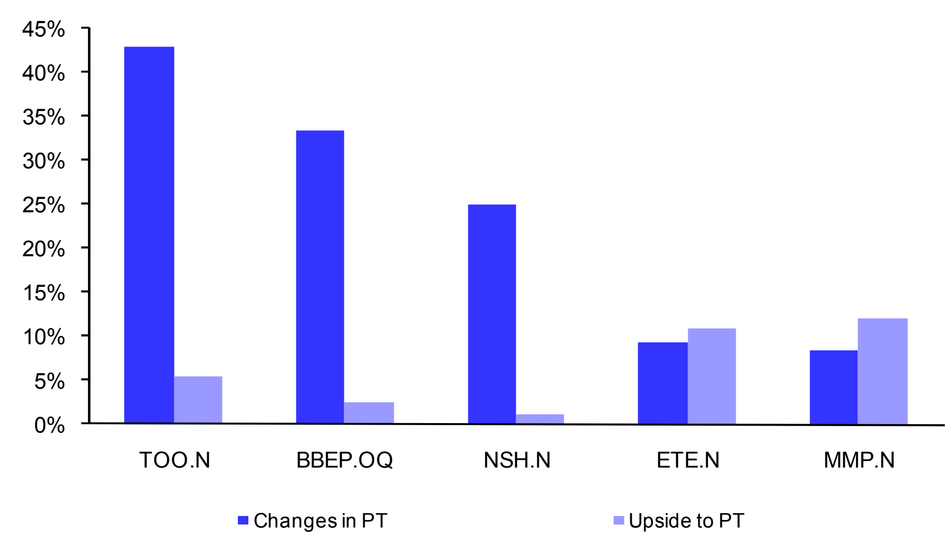
We use a dividend discount model for our MLPs, and a discounted cash flow model for C-corporations to arrive at price targets. We assume a 3.4% risk-free rate and a 7.0% equity market return across the board. From this, we take a weighted cost of equity based on CAPM models with a 3-year beta to establish a cost of equity. We then combine this with a premium for industrial themes that we favor currently (i.e. frac spreads, ethanol, contango) or structure (i.e. GP) or discount for lingering risks (delayed results, default of debt covenants) and discount forecast distributions to generate a price target.

Figure 1: DB MLP Valuation (DDM), Recommendations, and Price Target derivations

Ticker	WACC (LP+GP)	Distribution 2011	Distribution 2012	Yield 2011	Yield 2012	Qualitative Discount/ (Premium)	Revised Price target	OLD Price Target	NEW Upside to New PT	Share Price 6/7/2011	OLD Recommendation	REVISED Recommendation
APU.N	7.0%	2.93	3.05	6.7%	7.0%	0.0%	44	44	1%	43.50	Hold	Hold
BBEP.OQ	7.4%	1.69	1.82	8.6%	9.3%	1.5%	20	15	3%	19.51	Hold	Hold
BPL.N	6.1%	4.08	4.28	6.7%	7.0%	1.0%	60	60	-1%	60.85	Hold	Hold
BWP.N	6.2%	2.13	2.21	7.6%	7.9%	1.0%	31	31	11%	27.91	Hold	Hold
CLMT.OQ	8.1%	1.90	1.94	8.7%	8.9%	2.0%	19	19	-13%	21.84	Hold	Hold
EEP.N	6.9%	2.10	2.18	7.2%	7.4%	1.0%	27	27	-8%	29.36	Hold	Hold
EPD.N	6.3%	2.44	2.56	6.0%	6.3%	-1.0%	48	48	19%	40.48	Buy	Buy
ETP.N	8.8%	3.62	3.74	7.9%	8.2%	-1.5%	51	51	12%	45.56	Hold	Hold
KMP.N	8.9%	4.62	4.81	6.4%	6.6%	-2.0%	70	70	-3%	72.35	Hold	Hold
KMR.N	9.0%	4.62	4.81	7.3%	7.6%	-2.0%	69	69	9%	63.23	Buy	Buy
MMP.N	6.6%	3.14	3.30	5.4%	5.7%	-1.5%	65	60	12%	57.98	Buy	Buy
NS.N	6.9%	4.35	4.48	6.9%	7.1%	0.0%	65	65	4%	62.79	Hold	Hold
PAA.N	7.5%	3.94	4.10	6.5%	6.8%	-2.0%	75	75	24%	60.64	Buy	Buy
TGP.N	6.9%	2.57	2.65	7.3%	7.5%	0.0%	38	38	8%	35.14	Buy	Buy
TOO.N	7.1%	2.02	2.14	7.1%	7.5%	0.0%	30	21	6%	28.42	Hold	Hold
GEL.N	7.1%	1.71	1.88	6.3%	6.9%	-1.0%	31	31	13%	27.36	Hold	Hold
WES.N	6.4%	1.62	1.78	4.8%	5.2%	-2.0%	40	40	18%	34.04	Buy	Buy
GP												
ETE.N	7.2%	2.30	2.46	5.4%	5.8%	-2.0%	47	43	11%	42.39	Buy	Buy
NSH.N	6.5%	1.97	2.08	5.7%	6.0%	-0.5%	35	28	1%	34.59	Hold	Hold
C-corp GP												
KMI.N	7.0%	1.02	1.30	3.4%	4.4%	NA	30	NA	1%	29.79	NA	Hold

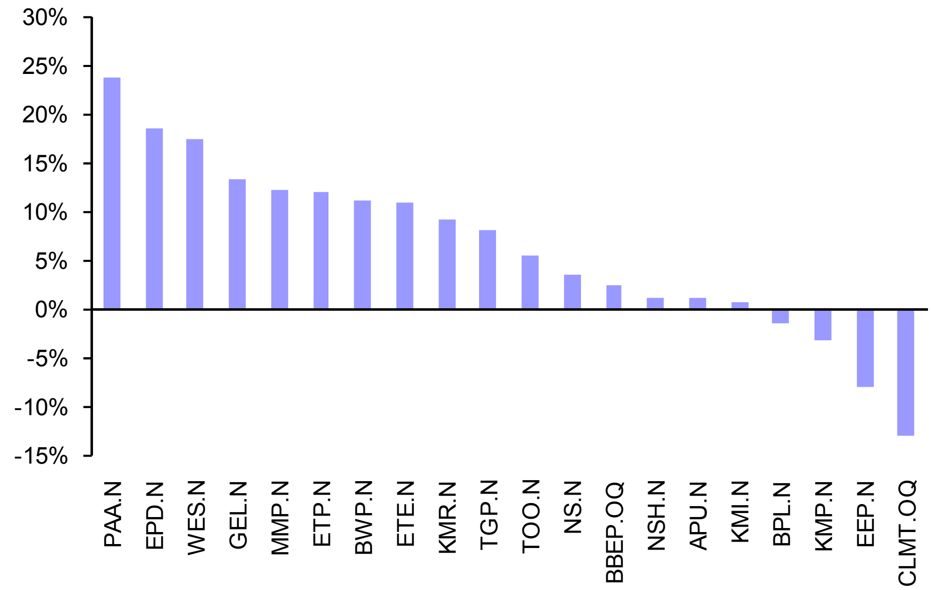
Source: Bloomberg Finance LP, Company filings, Deutsche Bank estimates

Figure 2: Changes in PT



Source: Deutsche Bank

Figure 3: PT upside/downside to current price



Source: Deutsche Bank

Risks

Specific to individual MLPs we have listed in each company section below, an MLP-specific set of issues.

General issues are potentially highly significant:

Pass through Taxation risks

The regulatory changes in Washington, though not expected, could totally alter the investment case for this group if, for example, it took away their tax free status. In the first week on May 2011, there was a proposal from the Treasury that the pass-through entities with income over a certain amount should be treated as corporations and taxed at corporate income tax rate. However, nothing on this idea was initiated in the House of Representatives and Senator Baucus also indicated a possible exception for the pipeline MLPs. We note that in case tax changes are enacted shipping MLPs, such as Teekay (TGP.N, TOO.N), could be favoured by investors as they derive most or all of their revenues abroad and don't pay US taxes.

Inflation & Interest rate risks

Second, general risks to the MLPs are highlighted by **rising** inflation rates, which diminish the relative attractiveness of dividend-valued stocks such as MLPs or falling interest rates on T-Bills, being symptomatic of risk aversion, which is implicit in MLPs vs Treasuries.

Other risks

If the US sees another major GDP slowdown, perhaps accelerated by super-high oil prices because of Middle East wars, or perhaps by a swine flu pandemic, oil and gas demand could re-decline, which would leave operationally leveraged MLPs with excess capacity rather than tight capacity, and far lower margins. Such an environment might see stagflation, rising inflation and a falling GDP that would be fundamentally very damaging to the investment case of MLPs. The basic implication would be a rising inflation rate environment combined with falling demand – the worst of all worlds. MLPs are all basically subject to robust US energy demand as their core business driver.

Figure 4: Valuation Comparison

Deutsche Bank MLP Universe Comparison Sheet

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As on 7-Jun-11

Ticker	Company	Rating	M Cap (Mn)	Debt 2011 (Mn)	EV (Mn)	Target Price	Current Price 7-Jun-11	PT Upside*	YTD Return	52 -Week Range High	Low
KMP.N	Kinder Morgan Energy Partners	Hold	$23,635	$ 12,342	$ 35,835	$70	$72.35	-3%	3%	$78	$63
KMR.N	Kinder Morgan Management	Buy	$5,659	$ -	$ 5,659	$69	$63.23	9%	-5%	$68	$54
EPD.N	Enterprise Products Partners	Buy	$34,581	$ 14,697	$ 48,468	$48	$40.48	19%	-3%	$44	$33
ETP.N	Energy Transfer Partners	Hold	$9,372	$ 5,505	$ 14,767	$51	$45.56	12%	-12%	$55	$44
PAA.N	Plains All American	Buy	$8,862	$ 1,917	$ 10,658	$75	$60.64	24%	-3%	$66	$58
EEP.N	Enbridge Energy Partners	Hold	$7,526	$ 5,580	$ 12,515	$27	$29.36	-8%	-53%	$67	$29
BWP.N	Boardwalk Pipeline	Hold	$4,736	$ 6,450	$ 10,901	$31	$27.91	11%	-10%	$34	$27
MMP.N	Magellan Midstream Partners	Buy	$6,597	$ 2,547	$ 9,022	$66	$57.98	14%	3%	$62	$43
BPL.N	Buckeye Partners	Hold	$5,302	$ 2,099	$ 7,261	$60	$60.85	-1%	-9%	$70	$56
NS.N	Nustar Energy	Hold	$4,128	$ 778	$ 4,896	$65	$62.79	4%	-10%	$72	$55
APU.N	Amerigas	Hold	$2,483	$ 3,275	$ 5,671	$44	$43.50	1%	-11%	$51	$40
CLMT.OQ	Calumet Specialty Products	Hold	$853	$ 308	$ 1,113	$19	$21.84	-13%	3%	$25	$17
TGP.N	Teekay LNG	Buy	$1,945	$ 1,777	$ 3,627	$38	$35.14	8%	-8%	$41	$28
TOO.N	Teekay Offshore	Hold	$1,747	$ 1,744	$ 3,297	$30	$28.42	6%	2%	$31	$20
BBEP.OQ	Breitburn Energy Partners	Hold	$1,139	$ 408	$ 1,541	$20	$19.51	3%	-3%	$23	$14
GEL.N	Genesis Energy	Hold	$1,112	$ 610	$ 1,722	$31	$27.36	13%	45%	$29	$18
WES.N	Western Gas Partners	Buy	$2,825	$ 484	$ 3,305	$40	$34.04	18%	75%	$31	$18
GP											
NSH.N	Nustar GP	Hold	$1,472	$ -	$ 1,472	$35	$34.59	1%	-5%	$40	$27
ETE.N	Energy Transfer Equity	Buy	$9,451	$ 2,228	$ 11,679	$47	$42.39	11%	8%	$46	$30
KMI.N	Kinder Morgan Inc	Hold	$19,796	$ 3,883	$ 23,679	$30	$29.79	1%	-6%	$31	$28

Ticker	Company	Distribution 2010	Distribution 2011 E	Distribution 2012 E	CAGR 2010-12 E	Yield 2010	Yield 2011E	Yield 2012E	Coverage Ratio 2010	Coverage Ratio 2011E	Coverage Ratio 2012E
KMP.N	Kinder Morgan Energy Partners	4.40	4.62	4.81	4.6%	6.6%	6.4%	6.6%	1.0x	1.1x	1.3x
KMR.N	Kinder Morgan Management	4.40	4.62	4.81	4.6%	7.4%	7.3%	7.6%	NA	NA	NA
EPD.N	Enterprise Products Partners	2.32	2.44	2.56	5.1%	6.3%	6.0%	6.3%	1.3x	1.2x	1.3x
EEP.N	Enbridge Energy Partners	2.04	2.10	2.18	3.3%	3.7%	7.2%	7.4%	1.2x	1.3x	1.2x
MMP.N	Magellan Midstream Partners	2.96	3.14	3.30	5.7%	6.1%	5.4%	5.7%	1.2x	1.2x	1.2x
PAA.N	Plains All American	3.79	3.94	4.10	4.1%	6.4%	6.5%	6.8%	1.1x	1.3x	1.3x
ETP.N	Energy Transfer Partners	3.58	3.62	3.74	2.3%	7.5%	7.9%	8.2%	0.9x	1.0x	1.1x
BPL.N	Buckeye Partners	3.88	4.08	4.28	5.0%	6.3%	6.7%	7.0%	1.2x	1.2x	1.3x
NS.N	Nustar Energy	4.28	4.35	4.48	2.3%	7.1%	6.9%	7.1%	1.1x	1.1x	1.2x
APU.N	Amerigas	2.79	2.93	3.05	4.6%	6.5%	6.7%	7.0%	1.4x	1.2x	1.3x
BWP.N	Boardwalk	2.05	2.13	2.21	3.9%	6.7%	7.6%	7.9%	1.1x	1.1x	1.2x
CLMT.OQ	Calumet Specialty Products	1.84	1.90	1.94	2.7%	9.3%	8.7%	8.9%	1.2x	1.3x	1.2x
TGP.N	Teekay LNG	2.43	2.57	2.65	4.4%	7.7%	7.3%	7.5%	1.1x	1.2x	1.2x
TOO.N	Teekay Offshore	1.90	2.02	2.14	6.1%	8.5%	7.1%	7.5%	1.2x	1.1x	1.1x
BBEP.OQ	Breitburn Energy Partners	1.56	1.69	1.82	8.0%	9.5%	8.6%	9.3%	1.6x	1.7x	1.5x
GEL.N	Genesis Energy	1.53	1.71	1.88	10.8%	7.2%	6.3%	6.9%	1.5x	1.1x	1.1x
WES.N	Western Gas Partners	1.44	1.62	1.78	11.2%	6.0%	4.8%	5.2%	1.7x	1.6x	1.6x
GP											
NSH.N	Nustar GP	1.87	1.97	2.08	5.5%	6.1%	5.7%	6.0%	1.0x	1.0x	1.0x
ETE.N	Energy Transfer Equity	2.16	2.30	2.46	6.7%	6.2%	5.4%	5.8%	1.0x	1.0x	1.0x
KMI.N	Kinder Morgan Inc	NA	1.02	1.30	11.1%	NA	3.6%	4.6%	1.1x	1.1x	1.1x

Ticker	Company	Debt to EBITDA 2010	Debt to EBITDA 2011 E	Debt to EBITDA 2012 E	EV	Debt / Debt + Equity 2010	Debt / Debt + Equity 2011E	Debt / Debt + Equity 2012E	EV/EBITDA 2010	EV/EBITDA 2011E	EV/EBITDA 2012E
KMP.N	Kinder Morgan Energy Partners	4.0x	3.8x	3.5x	$ 35,835	36%	35%	35%	16.7x	16.8x	15.1x
KMR.N	Kinder Morgan Management	NA	NA	NA	$ 5,659	NA	NA	NA	NA	NA	NA
EPD.N	Enterprise Products Partners	4.3x	4.5x	4.2x	$ 48,468	38%	31%	31%	11.2x	14.3x	13.4x
EEP.N	Enbridge Energy Partners	4.9x	4.8x	4.8x	$ 12,515	44%	43%	44%	12.0x	12.3x	11.8x
MMP.N	Magellan Midstream Partners	3.8x	3.5x	3.3x	$ 9,022	27%	24%	24%	14.2x	14.5x	13.8x
PAA.N	Plains All American	5.8x	4.9x	4.7x	$ 10,658	42%	41%	41%	16.7x	13.9x	13.2x
ETP.N	Energy Transfer Partners	4.7x	3.9x	3.7x	$ 14,767	42%	42%	43%	14.7x	12.1x	11.2x
BPL.N	Buckeye Partners	4.1x	5.0x	4.8x	$ 7,261	33%	33%	34%	12.3x	14.8x	13.5x
NS.N	Nustar Energy	4.7x	4.3x	4.2x	$ 4,896	36%	35%	35%	14.0x	13.5x	12.8x
APU.N	Amerigas	2.4x	2.4x	2.3x	$ 5,671	24%	24%	24%	10.3x	10.1x	9.6x
BWP.N	Boardwalk Pipeline	4.9x	4.7x	4.8x	$ 10,901	39%	41%	42%	13.3x	11.8x	11.7x
CLMT.OQ	Calumet Specialty Products	2.5x	2.4x	2.3x	$ 1,113	34%	29%	29%	7.4x	8.1x	7.7x
TGP.N	Teekay LNG	7.0x	6.8x	6.1x	$ 3,627	52%	49%	49%	13.8x	14.2x	12.7x
TOO.N	Teekay Offshore	6.1x	4.8x	4.2x	$ 3,297	67%	53%	51%	8.8x	8.9x	8.0x
BBEP.OQ	Breitburn Energy Partners	2.8x	3.8x	1.8x	$ 1,541	37%	27%	27%	7.5x	14.1x	6.6x
GEL.N	Genesis Energy	5.2x	4.1x	3.6x	$ 1,722	41%	26%	25%	13.6x	15.9x	14.4x
WES.N	Western Gas Partners	2.5x	1.5x	1.3x	$ 3,305	23%	12%	12%	11.0x	12.6x	11.0x
GP											
NSH.N	Nustar GP	4.7x	4.3x	4.2x	$ 1,472	30%	29%	29%	15.4x	14.9x	14.1x
ETE.N	Energy Transfer Equity	6.4x	5.4x	5.1x	$ 11,679	36%	34%	35%	17.7x	15.5x	13.9x
KMI.N	Kinder Morgan Inc	6.1x	5.0x	4.6x	$ 23,679	NA	25%	26%	NA	18.1x	21.3x

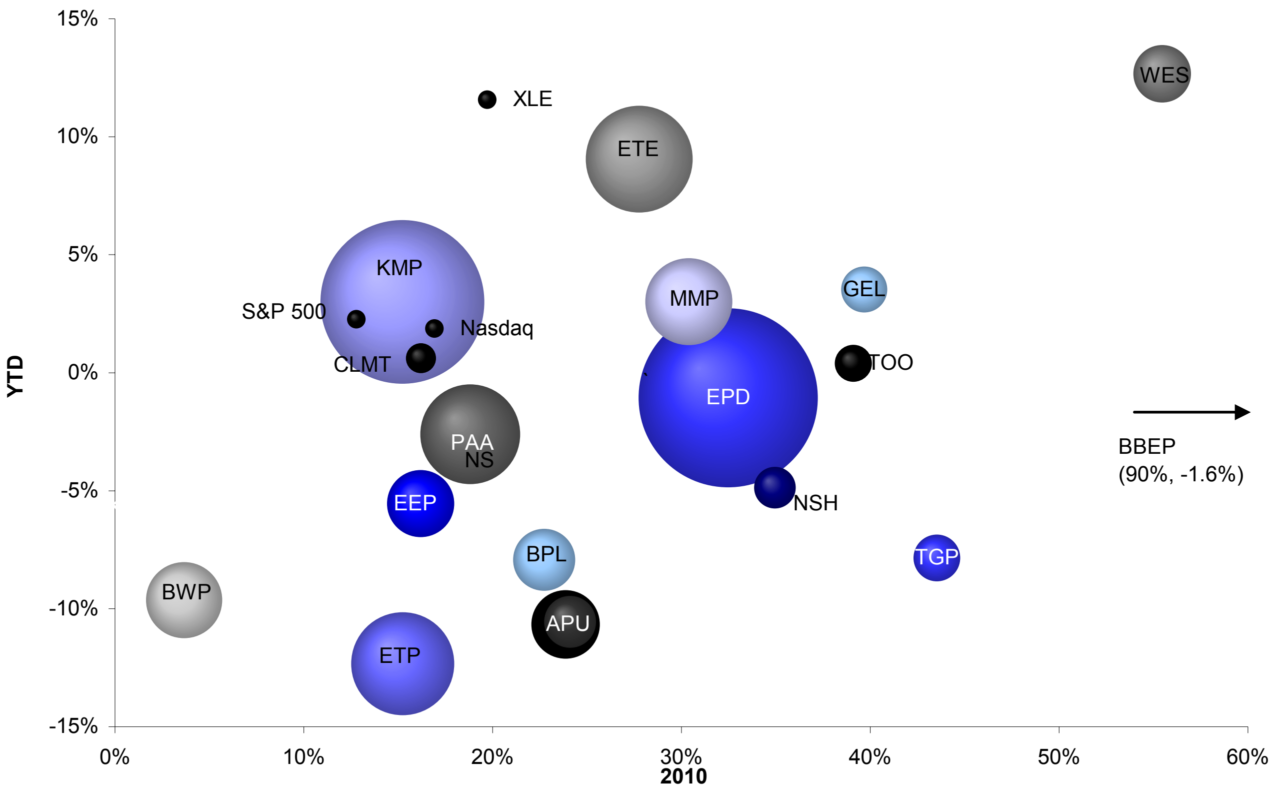
Source: Deutsche Bank estimates, Bloomberg Finance LP

Performance and Indicators

For once, as we write our round up, we find that the MLPs have under-performed the market with few exceptions. No MLP has materially out-performed the S&P500 nor Nasdaq this year.

Of course, the weaker performance comes after the MLPs held up very well to a withering economic/energy demand environment, and saw strong relative price performance in 2009 and 2010.

Figure 5: MLP Performance: FY10 vs 2011 YTD



Source: Deutsche Bank, Bloomberg Finance LP

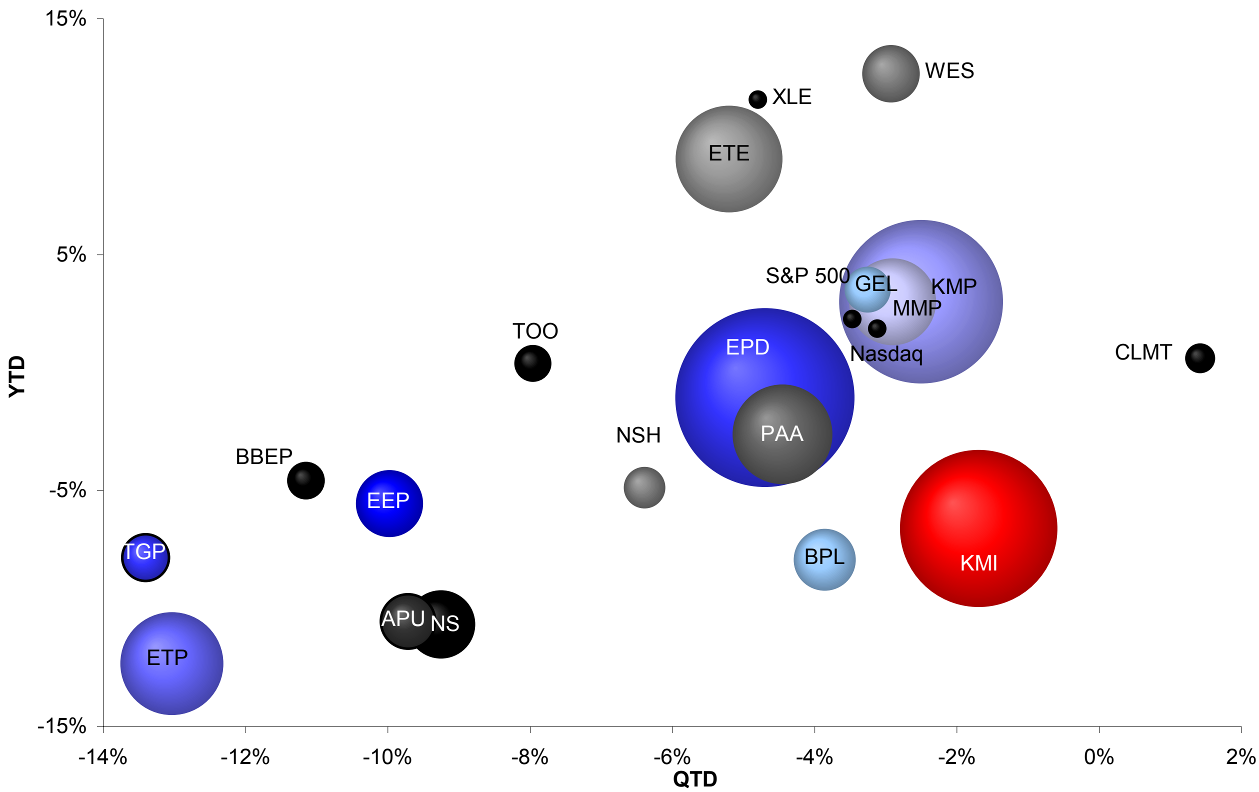
Looking forward, the dramatic growth seen in the unconventional plays has put the focus on the development of midstream infrastructure. We expect this shale gas induced demand to be the major growth driver for midstream MLPs in 2011 and beyond. We believe KMP, EPD and ETP will benefit from these opportunities. We favor the GPs, KMI & ETE, which are levered to this growth and EPD, with one of the lowest costs of capital among the large cap MLPs.

The FERC has revised the oil pipeline tariff to PPI+2.65% for 2011-2016 from PPI+1.3%, in a move that should help transportation companies overcome pipeline cost escalations. This would benefit MMP though lately costs incurred by the pipeline operators have increased faster than the index (PPI+1.3%) applicable for the current five year period, 2006-2011.

Overall we remain concentrated in high quality, large cap only. We have missed some beta but avoided any blow-ups. Quarter-to-date the group has lagged mainly due to rising concerns on the taxation on pass-through entities.

Again, looking at the performance this year vs last year shows a relatively disappointing performance. None of our MLPs saw unit price declines in 2010; in 2011 year to date less than half of the group has shown positive performance (all returns are ex-dividend return).

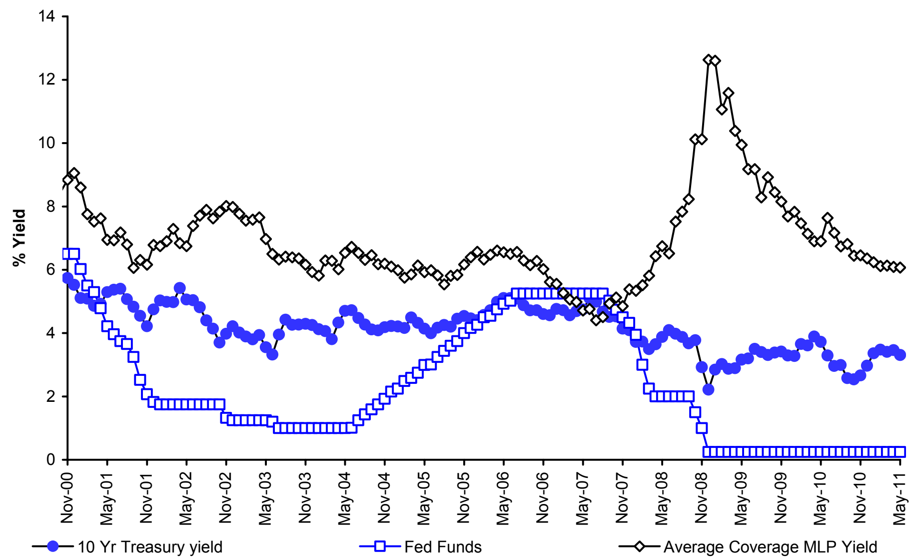
Figure 6: MLP Performance: 2011 year to date vs 2010



Source: Deutsche Bank, Bloomberg Finance LP
KMI – YTD performance since Feb 11, 2011

As shown below, as late as August 2007, the average MLP yield in our coverage was trading at a similar yield to that of the risk-free 10-year treasury – this excessive convergence that was maintained for several months. Now, the group looks firmly in the territory of fair value.

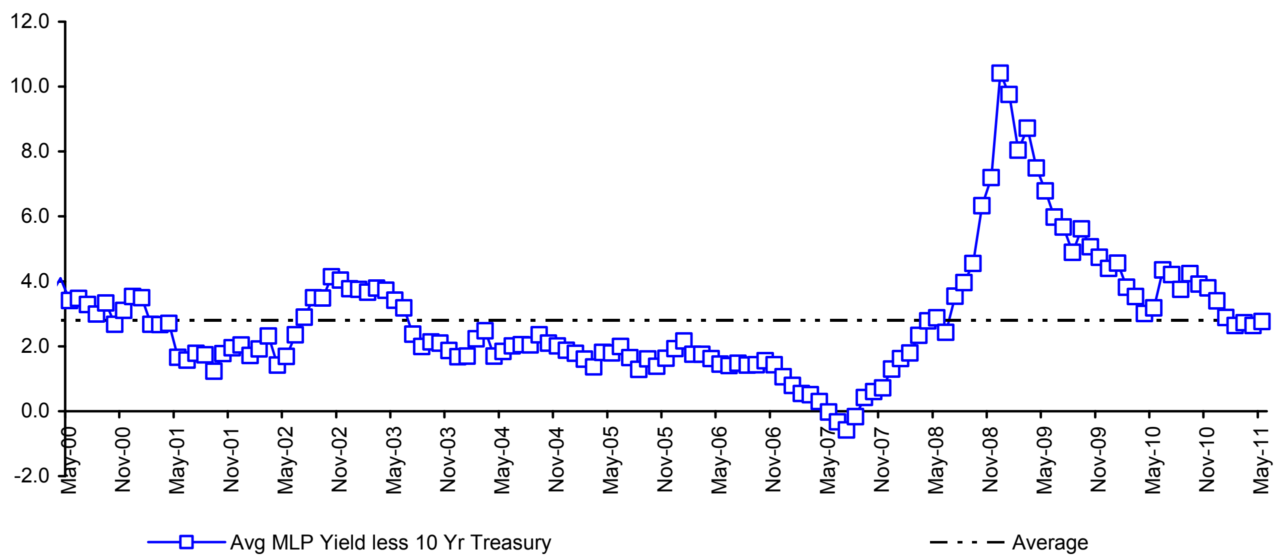
Figure 7: Key Interest Rate Indicators vs MLP yields



Source: Deutsche Bank, Factset, Capital IQ

Re-expressing the graph above as the relative premium of the MLP group to the risk-free yield, we see the group exactly in line with its long term premium. If QE2 ends without a QE3, we could reasonably expect rising risk free rates and pressure on MLP price performance, but at this time, we believe that we "muddle through" the debt ceiling issue, that the economy improves in 2H 2011 and into 2012, and that global sovereign debt crises are averted.

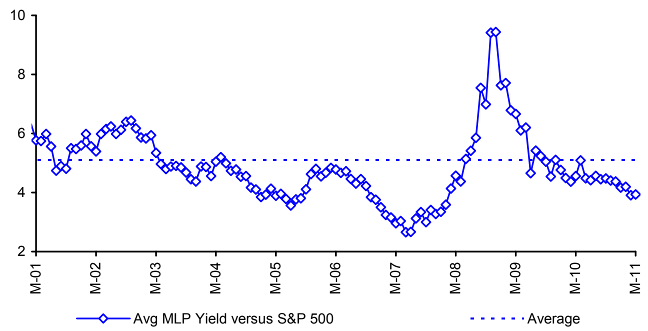
Figure 8: MLP yield vs Risk Free Yield – Fell to zero in mid-2007 before rising sharply through November 08



Source: Factset, Deutsche Bank, Capital IQ

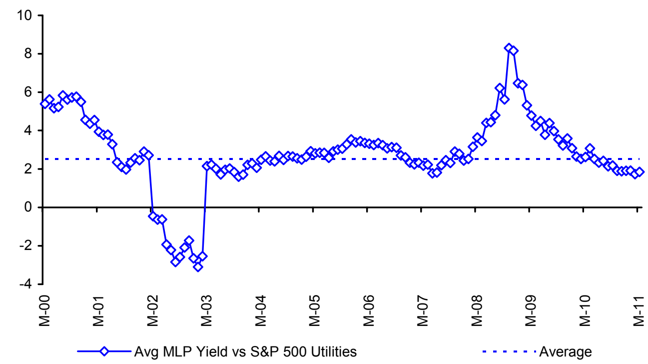
We continue to see a fundamental, long-term beneficial, clear investment case for MLPs and want to stay invested in the sector due to exposure to the unconventional natgas mega-theme and defensiveness in a protracted economic recovery environment. The complexity of tax filings can be avoided through the C-corp GP, KMI, which provides a good investment opportunity to leverage the midstream MLP growth through corporate structure.

Figure 9: Diff between avg MLP yield & S&P yield



Source: Deutsche Bank , Capital IQ

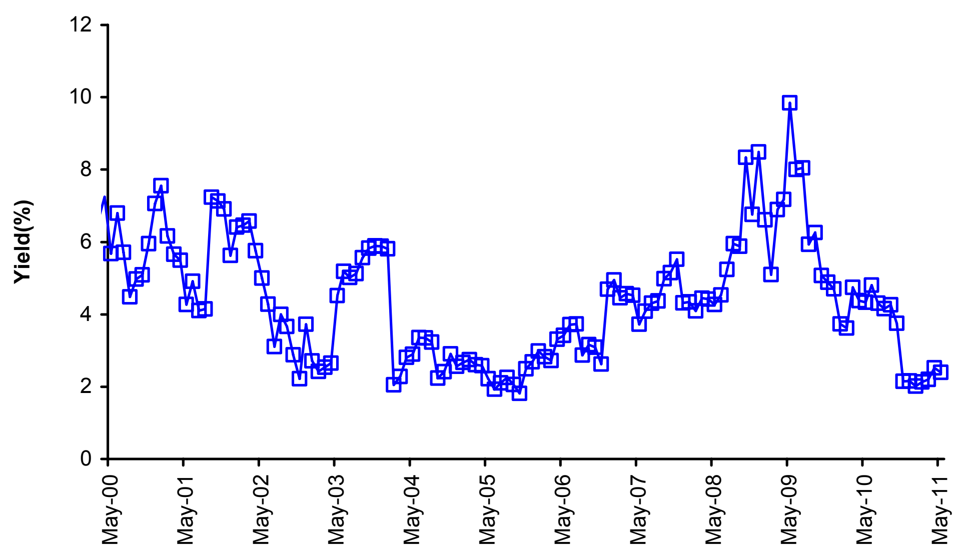
Figure 10: Diff btw avg MLP yield & S&P utilities yield



Source: Deutsche Bank, Capital IQ

As shown below, the yield gap between MLPs continues to be substantially narrow, indicating little differentiation by investors of the diverse growth profiles.

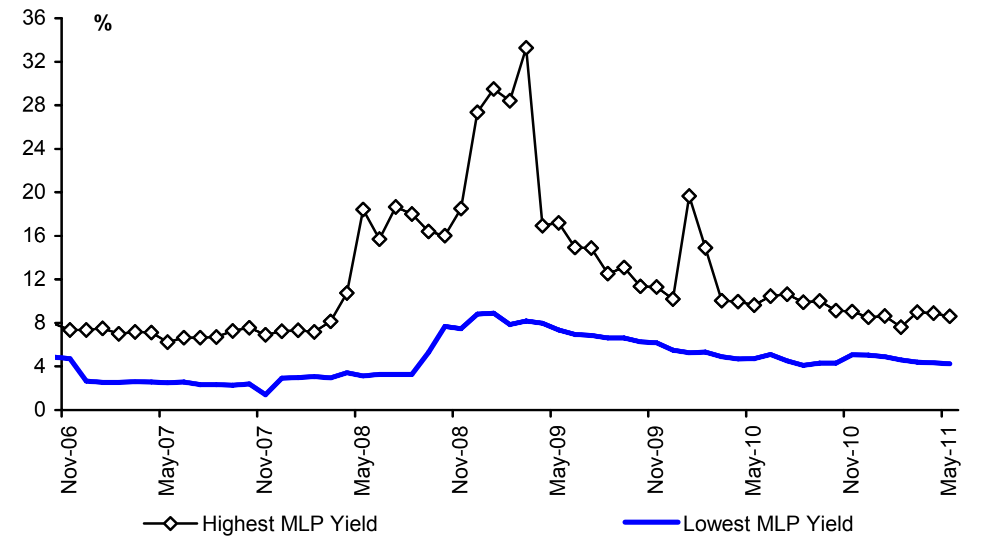
Figure 11: Intra-MLP risk premium: difference between highest and lowest yields



Source: Deutsche Bank , Capital IQ o

In 2011, the premium paid to the nat gas midstream business have again widened the intra-MLP yield spreads, but this is not yet a problematic premium, in our view.

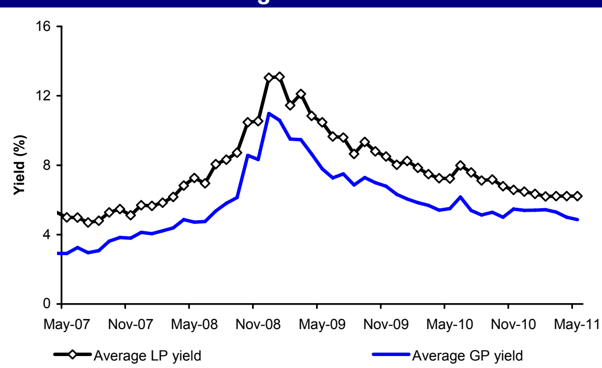
Figure 12: MLP yields – difference between highest and lowest yields – risk rising?



Source: Deutsche Bank, Capital IQ

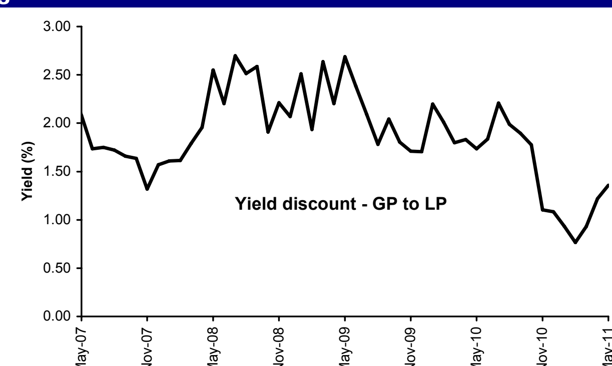
General Partners (GPs) are highly leveraged to growth in distributions at the Limited Partner (LP) level; they are paid, typically, increased incentives for the greater growth shown at the Limited Partner level of the MLP. The premium paid for this GP growth, which is implicit in unit prices over time (left hand graph, Figure 13) narrowed in the end of 2010 but has widened in 2011.

Figure 13: GP vs LP Average Yields



Source: Deutsche Bank, Factset, Capital IQ

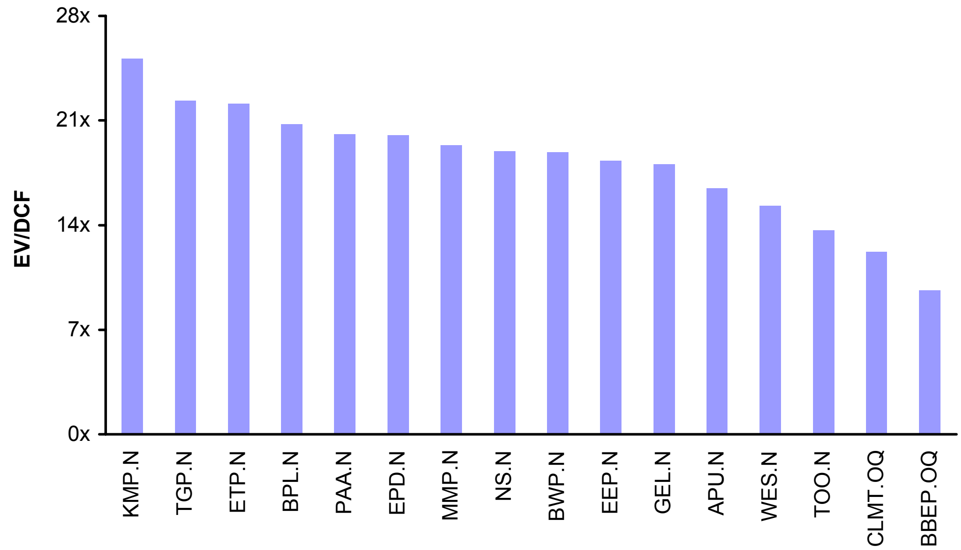
Figure 14: GP vs LP Yields



Source: Deutsche Bank, Capital IQ

Kinder Morgan with a wide gamut of midstream businesses gets a significant premium over others based on the distributable cash flow to LP holders. However, the high risk, high debt levered, Buy-rated TGP is also getting a premium over reputable players like PAA, ETP and partnerships with lower cost of capital - BPL, EPD and MMP. We believe WES, a smaller player on the premium gas midstream business, is relatively undervalued.

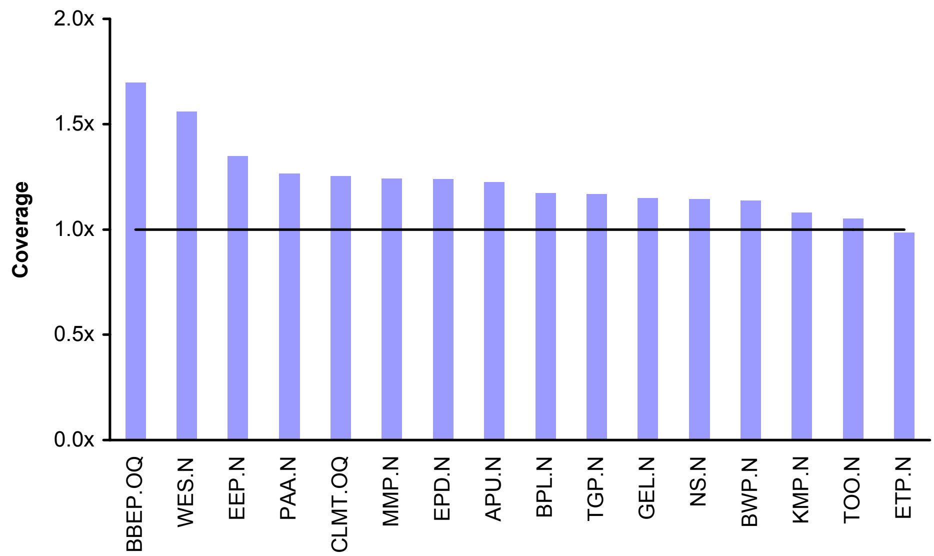
Figure 15: EV/DCF 2011e



Source: Deutsche Bank, Company filings
KMP EV includes KMR

Coverage ratios of available cash flow for distribution vs. actual distribution continue to look generous.

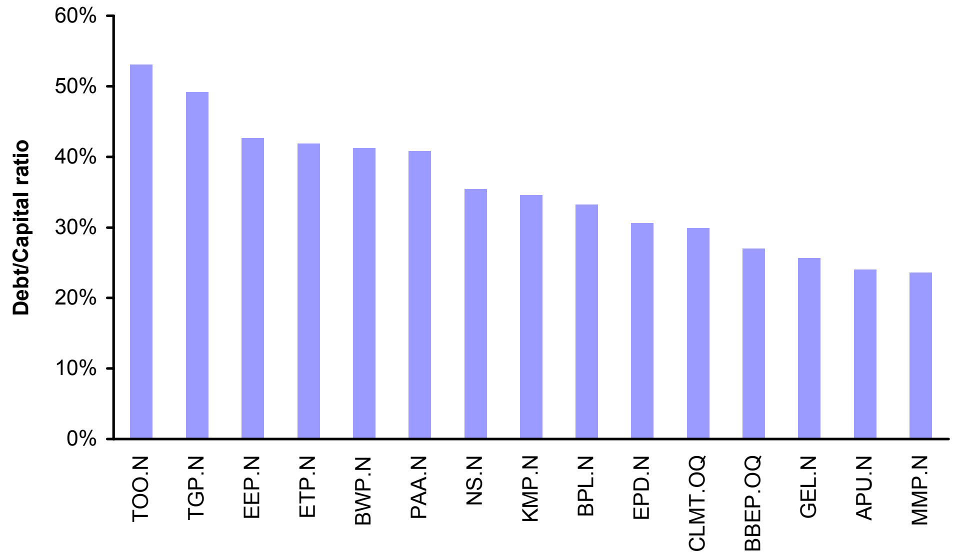
Figure 16: FY 2011e Distribution Coverage



Source: Deutsche Bank, Company data

Having seen the credit crunch in the end of 2008 and beginning of 2009, we continue to be concerned with low coverage ratios, given the potential for capital markets to dry up, particularly on the debt side if the US government's appetite for debt squeezes interest rates higher. We are most concerned about ETP and TOO.

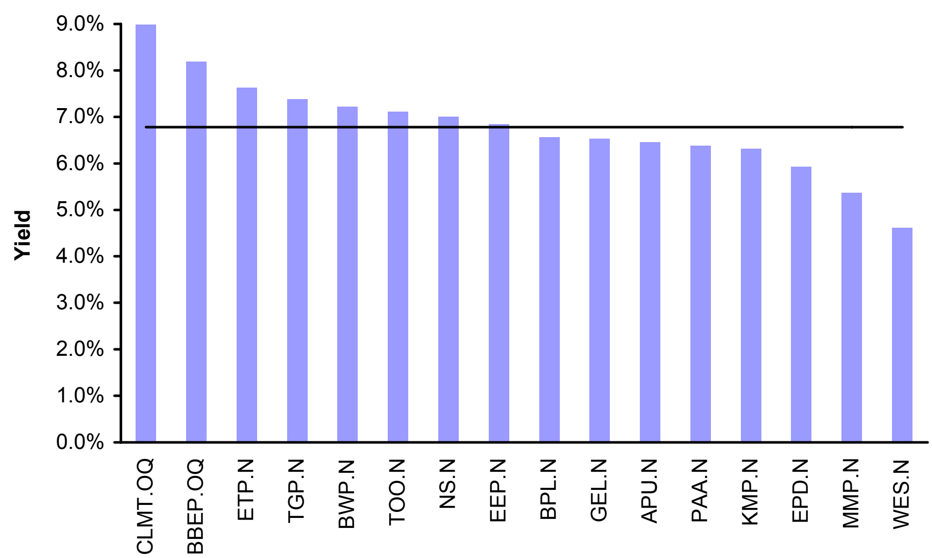
Figure 17: Debt to capitalization 2011e



Source: Deutsche Bank, company 10K

Yields remain at attractive levels vs growth potential and current risks, but as highlighted above, not wildly so.

Figure 18: MLP Yield 2011e



Source: Deutsche Bank, Bloomberg Finance LP

Enterprise Product Partners

Investment Thesis – Mixed MLP size/quality – Buy EPD

The dominant MLP alongside Kinder Morgan, EPD is a major player in the transportation and fractionation of natural gas liquids (NGLs). After the successful integration of TEPPCO in 2009 and EPE in 2010, EPD has now announced merger of Duncan Energy Partners, a $2bn midstream partnership. EPD already owns its GP, DEP Holdings. In addition to the acquisitions, the partnership is concentrating on the development of its processing and transportation assets located in the majors shale gas and oil plays, notably the Eagle Ford, and Gulf of Mexico oil and gas mega-projects. With natgas effectively pricing the marginal short run cash cost of supply, but oil being held up by OPEC and the Middle East unrest, we expect sustained wider fractionation spreads to benefit EPD. Management has proved highly astute at accessing capital markets and generating long term growth. The scale of the business, the exposure to the oil-gas spread, and the quality of management and management ownership of the units leaves us recommending a BUY.

Valuation & ratings

We derive a WACC of 6.3% from a pretax cost of debt of 5.2%, cost of equity of 6.8% and debt-to-capital ratio of 32%. We forecast distributions ($2.56 for 2012), then discount the average with the cost of equity/debt WACC (6.3%) less quality premium (1.0%). Our 1.0% premium is based on the GP buy-out (no IDR burden) which means low cost of capital and a strong play on frac spreads. This produces a $48 PT and Buy rating.

Risks

Specific risks include hurricane related disruptions, as in Q3'08, since it has a large percentage of assets in the GoM. Other risks include a further collapse in oil vs. gas prices, ruining frac margins. Other operational setbacks that disrupt volume and throughput growth would also be a risk.

Figure 19: EPD Distribution Coverage

	2009	1Q	2Q	3Q	4Q	2010	1Q	2QE	3QE	4QE	2011E	2012E	2013E
Adjusted EBITDA	2281.8	766.8	777.0	770.8	819.1	3133.7	891.7	829.7	850.3	905.0	3476.7	3828.3	4161.0
Less: Interest	-544.4	-148.6	-168.6	-179.7	-212.8	-709.7	-183.8	-190.4	-195.4	-200.8	-770.4	-828.9	-849.0
Less:Maintenance Capex	-155.2	-32.6	-72.7	-72.0	-62.9	-240.2	-52.7	-69.1	-69.1	-69.1	-260.0	-250.0	-200.0
Others	47.9	6.9	28.7	53.7	41.5	130.8	39.4	0.0	0.0	0.0	39.4	0.0	0.0
Less: GP Interest	-168.1	-63.1	-66.3	-68.4	0.0	-197.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributable Cash Flow to LP	**1462.0**	**529.4**	**498.1**	**504.4**	**584.9**	**2116.8**	**694.6**	**570.2**	**585.8**	**635.0**	**2485.7**	**2749.3**	**3112.0**
EPCO - No of EPD's units it has agreed to w aive distributions							30.6	30.6	30.6	30.6	30.6	26.1	23.7
Total LP Units Outstanding	486.8	623.0	639.1	643.4	843.7	687.3	813.1	813.1	827.2	841.3	823.7	857.4	872.3
Distributable Cash Flow per LP Unit	3.00	0.85	0.78	0.78	0.69	3.08	0.85	0.70	0.71	0.75	3.02	3.21	3.57
Cash Distribution per LP Unit	**2.20**	**0.57**	**0.58**	**0.58**	**0.59**	**2.32**	**0.60**	**0.61**	**0.61**	**0.62**	**2.44**	**2.56**	**2.68**
Total Unit Coverage Ratio	1.4x	1.5x	1.4x	1.3x	1.2x	1.3x	1.4x	1.2x	1.2x	1.2x	1.2x	1.3x	1.3x
Cash Distribution per LP unit Growth (Y/	*6%*	*6%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*

Source: Company filings, Deutsche Bank

Kinder Morgan

Investment Thesis – Hold KMP & KMI, Buy i-unit KMR

Kinder Morgan is one of the largest and the most diverse MLPs operating natural gas, crude oil, CO2 and product pipelines, and storage throughout the US in a balanced portfolio. With the GP KMI being taken public again in February 2011, the CEO Rich Kinder's empire (KMP, KMR & KMI) has risen past $50bn. Earlier in 2007, KMI was taken private by Kinder in a major private equity deal. Superior operational performance, combined with management's forethought on markets, characterize this company. We expect shale gas projects to provide the future growth for KMP given that it operates in most of the fast growing shale gas plays, including Eagle Ford, Haynesville, Fayetteville and Barnett. On the negative side, Kinder is suffering from tight coverage ratios and a high cost of capital as distributions are now in the high splits; and the scale of the MLP now makes this a major challenge to over-come on an annual basis. However we are confident management will be able to manage the tight coverage ratio that barely held 1x distributable cash flow in 2009 and 2010, with the shale gas and oil expansion projects. For 2011, in line with guidance, we expect $4.60 per unit of distribution with a 1.1x coverage. HOLD KMP & KMI, BUY i-units KMR.

Valuation & ratings

We derive a WACC of 8.9% from a pretax cost of debt of 4.5%, cost of equity of 10.8% and debt-to-capital of 31%. We forecast distributions ($4.81 for 2012), then discount them with a cost of equity/debt WACC (8.9%) combined with a premium of 2.0%. This produces a price target of $70 for KMP. A similar calculation for KMR: we derive a WACC of 9.0% from a pretax cost of debt of 4.5%, cost of equity of 11.0% and debt-to-capital of 31%. We forecast distributions ($4.81 for 2012), then discount them with the cost of equity/debt WACC (9.0%), adjusted for a quality premium (2.0%) for the i-units. This produces a $69 PT and Buy rating. Our 2.0% premium is based on its exposure to shale gas growth story, higher ethanol demand and management quality. We value KMI at $30 per share based on a discounted cash flow model using a 7.0% WACC.

Risks

CO2/oil production is perceived to be a big risk issue as an E&P asset with mixed delivery. Explosions at pipes, legal disputes over tariffs, and the potential for weak demand are all problematic if and when they occur. The overall threat to the unique MLP structure looks low, but would be a significant issue if Congress decided to change the status of these untaxed oil and gas partnerships. Finally KMP, like most MLPs, would be adversely affected by a continuing rise in interest rates. Upside risk on KMP is that projects are developed faster than expected and with strengthening demand, profitability surprises to the upside.

Figure 20: KMP Distribution Coverage

								E	E	E	E	E	E
	2009	1Q	2Q	3Q	4Q	**2010**	1Q	2QE	3QE	4QE	**2011**	**2012E**	**2013E**
Net Income	**1291.0**	**225.3**	**365.4**	**320.8**	**413.1**	**1324.6**	**337.8**	**418.2**	**452.0**	**512.6**	**1720.6**	**2099.4**	**2277.8**
Add: Depreciation and amortization (incl Rex)	931.2	260.4	258.8	265.6	271.5	1056.3	266.9	289.3	292.0	300.3	1148.4	1120.7	1175.0
Less: Maintenance Capex	-172.2	-32.7	-47.7	-40.5	-58.3	-179.2	-35.9	-63.0	-63.0	-63.0	-225.0	-236.3	-248.1
Others	81.0	153.7	9.3	41.4	15.8	220.2	95.9	34.7	34.7	34.7	200.0	210.0	220.5
Less: Distributions to GP	-943.2	-252.1	-259.2	-271.1	-274.2	-1056.6	-290.5	-302.4	-308.5	-312.8	-1214.2	-1286.2	-1400.1
Distributable Cash Flow to LP	**1187.8**	**354.6**	**326.6**	**316.2**	**367.9**	**1365.3**	**374.2**	**376.8**	**407.1**	**471.7**	**1629.8**	**1907.6**	**2025.2**
Total LP Units Outstanding	281.4	298.8	304.5	310.7	314.2	307.1	317.2	327.2	330.3	331.4	326.7	336.2	343.4
Distributable Cash Flow per LP Unit	$ 4.22	$ 1.19	$ 1.07	$ 1.02	$ 1.17	$ 4.45	$ 1.18	$ 1.15	$ 1.23	$ 1.42	$ 4.99	$ 5.67	$ 5.90
Cash Distribution per LP Unit	**4.20**	**1.07**	**1.09**	**1.11**	**1.13**	**4.40**	**1.14**	**1.15**	**1.16**	**1.17**	**4.62**	**4.81**	**5.00**
Total Unit Coverage Ratio	1.0x	1.1x	1.0x	0.9x	1.0x	1.0x	1.0x	1.0x	1.1x	1.2x	1.1x	1.2x	1.2x
Growth in distribution	*4.5%*	*1.9%*	*3.8%*	*5.7%*	*7.6%*	*4.8%*	*6.5%*	*5.5%*	*4.5%*	*3.5%*	*5.0%*	*4.1%*	*4.0%*

Source: Company filings, Deutsche Bank

Energy Transfer Partners

Investment Thesis – Buy ETE, Hold ETP

Energy Transfer Partners has a powerful concept and a powerful business model: "the hydraulic machine". The concept and model is a fully integrated major natgas pipeline system that is fully tradable right across Texas and beyond. Customers can push gas into the system and take gas out of the system at numerous points. The competitive advantage is scale. ETP transmits 25% of US gas supply and as such has a unique and powerful offering. Superior operational performance, combined with management's forethought on energy markets, characterize this company. An overhang regarding market manipulation related to Hurricane Katrina has now gone, with a FERC settlement for $30m in 2009. Now the problems are the weak gas demand, basis differentials going to zero, and flat distributions for the past two years from an MLP that previously offered some of the fastest growth rates in distribution available. ETP has completed some attractive growth projects in 2010 including the big capex pipelines Fayetteville Express and Tiger Pipeline. In 2010, ETP transferred its interest in Mid-continent Express Pipeline to its GP ETE, in exchange for its LP units. We feel that the general partner shares, ETE, offer attractive exposure to long-term US natural gas demand growth. Buy ETE; Hold ETP.

Valuation

We derive a WACC of 8.8% from a pretax cost of debt of 5.2%, cost of equity of 11.1% and debt-to-capital ratio of 38%. We forecast distributions ($3.74 for 2012), then use a discount from the cost of equity/debt WACC (8.8%) combined with a quality premium of 1.5%. The premium is based on the incremental EBITDA we expect from its growth projects, shale exposure and its gulf coast gas delivery model. This produces a $51 PT and Hold rating. for ETP. A similar calculation for ETE: we forecast distributions ($2.46 for 2012), then use a discount from the cost of equity/debt WACC (7.2%) combined with 2.0% GP premium based on the leverage it offers to the ETP growth. This produces a $47 PT, Buy.

Risks

ETP faces competition in its core markets of Texas gas transmission, and we believe this may become an increasing problem. If gas prices were to fall precipitously, lower volumes through transmission systems would be very negative. ETP has high fixed costs and little potential to internally generate growth if external factors were against it. Finally ETP, like most debt-laden MLPs, would be adversely affected by a rise in interest rates. Upside risks include sustained strength in natural gas prices driving increased domestic production and volumes through the system, as well as a sustained period of lower interest rates, increasing relative attractiveness as a yield vehicle and lowering future interest expense.

Figure 21: ETP Distribution Coverage

								E	E	E	E	E	E
Distributable Cash Flow ($m)	**2009**	**1Q**	**2Q**	**3Q**	**4Q**	**2010**	**1Q**	**2Q**	**3Q**	**4Q**	**2011**	**2012**	**2013**
Adjusted EBITDA	1,426.6	454.4	335.5	293.8	410.7	1,494.5	459.1	382.6	391.7	506.6	1,740.1	1,995.6	2,092.0
Maintenance Capex	(102.7)	(19.6)	(24.2)	(26.4)	(29.0)	(99.3)	(19.6)	(36.8)	(36.8)	(36.8)	(130.0)	(130.0)	(130.0)
Interest	(357.5)	(105.0)	(103.0)	(101.2)	(103.3)	(412.6)	(107.2)	(108.0)	(110.7)	(111.4)	(437.4)	(445.6)	(457.0)
Others	93.1	46.6	(7.1)	0.6	5.7	45.8	6.3	3.0	3.0	3.0	15.3	12.0	12.0
Distributable Cash Flow	**1,059.6**	**376.4**	**201.2**	**166.7**	**284.1**	**1,028.5**	**338.5**	**240.8**	**247.2**	**361.4**	**1,188.0**	**1,432.0**	**1,517.0**
Distributions to GP	(363.5)	(102.8)	(101.1)	(100.8)	(104.3)	(409.0)	(105.3)	(113.9)	(116.5)	(119.1)	(454.7)	(503.5)	(548.0)
Distributable Cash Flow to LP	**696.0**	**273.7**	**100.2**	**65.9**	**179.8**	**619.5**	**233.2**	**127.0**	**130.7**	**242.3**	**733.2**	**928.5**	**969.0**
Total LP Units Outstanding	167.7	189.4	186.6	186.2	192.7	188.7	194.5	207.5	209.4	211.3	205.7	216.1	223.8
Distributable Cash Flow per LP Unit	4.15	1.44	0.54	0.35	0.93	3.28	1.20	0.61	0.62	1.15	3.56	4.30	4.33
Cash Distribution per LP Unit	**$ 3.58**	**$ 0.89**	**$ 0.89**	**$ 0.89**	**$ 0.89**	**$ 3.58**	**$ 0.89**	**$ 0.90**	**$ 0.91**	**$ 0.92**	**$ 3.62**	**$ 3.74**	**$ 3.86**
Total Unit Coverage Ratio	1.2x	1.6x	0.6x	0.4x	1.0x	0.9x	1.3x	0.7x	0.7x	1.3x	1.0x	1.1x	1.1x

Source: Company filings, Deutsche Bank

Plains All American

Investment Thesis – Buy

Our investment thesis has been simple; we see a need for more US oil storage and PAA dominates the business. We need more natgas storage and PAA has exposure. The sustained period of oil market contango, encouraging stock building, is ideal for PAA. The offset at this time is that although the market is incentivising storage, it is also narrowing crude grade differentials which reduces demand for PAA's storage although they argue that volatility is more important than the overall shape of the curve for their profits. The MLP acquired Southern Pines, salt cavern natural gas facility for ~$750m, through its natural gas storage subsidiary PNG and also completed various others acquisitions totaling ~$400m in 2010, including crude gathering & transportation system in Bakken area. We are big believers in the quality of PAA management; they are clear, open, strategic and ambitious in their thinking, and they have a proven track record of beating and raising their very specific guidance. BUY.

Valuation

We derive a WACC of 7.5% from a pretax cost of debt of 5.3%, cost of equity of 7.7% and debt-to-capital of 35%. We forecast distributions ($4.10 for 2011) and then use a discount from the cost of equity/debt WACC (7.5%) combined with a 2.0% premium. This produces a $75 PT and a Buy rating. Our 2.0% premium is based on the company's exposure to the growing crude oil storage theme, strong contango environment and a very supportive parent.

Risks

Like almost any MLP, key risks include energy demand, which is subject to decline, a rising interest rate environment and any negative change to the tax code. Risks specific to PAA include prolonged backwardation, driving lower-than-expected demand for crude oil storage, or an unfavorable acquisition.

Figure 22: PAA Distribution Coverage

								E	E	E	E	E	E
	2009	1Q	2Q	3Q	4Q	2010	1Q	2Q	3Q	4Q	2011	2012	2013
Distributable Cash Flow ($ Mn)													
EBITDA	1050.0	274.0	245.0	270.0	321.0	1110.0	348.0	300.8	320.1	334.4	1303.3	1387.6	1444.5
Non cash charges	(49.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	30.0	0.0	0.0	(9.0)	0.0	(9.0)	(12.0)	0.0	0.0	0.0	(12.0)	0.0	0.0
Less: Interest Expense	(229.0)	(58.0)	(62.0)	(64.0)	(64.0)	(248.0)	(65.0)	(64.0)	(64.6)	(65.1)	(258.7)	(265.3)	(272.9)
Less: Maintenance Capex	(80.0)	(11.0)	(22.0)	(29.0)	(30.0)	(92.0)	(24.0)	(22.0)	(22.0)	(22.0)	(90.0)	(85.0)	(85.0)
Less: General Partner Interest	(135.8)	(39.8)	(43.7)	(44.7)	(45.7)	(174.0)	(47.5)	(53.6)	(55.6)	(57.6)	(214.2)	(250.8)	(284.4)
Distributable Cash Flow to LP	**585.7**	**165.2**	**117.3**	**123.3**	**181.3**	**587.0**	**199.5**	**161.2**	**178.0**	**189.7**	**728.4**	**786.6**	**802.2**
LP Unit Coverage													
Total LP Units Outstanding	130.8	137.0	137.0	137.0	139.0	137.5	144.0	145.4	146.9	148.3	146.1	151.6	156.8
Distributable Cash Flow per LP Unit	4.48	1.21	0.86	0.90	1.30	4.27	1.39	1.11	1.21	1.28	4.98	5.19	5.11
Cash Distribution per LP Unit	**$ 3.66**	**$ 0.94**	**$ 0.94**	**$ 0.95**	**$ 0.96**	**$ 3.79**	**$ 0.97**	**$ 0.98**	**$ 0.99**	**$ 1.00**	**$ 3.94**	**$ 4.10**	**$ 4.26**
Total Unit Coverage Ratio	1.2x	1.3x	0.9x	0.9x	1.4x	1.1x	1.4x	1.1x	1.2x	1.3x	1.3x	1.3x	1.2x
Cash Distribution per LP unit Growth (Y/Y)	3%	3%	4.1%	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%

Source: Company filings, Deutsche Bank

Enbridge Energy Partners

Investment Thesis – Hold

EEP offers exposure to Canadian oil sands. The heavy oil sands have the potential, with approximately 180bn bbls of established oil resource (Saudi, 260bn bbls), to continue growth for another century, assuming oil prices support the $70/bbl cost of development. CAPP, in their latest forecast expects a steady growth in the Canadian crude supply over the next 15 years and the Mainline system carries ~65% of the Canadian crude moving into US. EEP is also the key transporter of crude oil from the prolific Bakken formation and further it has ongoing expansion plans that will consolidate its strong hold in the region. We think the long-term industrial case for owning Enbridge Energy Partners is strong, but at this time we see the units as fair value until the over-hang of Canadian oil export pipeline capacity alleviates. HOLD.

Valuation

We derive a WACC of 6.9% from a pre-tax cost of debt of 4.7%, cost of equity of 8.5% and debt-to-capital ratio of 41%. We forecast distributions ($2.18 for 2012), discount with the WACC (6.9%) combined with a quality discount of 1.0% for the risks arising out of the recent pipeline leakage incidents. This provides a $27 PT and Hold rating.

Risks

Enbridge overcame a major pipeline explosion, which caught world attention, but the incident highlighted risks. Greater financial risk comes in controlling costs in project development and in access to capital markets – the partnership has a substantial capex load in 2009 and 2010. Sharp increases in spending or project delays are major downside risks. Upside risks include higher-than-expected oil prices, which could accelerate the development of Canadian oil sands projects related to EEP.

Figure 23: EEP Distribution Coverage

	2009	1Q	2Q	3Q	4Q	2010	1Q	2QE	3QE	4QE	2011E	2012E	2013E
Distributable Cash Flow ($ Mn)													
Adjusted EBITDA	876.5	238.7	284.3	254.9	264.1	1042.0	284.3	295.0	298.5	303.1	1180.9	1269.5	1359.8
Less: Interest and other	(217.4)	(42.5)	(69.7)	(70.1)	(75.8)	(258.1)	(38.8)	(71.1)	(73.3)	(75.4)	(258.6)	(319.5)	(346.5)
Less: Maintenance Capex	(69.0)	(8.4)	(18.0)	(18.7)	(20.8)	(65.9)	(15.8)	(31.3)	(31.3)	(31.3)	(109.6)	(125.0)	(125.0)
Less:Non Cash Derivative gain or loss	(8.0)	-	(17.8)	(1.6)	-	(19.4)	-	-	-	-	16.7	-	-
Distributable Cash Flow	582.1	187.8	178.8	164.5	167.5	698.6	229.7	192.7	193.9	196.4	829.4	825.0	888.3
Less: Distribution to GP	(59.9)	(16.6)	(19.7)	(19.9)	(21.7)	(77.9)	(21.1)	(22.7)	(25.6)	(28.6)	(98.1)	(123.4)	(148.9)
Distributable Cash Flow to LP	522.2	171.2	159.1	144.6	145.8	620.7	208.6	169.9	168.3	167.8	731.3	701.6	739.4
LP Unit Coverage													
Total LP Units Outstanding, Excluding i-units	233.6	236.1	237.5	240.2	262.0	244.0	254.6	255.1	258.8	262.6	257.8	270.3	282.8
Distributable Cash Flow per LP Unit	2.24	0.73	0.67	0.60	0.56	2.54	0.82	0.67	0.65	0.64	2.84	2.60	2.61
Cash Distribution per LP Unit	$ 1.98	$ 0.50	$ 0.51	$ 0.51	$ 0.51	$ 2.04	$ 0.51	$ 0.52	$ 0.53	$ 0.54	$ 2.10	$ 2.18	$ 2.25
Total Unit Coverage Ratio	1.1x	1.4x	1.3x	1.2x	1.1x	1.2x	1.6x	1.3x	1.2x	1.2x	1.3x	1.2x	1.2x

Source: Company filings, Deutsche Bank

Boardwalk Partners

Investment Thesis – HOLD

Boardwalk's investment thesis was growth from the very large expansion program on its "classic" MLP base. The MLP is engaged in the transportation of natural gas, with operations primarily in the Gulf Region and the central US, split into two key subsidiaries, Gulf South and Texas Gas. BWP represents a "plain vanilla" MLP structure which we thought would provide stable distribution growth, with a growth kicker from two major pipeline projects, the Gulf Crossing (1.6bcf/d) and the Southeast Expansion (1.2bcf/d $330m). We always expected 2009-10 to be a transition year, because of the huge upfront capex associated with those projects. However the company suffered a severe problem with cash flows just when they were most needed. Pipeline anomalies were discovered across the MLP's system, limiting volumes and cutting revenues. Luckily we have favored MLPs with strong parents, and as a subsidiary of the holding company, Loews, BWP was "backstopped". The growth potential is there, and this is clearly a higher risk play on the natural gas growth theme, but one which we are fundamentally nervous on owing to the issues of 2009. HOLD.

Valuation

We derive a WACC of 6.2% from a pre-tax cost of debt of 4.8%, cost of equity of 7.0% and debt-to-capital ratio of 37%. We forecast distributions ($2.21 for 2012), then discount them using the cost of equity/debt WACC (6.2%) with a qualitative discount of 1.0% for the risks similar to the pipe anomalies happened in 2009. This produces a $31 PT and a Hold rating.

Risk

BWP must deliver its projects on time and within their new budget, in order to meet our expectations. A key concern may be the health of US E&P industry as we gradually exit a major recession - counter-parties may default and we are unable to judge this level of risk. Upside risks relate to sooner-than-expected remediation of pipe anomalies.

Figure 24: BWP Distribution Coverage

								E	E	E	E	E	E
	2009	**1Q**	**2Q**	**3Q**	**4Q**	**2010**	**1Q**	**2Q**	**3Q**	**4Q**	**2011**	**2012**	**2013**
Distributable Cash Flow ($m)													
EBITDA	498.2	180.8	145.7	147.3	184.0	657.8	186.9	165.1	167.9	190.1	710.0	723.1	741.3
Less: Interest	(128.4)	(44.7)	(28.6)	(43.6)	(29.4)	(146.3)	(59.1)	(38.7)	(39.0)	(39.4)	(176.2)	(160.8)	(166.0)
Less: Maintenance Capex	(58.9)	(2.2)	(7.3)	(16.9)	(36.6)	(63.0)	(15.4)	(14.9)	(14.9)	(14.9)	(60.0)	(60.0)	(60.0)
Less: Others	(8.3)	(0.1)	0.0	0.0	0.0	(0.1)	0.0				0.0		
Less: GP Interest	(21.2)	(6.3)	(6.5)	(6.8)	(7.1)	(26.7)	(7.3)	(8.2)	(9.1)	(10.0)	(34.6)	(36.0)	(37.4)
DCF to LP	**281.4**	**127.5**	**103.3**	**80.0**	**110.9**	**421.7**	**105.1**	**103.3**	**104.8**	**125.9**	**439.2**	**466.3**	**477.9**
Cash distributed													
Class B units	27.5	6.9	6.9	6.9	6.9	27.5	6.9	6.9	6.9	6.9	27.5	27.5	27.5
LP units	318.3	85.7	86.5	87.4	88.2	347.9	88.7	89.9	91.3	92.1	362.0	378.4	395.4
LP Unit Coverage													
Total LP Units Outstanding	161.6	169.7	169.7	169.7	169.7	169.7	169.7	169.7	170.6	170.6	170.2	171.0	171.8
DCF per LP Unit	1.74	0.71	0.57	0.43	0.61	2.32	0.58	0.57	0.57	0.70	2.42	2.57	2.62
Cash Distribution per LP Unit	**$ 1.97**	**$ 0.51**	**$ 0.51**	**$ 0.52**	**$ 0.52**	**$ 2.05**	**$ 0.52**	**$ 0.53**	**$ 0.54**	**$ 0.54**	**$ 2.13**	**$ 2.21**	**$ 2.30**
Total Unit Coverage Ratio	0.9x	1.4x	1.1x	0.8x	1.2x	1.1x	1.1x	1.1x	1.1x	1.3x	1.1x	1.2x	1.1x

Source: Company filings, Deutsche Bank

Magellan Midstream Partners

Investment Thesis - Buy

Magellan is an oil product transportation and storage play. We are forecasting steady declines in US oil demand, offset by the PPI indexation of pipeline tariffs and a large hopper of potential organic growth projects. We like Magellan because of ethanol growth and specification changes in US oil markets, which we believe will put more onus on transportation, particularly in regions where MMP dominates; basically spreading ethanol out of the Mid West into the wide US. As an additional attraction, to the extent that PPI is a key driver, MMP is partly hedged against inflation. The partnership completed the buy-out of its GP, MGG, in Q3'09. We are upbeat about the prospects of possible inorganic growth, given the benefits of the simplification similar to the REIT structure, no IDR burden on cash-flows and coverage, and the resultant lower cost of capital. BUY.

Valuation

We derive a WACC of 6.6% from a pretax cost of debt of 4.8%, cost of equity of 7.1% and debt-to-capital of 23%. We forecast distributions ($3.30 for 2012), then discount them with the WACC (6.6%) combined with a 1.5% premium, we arrive at a $65 PT and a BUY rating. Our 1.5% premium is for MMP's exposure to a favorable industrial theme - ethanol, higher coverage, and the outcome of the GP buyout - and no IDRs.

Risk

The key concern must be that the demand strength, which has been so positive for MMP, turns negative, as it recently has. Although much of MMP's business is not commodity price linked, a sustained significant downturn in gasoline demand would likely be a major cause for concern.

Figure 25: MMP Distribution Coverage

								E	E	E	E	E	E
	2009	1Q	2Q	3Q	4Q	2010	1Q	2Q	3Q	4Q	2011	2012	2013
EBITDA	402.7	112.6	150.4	109.7	144.3	517.1	146.1	146.6	148.7	153.4	594.7	643.9	689.1
Others	24.9	0.3	(20.1)	12.8	28.3	21.3	5.9	0.2	0.2	0.2	6.5	0.8	0.8
Interest	(71.9)	(21.8)	(22.5)	(25.2)	(26.7)	(96.2)	(26.5)	(27.0)	(27.4)	(27.4)	(108.3)	(112.5)	(116.8)
Maintenance Capex	(48.3)	(6.0)	(9.0)	(12.0)	(17.6)	(44.6)	(8.7)	(13.6)	(13.6)	(13.6)	(49.5)	(54.5)	(59.9)
Distributable Cash Flow	307.4	85.2	98.8	85.2	128.3	397.5	116.9	106.2	107.8	112.5	443.5	477.7	513.2
GP Interest	(47.1)					-					-	-	-
Distributable Cash Flow to LP	**260.3**	**85.2**	**98.8**	**85.2**	**128.3**	**397.5**	**116.9**	**106.2**	**107.8**	**112.5**	**443.5**	**477.7**	**513.2**
Total LP Units Outstanding	57.1	106.8	106.9	111.5	112.9	109.5	112.8	113.8	113.8	114.8	113.8	116.8	120.1
Distributable Cash Flow per LP Unit	4.55	0.80	0.92	0.76	1.14	3.63	1.04	0.93	0.95	0.98	3.90	4.09	4.27
Cash Distribution per LP Unit	**$ 2.84**	**$ 0.72**	**$ 0.73**	**$ 0.75**	**$ 0.76**	**$ 2.96**	**$ 0.77**	**$ 0.78**	**$ 0.79**	**$ 0.80**	**$ 3.14**	**$ 3.30**	**$ 3.46**
Total Unit Coverage Ratio	1.6x	1.1x	1.3x	1.0x	1.5x	1.2x	1.3x	1.2x	1.2x	1.2x	1.2x	1.2x	1.2x
Cash Distribution per LP unit Growth (Y/Y)	2%	1%	3%	5%	7%	4%	7%	6%	6%	6%	6%	5%	5%

Source: Company filings, Deutsche Bank

Nustar Energy

Investment Thesis – Hold

Nustar is one of the largest terminals and independent petroleum pipelines operators in the US. There has been strong interest in the entry of Bill Greehey, after years of success with Valero, as a major stake-holder. Originally the expectation was for a sustained aggressive acquisition strategy to be under-taken, as Greehey had promised growth, growth, and growth. That changed with more challenged credit markets into an argument that is asphalt, asphalt and asphalt. The company sees strength in this theme on low supplies of heavy oil, more heavy oil using cokers being added globally, and strong demand for asphalt on stimulus spending, combined with low asphalt stocks. However we see the units as stretched on valuation, with concerns over weak local government finances under-mining the asphalt story, we remain at HOLD.

Valuation, recommendation, and risks

We derive a WACC of 6.9% from a pretax cost of debt of 5.3%, cost of equity of 7.7% and debt-to-capital of 33%. We forecast distributions ($4.48 for 2012), then discount them using the cost of equity/debt WACC (6.9%). This produces a $65 PT and Hold rating. Similarly for NSH, we derive a WACC of 6.5% from a pretax cost of debt of 5.3%, cost of equity of 6.5% and debt-to-capital of 0%. We forecast distributions ($2.08 per unit in 2012), then discount the average with the cost of equity/debt WACC (6.5%) combined with a 0.5% qualitative premium is for the leverage the GP offers to NS storage facilities expansions and asphalt business recovery. This produces a $35 PT and a Hold rating for NSH.

Risks

Even though NS/NSH has diversified its customer base away from its former parent Valero Energy (VLO), it is still subject to disruptions in income streams from VLO as well as other refiners that perform plant turnarounds and maintenance on their facilities. Upside risks: higher-than-expected oil demand and a major recovery in asphalt margins.

Figure 26: NS Distribution Coverage

								E	E	E	E	E	E
	2009	1Q	2Q	3Q	4Q	2010	1Q	2Q	3Q	4Q	2011	2012	2013
Distributable Cash Flow ($ Millions)													
Adjusted EBITDA	$ 430.8	$ 80.7	$ 133.4	$ 131.3	$ 112.5	$ 458.0	$ 98.4	$ 144.3	$ 155.6	$ 129.1	$ 527.3	$ 572.9	$ 621.9
Interest Expense	(79.4)	(18.6)	(18.9)	(20.6)	(20.2)	(78.3)	(20.5)	(20.8)	(21.1)	(21.4)	(83.8)	(88.6)	(93.2)
Maintenance Capex	(45.2)	(12.4)	(12.1)	(13.8)	(15.7)	(54.0)	(8.0)	(15.7)	(15.7)	(15.7)	(55.0)	(60.5)	(66.6)
Others	20.6	(17.4)	14.7	-	-	(2.7)	(14.6)	10.0	(12.1)	(2.6)	(19.3)	(14.4)	(6.5)
General Partner Share	(33.7)	(9.3)	(9.6)	(9.8)	(10.2)	(38.8)	(10.2)	(10.3)	(10.9)	(11.1)	(42.5)	(47.2)	(51.3)
Distributable Cash Flow to LP	**293.2**	**23.1**	**107.5**	**87.1**	**66.5**	**284.2**	**45.2**	**107.6**	**95.7**	**78.2**	**326.8**	**362.3**	**404.4**
LP Unit Coverage													
Total LP Units Outstanding	55.2	60.2	62.3	62.3	64.6	62.3	64.6	65.4	66.1	66.9	65.7	68.5	71.0
Distributable Cash Flow per LP Unit	$ 5.31	$ 0.38	$ 1.73	$ 1.40	$ 1.03	$ 4.56	$ 0.70	$ 1.65	$ 1.45	$ 1.17	$ 4.97	$ 5.29	$ 5.69
Cash Distribution per LP Unit	**$ 4.25**	**$ 1.07**	**$ 1.07**	**$ 1.08**	**$ 1.08**	**$ 4.28**	**$ 1.08**	**$ 1.08**	**$ 1.10**	**$ 1.10**	**$ 4.35**	**$ 4.48**	**$ 4.58**
Total Unit Coverage Ratio	1.3x	0.4x	1.6x	1.3x	1.0x	1.1x	0.7x	1.5x	1.3x	1.1x	1.1x	1.2x	1.2x
DPU Growth (Y/Y)	*4%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*2%*	*2%*	*2%*	*3%*	*2%*

Source: Company filings, Deutsche Bank

Buckeye Pipeline Partners

Entering a new era – Hold

One of the oldest MLPs, Buckeye operates one of the nation's largest common carrier oil pipeline networks providing transportation services primarily in the Northeast and upper Midwest states. Buckeye owns and operates approximately 4,900 miles of pipelines, and operates an additional 1,300 miles of pipelines under agreements with large major chemical concerns. Historically known for sleepy conservatism, a change in management injected a more aggressive growth plan. Post its merger into its GP, BGH in 2010 it has been consistently acquiring terminals and pipeline assets. Recently, it acquired 100% interest in BORCO, the fourth largest oil & petroleum products storage terminal in the world, for ~$1.7bn; and refined products terminals and pipelines for ~$225m from BP. However, BPL has become a higher risk, higher growth play, but one which is still levered to Northeast oil demand, which is weak but a potential growth through asset acquisitions; we remain neutral, HOLD.

Valuation

We forecast distributions ($4.28 per unit for 2012), then use a discount from a cost of equity/debt WACC (6.1%) with a discount of 1.0% to produces a $60 PT and a HOLD rating. Our 1.0% discount is based on the weak northeast oil demand and its growing exposure to refined products business.

Risks

Upside risks include significant drop-down (sale) of assets into Buckeye at favorable terms to drive growth. Downside risks: As an oil product pipeline operator, the potential for a secular continued decline in demand is a major threat, particularly to growth-levered.

Figure 27: BPL Distribution Coverage

	2009	1Q	2Q	3Q	4Q	2010	1Q	2Q	3Q	4Q	2011E	2012E	2013E
Distributable Cash Flow ($ Mn)													
EBITDA	348.5	89.3	92.4	101.2	97.5	380.4	122.2	134.9	140.5	148.5	546.1	611.1	637.8
Less: Interest	-74.9	-21.5	-21.3	-22.0	-24.1	-88.9	-28.5	-26.7	-26.7	-26.7	-108.6	-111.1	-118.9
Less: Maintenance Capex	-23.5	-3.3	-5.9	-9.3	-12.7	-31.2	-7.5	-15.8	-15.8	-15.8	-55.0	-60.5	-66.6
Others	-10.1	2.4	3.5	2.5	3.4	11.8	1.2				1.2	0.0	0.0
Less: GP Interest	-49.0	-13.4	-13.7	-14.0	0.0	-41.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Distributable Cash Flow to LP	**191.0**	**53.5**	**55.0**	**58.4**	**64.1**	**230.9**	**87.3**	**92.4**	**98.0**	**106.0**	**383.6**	**439.5**	**452.3**
LP Unit Coverage													
Total LP Units Outstanding	50.7	51.6	51.7	51.5	71.4	49.8	80.3	80.3	80.3	80.3	80.3	82.0	85.0
Distributable Cash Flow per LP Unit	$3.77	$1.04	$1.06	$1.13	$0.90	$4.64	$1.09	$1.15	$1.22	$1.32	$4.77	$5.36	$5.32
Cash Distribution per LP Unit	**$3.68**	**$0.95**	**$0.96**	**$0.98**	**$0.99**	**$3.88**	**$1.00**	**$1.01**	**$1.03**	**$1.04**	**$4.08**	**$4.28**	**$4.48**
Total Unit Coverage Ratio	1.0x	1.1x	1.1x	1.2x	0.9x	1.2x	1.1x	1.1x	1.2x	1.3x	1.2x	1.3x	1.2x
DPU Growth (Y/Y)	6%	6%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%

Source: Company filings, Deutsche Bank

AmeriGas

Investment Thesis – Hold

AmeriGas Partners is the largest retail propane distributor in the country, serving more than 1.3m customers in 46 states. The retail propane segment is a seasonal, slow-growing business that is highly fragmented. Although there is no direct commodity price exposure, demand is sensitive to propane prices. The problem is the extreme seasonality of the business and high product prices potentially severely crimping the market growth. With typical propane consumers in the lower income bracket that are currently most pressured by the recession, we view this as an exceptional management team, but fully valued. HOLD.

Valuation, recommendation, and risks

We derive a WACC of 7.0% from a pretax cost of debt of 6.0%, cost of equity of 7.2% and debt-to-capital of 22%. We forecast distributions ($3.05 for 2012), then use a discount from the cost of equity/debt WACC (7.0%).This produces a $44 PT and Hold rating.

Risks

As a major risk, either to the upside or downside, weather affects sales and is inherently unpredictable; extreme cold is helpful. Customers face huge increases in their propane bills and may reduce consumption or fail to pay, or both. The worst problems in MLPs have come from propane names, and while we see AmeriGas as far higher quality than the other operators in propane, this remains a concern (~93% of APU's revenues from propane retail). Wider risks include rising interest rates and the current state of the capital markets.

Figure 28: APU Distribution Coverage

									E	E	E	E	E
Distributable Cash Flow $m	**2009**	**1Q**	**2Q**	**3Q**	**4Q**	**2010**	**1Q**	**2Q**	**3Q**	**4Q**	**2011**	**2012**	**2013**
EBITDA	344.3	124.0	187.3	27.2	4.0	342.5	114.2	177.8	30.2	10.1	332.4	348.6	352.8
Interest Expense	-70.3	-16.5	-16.7	-17.0	-14.9	-65.1	-15.4	-16.3	-16.5	-16.5	-64.8	-66.2	-66.2
Maintenance Capex	-37.5	-10.4	-7.8	-6.6	-13.2	-38.0	-10.4	-9.4	-7.6	-7.6	-35.0	-40.0	-40.0
Others	40.0	0.0	-12.2	0.0	7.0	-5.2	0.0	-18.8	0.0	0.0	-18.8	0.0	0.0
Distributable Cash Flow	276.5	97.1	150.6	3.6	-17.2	234.1	88.5	133.3	6.0	-14.1	213.8	242.5	246.6
General Partner Interest	-5.1	-1.4	-1.8	-1.8	-1.8	-6.7	-1.8	-2.5	-2.5	-2.5	-9.2	-11.6	-13.6
Distributable Cash Flow per LP Unit	**271.3**	**95.7**	**148.8**	**1.8**	**-19.0**	**227.4**	**86.7**	**130.9**	**3.6**	**-16.5**	**204.6**	**230.9**	**233.0**
LP Unit Coverage													
Total LP Units Outstanding	57.1	57.1	57.1	57.1	57.1	57.1	57.1	57.2	57.2	57.2	57.2	57.2	57.2
Distributable Cash Flow per LP Unit	4.76	1.68	2.60	0.03	(0.33)	3.98	1.52	2.29	0.06	(0.29)	3.58	4.04	4.08
Cash Distribution per LP Unit	**$ 2.82**	**$ 0.67**	**$ 0.71**	**$ 0.71**	**$ 0.71**	**$ 2.79**	**$ 0.71**	**$ 0.74**	**$ 0.74**	**$ 0.74**	**$ 2.93**	**$ 3.05**	**$ 3.16**
Total Unit Coverage Ratio	1.7x	2.5x	3.7x	0.0x	-0.5x	1.4x	2.2x	3.1x	0.1x	-0.4x	1.2x	1.3x	1.3x
Cash Distribution per LP unit Growth (Y/Y)	11%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	4%	3%

Source: Company filings, Deutsche Bank

Teekay LNG

Investment Thesis – Buy

Teekay LNG (TGP) owns 17 LNG tankers (with four more on order), 11 Suezmax crude tankers, two LPG carriers and another three LPG/Multigas carrier under construction. The company strategy is to grow by winning long-term contracts and commissioning new-build ships against these dedicated contracts; it enjoys protection from major shipper and parent TK Shipping, which finances new build ships and "drops them down" when they are entering service and revenue generation. The lower cost of capital TGP enjoys under the MLP structure is a key advantage in this capital intensive business. This is a safe and visible strategy which is tied to the bright long-term future for LNG. The company expects to show relatively strong and steady distribution growth. We see upside to our price target and exposure to a preferred global theme. A key risk is the exposure of counter-party risk at the TK level and other operational risks, such as ships lost at sea or incompetent management, are limited by TK's excellent track record. With a high yield (~10%) it's our favored higher risk/reward play. BUY.

Valuation

We derive a WACC of 6.9% from an estimated pretax cost of debt of 5.4%, cost of equity of 8.3% and debt-to-capital ratio of 48%. We forecast distributions ($2.65 for 2012) and then discount them using the cost of equity/debt WACC (6.9%) This produces a $38 PT and a BUY rating.

Risks

A key risk is operational cost (LNG crews) vs CPI-indexed contracts, but overall our chief concern is the low liquidity of the units – less than 40% free float.

Figure 29: TGP Distribution Coverage

								E	E	E	E	E	E
Distributable Cash Flow ($ Mn)	**2009**	**1Q**	**2Q**	**3Q**	**4Q**	**2010**	**1Q**	**2Q**	**3Q**	**4Q**	**2011**	**2012**	**2013**
Net Income	62.1	31.0	19.9	(41.6)	83.7	92.9	25.0	30.2	30.0	31.1	116.3	135.3	161.3
Depreciation	78.4	22.2	22.4	22.1	22.7	89.3	22.3	23.7	24.0	25.7	95.8	106.1	113.1
Maintenance Capex	(45.0)	(9.8)	(10.4)	(10.6)	(10.9)	(41.7)	(11.2)	(12.9)	(12.9)	(12.9)	(50.0)	(50.0)	(50.0)
Others	30.6	(5.9)	7.8	68.7	(53.7)	16.8	6.8	-	-	-	6.8	-	-
General Partner Interest	(6.4)	(2.3)	(2.3)	(2.4)	(2.9)	(9.9)	(3.9)	(3.1)	(3.2)	(3.3)	(13.3)	(16.2)	(20.7)
Distributable cash flow	**142.7**	**35.3**	**37.4**	**36.2**	**38.7**	**147.6**	**39.1**	**37.8**	**37.8**	**40.5**	**165.8**	**175.3**	**203.6**
Units	49.7	52.3	52.3	54.1	55.1	54.7	55.1	55.2	55.3	55.3	55.3	55.7	56.0
Distributable cash flow per LP unit	$ 2.87	$ 0.67	$ 0.71	$ 0.67	$ 0.70	$ 2.70	$ 0.71	$ 0.69	$ 0.68	$ 0.73	$ 3.00	$ 3.15	$ 3.64
Cash Distributoin per LP Unit	**$ 2.28**	**$ 0.60**	**$ 0.60**	**$ 0.60**	**$ 0.63**	**2.43**	**$ 0.63**	**$ 0.64**	**$ 0.65**	**$ 0.65**	**2.57**	**2.65**	**2.73**
Coverage Ratio	1.3x	1.1x	1.2x	1.1x	1.1x	1.1x	1.1x	1.1x	1.1x	1.1x	1.2x	1.2x	1.3x

Source: TGP, Deutsche Bank estimates

Breitburn Energy Partners LP

Investment Thesis – Hold

BBEP had delivered on its stated strategy of growth through acquisition of the right assets; however the vicious downturn in commodity prices and violent upturn in credit costs punished the company severely, and it was forced to suspend its distributions to preserve capital after its available debt was lowered in a periodic re-determination of its borrowing base. Our neutral stance was originally predicated by a worry of a wall of issuance from new E&P MLPs, subsequently distribution suspension and a major legal case left us on the sidelines. However both issues are now resolved, and our remaining concern is soft natural gas markets, with weak expected pricing. HOLD.

Valuation & recommendation

We forecast distributions ($1.82 for 2012), and discount with a WACC of 7.4% combined with a 1.5% discount. Our 1.5% discount is taking into account the lingering risks associated with commodities price exposure especially the weak natural gas market. We derive the WACC from a pretax cost of debt of 7.3%, cost of equity of 7.5% and debt-to-capital ratio of 32%. This provides a revised $20 PT and a Hold rating.

Risks

Risks include low liquidity, which makes for poor trading in the units; debt covenants; the importance of management and the possibility of their leaving the company; any negligence or mismanagement on their part (despite their high reputation); and above all, excessive payment for an acquisition. That said, a particularly advantageous acquisition or considerably higher commodity prices could provide greater upside than we expect.

Figure 30: BBEP Distribution coverage

							E	E	E	E	E	E	E
$ million	2009	1Q	2Q	3Q	4Q	2010	1QE	2QE	3QE	4QE	2011	2012	2013
Adjusted EBITDA	178	51.0	56.6	59.9	60.5	228	56.1	55.5	54.7	55.9	222	234	236
Less: Maintenance capex	(29.5)	(3.3)	(7.0)	(8.6)	(8.2)	(27.0)	(3.2)	(5.0)	(5.0)	(5.0)	(18.3)	(30.0)	(30.0)
Less: Interest	(18.8)	(3.6)	(5.0)	(12.3)	(16.3)	(37.2)	(9.4)	(9.2)	(9.2)	(9.2)	(36.7)	(42.0)	(38.0)
Others	(12.7)	(7.1)	(6.4)	(7.2)	(5.5)	(26.2)	0.3						
Distributable cash flow	**116.9**	**37.0**	**38.3**	**31.9**	**30.4**	**137.6**	**43.8**	**41.3**	**40.5**	**41.7**	**167.3**	**161.9**	**167.7**
Units	53.3	53.3	53.3	53.3	55.9	54.0	59.0	59.0	59.0	59.0	58.4	58.4	58.4
Distributable cash flow per LP unit	2.19	0.69	0.72	0.60	0.54	2.55	0.74	0.70	0.69	0.71	2.86	2.77	2.87
Cash Distribution per LP Unit	$ -	$ 0.38	$ 0.38	$ 0.39	$ 0.41	$ 1.56	$ 0.42	$ 0.42	$ 0.42	$ 0.43	$ 1.69	$ 1.82	$ 1.95
Coverage Ratio	NA	1.9x	1.9x	1.5x	1.3x	1.6x	1.8x	1.7x	1.6x	1.6x	1.7x	1.5x	1.5x

Source: BBEP, Deutsche Bank estimates

Calumet Specialty Chemicals

Investment Thesis – Hold

Calumet is a specialty chemicals refiner headquartered in Indianapolis. Operations consist of 3 refineries located in northwest Louisiana, a bunkering and terminalling facility in Illinois and a refinery each in Karns City, Pennsylvania and Dickinson, Texas added through a 2008 acquisition of Penreco. We are concerned about weak demand for Calumet's products, and the potential for lower oil prices to pressure available capital, based on debt covenants. A weak demand combined with high oil prices makes this a challenged company. Though the partnership is determined to resume a higher distribution ever since the ~29% cut to its minimum quarterly distribution during Q1'08, it is equally determined not to get financially stretched again. Last year we highlighted the partnership had a best-in-class coverage ratio and a high yield at 10%, and presented an interesting high risk/reward play. We prefer TGP with similar yields but better long-term mega-themes (LNG and offshore oil growth) than refining. HOLD.

Valuation & recommendation

We derive a WACC of 8.1% from a pretax cost of debt of 8.5%, cost of equity of 7.9% and debt-to-capital of 32%. We forecast distributions ($1.94 for 2012), then use a discount from the WACC (8.1%) combined with a 2.0% discount. This produces a $19 PT and a Hold rating. Our 2.0% discount is based on the weak fuel products margin combined with higher crude oil prices and the risk of defaulting on the debt covenents.

Risks

The downside risks to Calumet have proven to be heavy refining exposure, even when hedged, project execution track record, record crude prices and a weak refining environment. Leverage is high. Upside risks are from improvements in refining environment that would push the distributions up for a stock that has been severely punished and where future expectations are low.

Figure 31: Calumet Distribution coverage

								E	E	E	E	E	E
	2009	1Q	2Q	3Q	4Q	2010	1Q	2Q	3Q	4Q	2011	2012	2013
Distributable Cash Flow ($ Mn)													
Adjusted EBITDA	149.0	20.8	27.8	40.9	40.8	130.4	34.7	39.3	39.5	38.3	151.8	153.8	157.2
Realized (loss) or gain on derivative c	(6.6)					-							
Less: Maintenance Capex	(13.8)	(5.4)	(10.9)	(5.8)	(2.3)	(24.3)	(4.1)	(7.2)	(7.2)	(7.2)	(25.6)	(26.8)	(28.2)
Less: Interest Expense	(30.3)	(6.9)	(6.1)	(7.8)	(6.8)	(27.6)	(6.5)	(7.5)	(7.5)	(7.5)	(29.9)	(29.9)	(29.9)
Less: GP interest	(1.2)	(0.3)	(0.3)	(0.3)	(0.3)	(1.3)	(0.4)	(0.4)	(0.4)	(0.4)	(1.5)	(1.6)	(1.6)
Less: Income Tax and other	6.0	0.1	(0.1)	(0.1)	(0.3)	(0.3)	(5.9)	(0.5)	(0.5)	(0.5)	(1.8)	(2.1)	(2.2)
Distributable Cash Flow to LP	103.1	8.2	10.4	27.0	31.2	76.8	17.9	23.8	23.9	22.8	93.0	93.4	95.3
LP Unit Coverage													
Total LP Units Outstanding	32.4	35.4	35.4	35.4	35.3	35.4	36.9	39.8	39.8	39.8	39.1	39.8	39.8
Distributable Cash Flow per LP Unit	3.18	0.23	0.29	0.76	0.88	2.17	0.48	0.60	0.60	0.57	2.38	2.35	2.39
Cash Distribution per LP Unit	1.81	0.46	0.46	0.46	0.47	1.84	0.48	0.48	0.48	0.48	1.90	1.94	1.98
Total Unit Coverage Ratio	1.8x	0.5x	0.6x	1.7x	1.9x	1.2x	1.0x	1.3x	1.3x	1.2x	1.3x	1.2x	1.2x

Source: Company filings, Deutsche Bank

Teekay Offshore

Investment Case – HOLD

Teekay Offshore Partners (TOO) comprises the offshore oil shuttle tanker, floating storage (FSO) and floating production and storage (FPSO) business of parent Teekay Shipping (TK). It is a play on the continued growth of offshore oil supply and the need to shuttle that to refineries and pipelines onshore. A powerful bull argument for this name has always been the potential drop-down of further assets from parent TK, supporting distribution targets. Ships are on 3-10 year contracts with most in the 8-9 year range. It is exposed to Brazilian growth and has four FPSO contracts rolling off over the coming two years onto higher rates going forward for additional growth. This would be our high risk-reward play if we wanted even more beta. But for now, HOLD on valuation.

Valuation

We derive a WACC of 7.1% from a pretax cost of debt of 5.6%, cost of equity of 9.1% and debt-to-equity of 165%. We forecast distributions ($2.14 for 2012) and then use a discount from a cost of equity/debt WACC (7.1%). This produces a $30 PT and Hold rating.

Risks

Primary downside risk for TOO is a major accident that proves to be a result of a lack of management oversight. Upside risks include higher demand for TOO's services (higher than expected offshore production) and advantageous asset drop-downs from benevolent parent, TK.

Figure 32: TOO Distribution Coverage

								E	E	E	E	E	E
Unit Coverage	**2009**	**1Q**	**2Q**	**3Q**	**4Q**	**2010**	**1Q**	**2Q**	**3Q**	**4Q**	**2011**	**2012**	**2013**
EBITDA	273.5	86.7	86.1	76.8	82.0	331.5	89.2	102.0	107.1	107.1	405.4	441.7	461.7
Less: Interest	(37.4)	(7.8)	(7.1)	(7.1)	(8.4)	(30.3)	(8.3)	(8.3)	(8.0)	(7.7)	(32.3)	(29.6)	(27.0)
Less: Maintenance capex	(82.1)	(22.4)	(23.2)	(23.2)	(25.2)	(94.1)	(25.6)	(24.8)	(24.8)	(24.8)	(100.0)	(105.0)	(110.3)
Add: Other income	(51.3)	(8.8)	(7.0)	(6.5)	-	(22.2)	(8.0)				(8.0)	-	-
Less: general Partner Interest	(2.5)	(1.0)	(1.1)	(1.3)	(1.5)	(5.0)	(2.2)	(2.2)	(2.4)	(2.4)	(9.3)	(13.8)	(21.3)
Distributable cash flow	**100.2**	**46.6**	**47.6**	**38.7**	**46.9**	**179.8**	**45.0**	**66.8**	**71.9**	**72.2**	**255.9**	**293.3**	**303.1**
Less: Non Controlling Interest	(52.3)	(22.9)	(20.2)	(17.9)	(19.1)	(80.0)	(22.1)	(32.7)	(35.2)	(35.4)	(125.4)	(143.7)	(148.5)
Distributable cash flow	**47.9**	**23.8**	**27.4**	**20.8**	**27.8**	**99.8**	**23.0**	**34.1**	**36.7**	**36.8**	**130.5**	**149.6**	**154.6**
Units	33.3	38.2	42.8	48.8	55.2	44.2	62.8	62.8	62.9	63.1	61.5	63.4	63.9
Distributable cash flow per LP unit	**$ 1.44**	**$ 0.62**	**$ 0.64**	**$ 0.43**	**$ 0.50**	**$ 2.26**	**$ 0.37**	**$ 0.54**	**$ 0.58**	**$ 0.58**	**$ 2.12**	**$ 2.36**	**$ 2.42**
Cash Distribution per LP Unit	**$ 1.80**	**$ 0.48**	**$ 0.48**	**$ 0.48**	**$ 0.48**	**$ 1.90**	**$ 0.50**	**$ 0.50**	**$ 0.51**	**$ 0.51**	**$ 2.02**	**$ 2.14**	**$ 2.26**
Coverage Ratio	0.8x	1.3x	1.3x	0.9x	1.1x	1.2x	0.7x	1.1x	1.1x	1.1x	1.1x	1.1x	1.1x

Source: Deutsche Bank, Company filings

Western Gas

Investment Case

Western Gas is a growth-oriented midstream natural gas partnership part-owned by Anadarko (46%). It gathers, compress, process, treats and transports natural gas, and operates predominantly through long-term fee based contracts. Parent Anadarko contributes more than 75% of WES gathering, processing and transportation throughput. WES's relationship with its parent holds the key for its future growth. Anadarko is developing significant acreage in key natural gas plays, and has ambitious growth plans (~$25bn capex in the next 4 years according to APC's 2011 Analyst Meet). In addition it also holds a further ~$4bn midstream assets. This provides an excellent opportunity to increase throughput in the existing pipelines, develop additional facilities and offers the clear possibility of dropdown growth. The prevailing high oil/gas ratio coupled with the development of liquid-rich shales provides an ideal scenario for the natural gas midstream business. Frac spreads for stripping liquids from wet natural gas streams are wide. With the surge in the supply of shale natural gas, we expect the natural price to remain suppressed in the near future holding the oil/gas ratio up and NGL frac spread wide. Demand for NGL from the petrochemical industry has increased with the addition of ethane cracking capacity. With strong growth potential backed by dropdowns assets and favorable NGL economics we rate Western Gas as a BUY.

Valuation

We use a dividend discount model to value the partnership. We forecast 2012 dividend of $1.78 per unit and discount it with a WACC of 6.4% together with a premium of 2% for a $40 price target. Our 2% premium is based on the growth potential it offers through asset dropdowns and exposure to major natural producing basins. We derive WACC using cost of equity of 6.7%, cost of debt of 4.8% and debt-capital ratio of 14%.

Risks

As with most other MLPs, key risks include energy demand, a rising interest rate environment and any negative change to the tax code. Specific risks to the company include Anadarko divesting out of the partnership, the continuity of accretive acquisitions, and the execution of the organic projects to meet its main customers' needs, and the active management of its commodity price exposure given the fee-based nature of a substantial part of its services.

Figure 33: WES Distribution Coverage

								E	E	E	E	E	E
Distributable cash flow	**2009**	**1Q**	**2Q**	**3Q**	**4Q**	**2010**	**1Q**	**2Q**	**3Q**	**4Q**	**2011**	**2012**	**2013**
EBITDA	107.0	38.7	42.1	56.0	57.8	194.6	57.7	62.3	67.0	67.4	254.4	297.2	324.2
Less:Interest expenses	6.9	0.7	0.6	-1.4	-1.8	-1.9	-1.9	-1.1	-1.1	-1.1	-5.3	-4.6	-4.6
Less:Maintenance expenditure	-16.0	-3.9	-3.7	-6.0	-5.6	-19.2	-4.7	-6.9	-7.4	-7.4	-26.3	-35.7	-38.9
Less:Others	1.2	-0.2	-2.6	-3.1	-0.6	-6.6	-1.2	-3.0	-3.0	-3.0	-10.2	-12.0	-12.0
Distributable cash flow	**99.2**	**35.3**	**36.4**	**45.5**	**49.8**	**167.0**	**49.9**	**51.3**	**55.5**	**55.9**	**212.5**	**244.9**	**268.7**
Less: GP distributions	-1.5	-0.4	-0.5	-0.8	-1.1	-2.8	-1.4	-1.7	-2.0	-2.3	-7.4	-12.5	-24.9
Distributable cash flow to LP	**97.7**	**34.9**	**35.9**	**44.7**	**48.7**	**164.2**	**48.4**	**49.6**	**53.5**	**53.6**	**205.2**	**232.4**	**243.8**
Total LP Units Outstanding	56.6	63.2	65.7	68.8	77.1	68.7	81.1	81.1	81.1	81.1	81.1	82.0	83.4
Distributable cash flow per unit	1.73	0.55	0.55	0.65	0.63	2.39	0.60	0.61	0.66	0.66	2.53	2.83	2.92
Cash Distribution per LP Unit	**$ 1.26**	**$ 0.34**	**$ 0.35**	**$ 0.37**	**$ 0.38**	**$ 1.44**	**$ 0.39**	**$ 0.40**	**$ 0.41**	**$ 0.42**	**$ 1.62**	**$ 1.78**	**$ 1.94**
Coverage ratio	1.37	1.62	1.56	1.76	1.66	1.66	1.53	1.53	1.61	1.57	1.56	1.59	1.51
Cash Distribution per LP unit - Grov	66%	13%	13%	16%	15%	14%	15%	14%	11%	11%	13%	10%	9%

Source: Deutsche Bank, Company filings

Genesis

Investment Case – HOLD

Genesis is a growth-oriented downstream MLP that focuses on 4 key areas: industrial gases, refinery services, pipelines, and supply & logistics. We like the play for its processing of sodium hydrosulfide (NaHS) from refineries into global mining and paper processing. But we are concerned about their exposure to lower Gulf of Mexico offshore production, through their Cameron Highway Oil Pipeline (CHOP). Hold

Valuation

We value GEL based on the distribution per unit forecasted for FY11 and discounting it by WACC adjusted for a qualitative premium or discount. We forecast distributions ($1.88 for 2012), then discount it with a WACC of 7.1 combined with a qualitative premium of 1.0%. WACC is derived from a pre-tax cost of debt of 7.6%, cost of equity of 6.9% and debt-to-capital ratio of 35%. Our 1.0% premium is based on inorganic growth potential due to the acquisition of its GP, canceling the IDRs. This produces a price target of $31 per unit and HOLD rating.

Risks

Like most other MLPs, key risks include energy demand, a rising interest rate environment and any negative change to the tax code. Specific risks to Genesis include hurricane related disruptions and slower than expected oil field development in the Gulf of Mexico, where the company has large exposure. Upside risks include higher margins from an increase in NaHS demand, supply of NaOH (sodium hydroxide) and higher CHOPS capacity utilization.

Figure 34: GES Distribution Coverage

								E	E	E	E	E	E
Distributable cash flow	**2009**	**1Q**	**2Q**	**3Q**	**4Q**	**2010**	**1Q**	**2Q**	**3Q**	**4Q**	**2011**	**2012**	**2013**
EBITDA	96553	21500	29425	32365	34406	117696	29932	39883	40406	40918	151139	173315	183586
Less:Interest expenses	-13660	-3204	-3760	-6542	-9418	-22924	-8699	-9210	-9240	-9270	-36419	-33990	-31150
Less:Maintenance expenditure	-4426	-625	-918	-716	-597	-2856	-779	-900	-900	-900	-3479	-3600	-3600
Less:Others	12280	291	983	2934	3524	7732	11850	2000	2000	2000	17850	8000	8000
Distributable cash flow	**90747**	**17962**	**25730**	**28041**	**27915**	**99648**	**32304**	**31773**	**32266**	**32748**	**129091**	**143725**	**156836**
Less: GP distributions	-7460	-2636	-2945	-3459		-9040					0	0	0
Distributable cash flow to LP	**83287**	**15326**	**22785**	**24582**	**27915**	**90608**	**32304**	**31773**	**32266**	**32748**	**129091**	**143725**	**156836**
Total LP Units Outstanding	39,603	39,586	39,586	39,586	40,648	39,851	64,615	64,692	66,519	66,596	65,605	68,538	70,158
Distributable cash flow per unit	2.10	0.39	0.58	0.62	0.69	2.27	0.50	0.49	0.49	0.49	1.97	2.10	2.24
Cash Distribution per LP Unit	**$ 1.40**	**$ 0.37**	**$ 0.38**	**$ 0.39**	**$ 0.40**	**$ 1.53**	**$ 0.41**	**$ 0.42**	**$ 0.44**	**$ 0.45**	**$ 1.71**	**$ 1.88**	**$ 2.00**
Coverage ratio	1.51	1.05	1.53	1.60	1.72	1.49	1.23	1.17	1.12	1.09	1.15	1.12	1.12
Cash Distribution per LP unit Growth (Y/Y)	10%	9%	9%	10%	11%	10%	11%	12%	12%	13%	12%	10%	6%

Source: Deutsche Bank, Company filings

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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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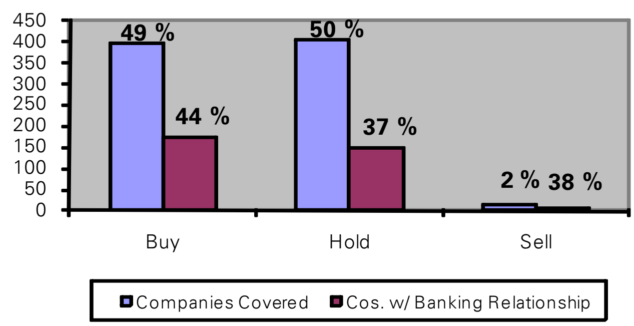

North American Universe

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