Deutsche Bank
Markets Research

North America

Industrials
Master Limited Partnerships

Industry
Master Limited Partnerships

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Coverage Change

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# Buying Infrastructure Builders: EPD, ETP, KMP, RRMS & WES

## Assuming coverage of 16 MLPs and Initiating coverage on 8

Our launch of coverage for the MLP's with a positive overview is based on analysis and valuations showing total returns above 10% on an annualized basis for the next several years. A current average yield of 6.3% plus with 6%-8% distribution growth and 5%-10% growth in earnings and cash flows. Our BUY ratings for EPD, ETP, KMP, RRMS and WES are projected to generate in excess of 18% total returns. Note: we are assuming coverage of 16 MLP's from Paul Sankey.

## Essential Infrastructure Needed For Natural Gas, Oil & NGL's:

The need for infrastructure construction in North America to match rising natural gas, oil and natural gas liquids (NGLs) volumes is unprecedented. We estimate North American infrastructure spending of $20 billion per year through 2015 for pipelines, gathering and processing, terminals, and storage. The relative security and stability of fee based business and contracts support the ability of the industry to raise the equity and debt capital needed to build its growth.

## Favorites Have The Best Assets In the Best Places For Growth:

We favor MLP's including KMP, ETP, RRMS and WES that have three ways to grow: organic, drop-downs and third party acquisitions. We also favor EPD as a leader in organic growth with the best assets in the best places. Our valuations are based on a three stage Dividend Discount Model with adjustments for Weighted Average Cost of Capital (WACC), Incentive Distribution Rights (IDR's), distribution coverage, quality of business and impact of parent company relationships.

## Macro Plusses in Supply; Demand; Price: Extra Boost From Oil & Liquids:

Specific conclusions detailed in this report: US natural gas demand growth of 1.8%% per year (Figure 16); a rise of 4.4% per year in power generation; North Amercian natural gas supply growth of 2% per year (Figure 13); 11% growth in shale production; oil production growth in North America of 5.6%.(Figure 14).

## Fundamentals Promote Extension of Recent Valuation Gains:

With MLP's having shown a 13% total return in 2011 vs a 2% rise in the S&P 500 (including dividends), the favorable attributes of the sector are not undiscovered. However, the hard assets base and the essential infrastructure nature of the growth make for a unique secular growth story. The current yield premium of 391 basis points vs the 10 year Treasury compares to 300 bps historically. In the environment of 2006-2007, the yield differential fell to 130 bps before rising to over 500 bps in the crisis of 2008. The average for 2010-2011 was 365 bps.

## Risks: Commodity Prices, Capital Markets, Regulation and Legislation:

The risks to our thesis are: commodity prices, because of the reliance on producers to continue drilling and producing oil and gas; capital markets, because of the need for both equity and debt capital to fund the capital expenditures of the industry; regulatory or legislative actions that could slow drilling in the shale plays or change the favorable and attractive tax structure of the sector.

| Top Picks | |
|---|---|
| Energy Transfer (ETP.N),USD46.29 | Buy |
| Enterprise Products (EPD.N),USD50.19 | Buy |
| Kinder Morgan Energy (KMP.N),USD87.79 | Buy |
| Rose Rock Midstream LP (RRMS.N),USD22.45 | Buy |
| Western Gas (WES.N),USD43.00 | Buy |

| Companies Featured | |
|---|---|
| Boardwalk Pipeline (BWP.N),USD27.10 | Hold |
| Breitburn Energy Partners (BBEP.OQ),USD18.80 | Hold |
| Buckeye Partners (BPL.N),USD63.75 | Hold |
| Chesapeake Midstream Partners (CHKM.N),USD27.70 | Hold |
| DCP Midstream Partners L.P. (DPM.N),USD47.10 | Hold |
| El Paso Pipeline Partners LP (EPB.N),USD35.65 | Hold |
| Enbridge Energy Partners (EEP.N),USD31.96 | Hold |
| Energy Transfer (ETP.N),USD46.29 | Buy |
| Energy Transfer Equity (ETE.N),USD41.80 | Hold |
| Enterprise Products (EPD.N),USD50.19 | Buy |
| Genesis Energy (GEL.N),USD30.02 | Hold |
| Kinder Morgan Energy (KMP.N),USD87.79 | Buy |
| Kinder Morgan Management (KMR.N),USD78.92 | Buy |
| Magellan Midstream (MMP.N),USD69.27 | Hold |
| NuStar Energy (NS.N),USD57.26 | Hold |
| NuStar GP Holdings (NSH.N),USD33.19 | Hold |
| ONEOK Partners L.P. (OKS.N),USD57.08 | Hold |
| Plains All American (PAA.N),USD78.88 | Hold |
| Rose Rock Midstream LP (RRMS.N),USD22.45 | Buy |
| Spectra Energy Partners L.P. (SEP.N),USD31.24 | Hold |
| Targa Resources Partners L.P (NGLS.N),USD40.01 | Hold |
| TC PipeLines L.P. (TCP.N),USD45.45 | Hold |
| Western Gas (WES.N),USD43.00 | Buy |
| Williams Partners L.P. (WPZ.N),USD61.24 | Hold |

**BUY RATINGS BEST POSITIONED TO CAPTURE UPSIDE** Our BUY ratings for EPD (PT-$58), ETP (PT-$56), KMP (PT-$98), among the larger capitalization MLPs and for RRMS and WES from the smaller capitalization group each possess the characteristics that we regard most favorably.

Figure 1: Financial Characteristics as of February 10, 2012

| Ticker | Share Price US$ | 52 Week range High-Low | Price Target US$ | Rec | Yield Current | Market Cap ($bn) | Distribution per unit ($) 2011e | 2012e | 2013e | Yield % 2011e | 2012e | 2013e | Coverage 2011e | 2012e | 2013e | % EBITDA exposure Fee-based | Commodity linked | % of cash flow to LP holders |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Big Diversified** | | | | | | | | | | | | | | | | | | |
| EEP.N | 31.96 | 34 - 25 | 34.0 | Hold | 6.7% | 8.7 | 2.11 | 2.20 | 2.29 | 6.9% | 6.9% | 7.2% | 1.1 | 1.2 | 1.1 | 75% | 25% | 80% |
| EPD.N | 50.19 | 50 - 38 | 58.0 | Buy | 4.9% | 44.1 | 2.44 | 2.56 | 2.68 | 5.7% | 5.1% | 5.3% | 1.9 | 1.4 | 1.4 | 70% | 30% | 100% |
| ETP.N | 46.29 | 55 - 40 | 56.0 | Buy | 7.7% | 9.7 | 3.58 | 3.74 | 3.96 | 7.4% | 8.0% | 8.5% | 1.0 | 1.1 | 1.0 | na | na | 62% |
| KMP.N | 87.79 | 90 - 65 | 98.0 | Buy | 5.3% | 29.2 | 4.61 | 4.98 | 5.36 | 6.3% | 5.7% | 6.1% | 1.0 | 1.0 | 1.1 | 70% | 30% | 55% |
| OKS.N | 57.08 | 58 - 38 | 57.0 | Hold | 4.3% | 11.6 | 2.36 | 2.62 | 2.89 | 5.4% | 4.6% | 5.1% | 1.5 | 1.2 | 1.1 | 52% | 48% | 73% |
| PAA.N | 78.88 | 79 - 57 | 78.0 | Hold | 5.2% | 11.8 | 3.97 | 4.28 | 4.57 | 6.3% | 5.4% | 5.8% | 1.6 | 1.3 | 1.4 | 61% | 39% | 69% |
| WPZ.N | 61.24 | 65 - 49 | 66.0 | Hold | 5.0% | 17.8 | 2.96 | 3.20 | 3.44 | 5.6% | 5.2% | 5.6% | 1.5 | 1.4 | 1.5 | 67% | 33% | 71% |
| **Gathering and Processing** | | | | | | | | | | | | | | | | | | |
| WES.N | 43.00 | 43 - 32 | 48.0 | Buy | 4.1% | 4.0 | 1.65 | 1.89 | 2.13 | 4.7% | 4.4% | 5.0% | 1.5 | 1.5 | 1.2 | 97% | 3% | 88% |
| NGLS.N | 40.01 | 40 - 31 | 42.0 | Hold | 6.0% | 3.5 | 2.31 | 2.51 | 2.71 | 6.7% | 6.3% | 6.8% | 1.4 | 1.3 | 1.5 | 30% | 70% | 79% |
| DPM.N | 47.10 | 49 - 35 | 47.0 | Hold | 5.5% | 2.1 | 2.55 | 2.67 | 2.79 | 6.2% | 5.6% | 5.9% | 1.2 | 1.2 | 1.3 | 60% | 40% | 78% |
| CHKM.N | 27.70 | 31 - 24 | 30.0 | Hold | 5.6% | 3.9 | 1.48 | 1.69 | 1.86 | 5.5% | 6.1% | 6.7% | 1.2 | 1.3 | 1.3 | 100% | 0% | 97% |
| **Pipeline and NGLs** | | | | | | | | | | | | | | | | | | |
| BWP.N | 27.10 | 33 - 24 | 29.0 | Hold | 7.8% | 5.4 | 2.11 | 2.21 | 2.29 | 7.3% | 8.1% | 8.4% | 0.9 | 1.0 | 1.0 | na | na | 89% |
| EPB.N | 35.65 | 38 - 32 | 37.0 | Hold | 5.6% | 8.3 | 1.93 | 2.10 | 2.29 | 5.5% | 5.8% | 6.4% | 1.4 | 1.2 | 1.2 | 100% | 0% | 80% |
| SEP.N | 31.24 | 35 - 26 | 33.0 | Hold | 6.1% | 3.1 | 1.87 | 1.95 | 2.03 | 6.0% | 6.2% | 6.5% | 1.1 | 1.1 | 1.1 | 100% | 0% | 87% |
| TCP.N | 45.45 | 54 - 40 | 44.0 | Hold | 6.8% | 2.4 | 3.06 | 3.14 | 3.22 | 6.4% | 6.9% | 7.0% | 1.2 | 1.2 | 1.2 | 100% | 0% | 98% |
| **Liquids focused** | | | | | | | | | | | | | | | | | | |
| BPL.N | 63.75 | 68 - 58 | 67.0 | Hold | 6.4% | 5.9 | 4.08 | 4.28 | 4.48 | 6.4% | 6.7% | 7.0% | 0.9 | 1.1 | 1.1 | na | na | 100% |
| MMP.N | 69.27 | 69 - 53 | 73.0 | Hold | 4.7% | 7.8 | 3.17 | 3.45 | 3.69 | 5.3% | 5.0% | 5.3% | 1.3 | 1.2 | 1.2 | 85% | 15% | 100% |
| GEL.N | 30.02 | 30 - 21 | 30.0 | Hold | 5.9% | 2.2 | 1.69 | 1.84 | 1.96 | 6.4% | 6.2% | 6.6% | 1.2 | 1.1 | 1.0 | 30% | 70% | 100% |
| NS.N | 57.26 | 70 - 51 | 59.0 | Hold | 7.6% | 3.7 | 4.36 | 4.48 | 4.58 | 7.0% | 7.8% | 7.9% | 1.1 | 1.2 | 1.2 | 75% | 25% | 87% |
| RRMS.N | 22.45 | 22 - 19 | 25.0 | Buy | 6.5% | 0.2 | 1.45 | 1.50 | 1.58 | 7.4% | 6.7% | 7.0% | 1.1 | 1.3 | 2.0 | 73% | 27% | 98% |
| **E&P** | | | | | | | | | | | | | | | | | | |
| BBEP.OQ | 18.80 | 22 - 15 | 20.0 | Hold | 9.6% | 1.1 | 1.72 | 1.81 | 1.91 | 8.8% | 9.6% | 10.1% | 1.5 | 1.7 | 1.6 | 0% | 100% | 98% |
| **GPs and i-units** | | | | | | | | | | | | | | | | | | |
| ETE.N | 41.80 | 46 - 32 | 43.0 | Hold | 6.0% | 9.3 | 2.44 | 2.46 | 2.57 | 6.1% | 5.8% | 6.1% | 0.9 | 1.0 | 1.1 | na | na | 100% |
| NSH.N | 33.19 | 40 - 29 | 35.0 | Hold | 6.1% | 1.4 | 1.97 | 2.08 | 2.18 | 5.7% | 6.2% | 6.5% | 1.0 | 1.0 | 1.0 | 75% | 25% | 100% |
| KMR.N | 78.92 | 80 - 53 | 87.0 | Buy | 5.9% | 7.9 | 4.61 | 4.98 | 5.36 | 7.4% | 6.3% | 6.8% | 1.0 | 1.0 | 1.1 | 70% | 30% | 55% |
| **LP Average** | | | | | 6.1% | | | | | 6.3% | 6.3% | 6.7% | 1.3 | 1.2 | 1.2 | | | 84% |

| Ticker | P/DCF 2011e | 2012e | 2013e | EV/EBITDA 2011e | 2012e | 2013e | Debt/EBITDA 2011e | 2012e | 2013e | Debt/(debt+equity) 2011e | 2012e | 2013e | Maintenance capex ($m) 2011e | 2012e | 2013e | Growth Capex ($m) 2011e | 2012e | 2013e |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Big Diversified** | | | | | | | | | | | | | | | | | | |
| EEP.N | 13.5 | 11.7 | 11.7 | 12.7 | 12.9 | 12.5 | 4.2 | 4.4 | 4.5 | 38% | 40% | 43% | 125 | 115 | 125 | 1145 | 2000 | 1500 |
| EPD.N | 10.0 | 14.4 | 13.0 | 13.2 | 14.6 | 13.7 | 3.8 | 4.0 | 3.8 | 29% | 27% | 28% | 297 | 300 | 250 | 3594 | 3500 | 2500 |
| ETP.N | 13.4 | 11.1 | 10.4 | 13.8 | 12.6 | 12.3 | 4.8 | 4.6 | 4.7 | 46% | 48% | 50% | 126 | 130 | 130 | 1270 | 1500 | 1500 |
| KMP.N | 16.1 | 16.9 | 14.7 | 18.1 | 17.1 | 15.1 | 4.0 | 3.3 | 3.0 | 34% | 30% | 31% | 212 | 250 | 263 | 1336 | 1556 | 1300 |
| OKS.N | 16.3 | 22.3 | 23.1 | 13.5 | 16.7 | 16.4 | 3.3 | 3.8 | 4.0 | 30% | 29% | 32% | 83 | 87 | 95 | 1088 | 1792 | 1350 |
| PAA.N | 11.5 | 14.1 | 12.3 | 11.7 | 13.4 | 12.3 | 3.0 | 2.9 | 2.9 | 33% | 29% | 32% | 119 | 145 | 150 | 600 | 900 | 900 |
| WPZ.N | 16.4 | 18.1 | 16.6 | 12.6 | 12.6 | 11.8 | 3.1 | 2.8 | 2.5 | 31% | 29% | 28% | 420 | 460 | 390 | 1100 | 1600 | 1225 |
| **Gathering and Processing** | | | | | | | | | | | | | | | | | | |
| WES.N | 15.2 | 17.0 | 17.2 | 15.2 | 16.0 | 16.3 | 2.5 | 2.2 | 2.3 | 18% | 16% | 18% | 27 | 40 | 43 | 76 | 80 | 77 |
| NGLS.N | 11.5 | 12.5 | 10.7 | 10.6 | 11.1 | 9.9 | 2.9 | 2.6 | 2.3 | 32% | 29% | 29% | 81 | 60 | 62 | 276 | 240 | 240 |
| DPM.N | 14.4 | 14.8 | 13.8 | 17.5 | 16.9 | 15.8 | 3.9 | 3.3 | 3.2 | 28% | 25% | 26% | 9 | 8 | 8 | 51 | 52 | 52 |
| CHKM.N | 15.4 | 11.5 | 9.9 | 14.5 | 10.8 | 9.9 | 3.1 | 2.6 | 2.7 | 21% | 24% | 27% | 74 | 80 | 80 | 303 | 580 | 600 |
| **Pipeline and NGLs** | | | | | | | | | | | | | | | | | | |
| BWP.N | 16.1 | 13.1 | 13.4 | 14.4 | 13.3 | 12.6 | 5.0 | 4.7 | 4.5 | 36% | 38% | 39% | 81 | 90 | 90 | 106 | 125 | 125 |
| EPB.N | 13.8 | 15.8 | 14.6 | 12.8 | 14.2 | 13.2 | 4.0 | 3.8 | 3.5 | 36% | 32% | 33% | 97 | 100 | 120 | 159 | 420 | 680 |
| SEP.N | 15.6 | 15.1 | 14.7 | 17.2 | 15.6 | 14.3 | 2.7 | 1.7 | 0.7 | 17% | 12% | 6% | 13 | 18 | 18 | 93 | 60 | 60 |
| TCLP.N | 13.0 | 12.4 | 11.5 | 15.4 | 14.1 | 13.0 | 3.6 | 3.2 | 2.9 | 24% | 23% | 22% | 22 | 19 | 19 | 40 | 43 | 43 |
| **Liquids focused** | | | | | | | | | | | | | | | | | | |
| BPL.N | 17.4 | 14.8 | 13.3 | 16.0 | 14.3 | 13.2 | 4.6 | 4.1 | 3.9 | 29% | 29% | 30% | 55 | 61 | 67 | 260 | 300 | 350 |
| MMP.N | 15.0 | 15.8 | 14.7 | 13.9 | 14.4 | 13.6 | 3.2 | 3.0 | 2.9 | 23% | 21% | 21% | 65 | 72 | 79 | 240 | 250 | 250 |
| GEL.N | 13.3 | 14.2 | 13.7 | 14.7 | 14.2 | 14.0 | 3.4 | 2.9 | 2.8 | 23% | 20% | 20% | 5 | 4 | 4 | 20 | 20 | 20 |
| NS.N | 13.0 | 10.6 | 9.9 | 14.4 | 12.0 | 11.3 | 5.1 | 4.6 | 4.4 | 39% | 41% | 42% | 55 | 61 | 67 | 340 | 380 | 380 |
| RRMS | 6.9 | 5.7 | 3.6 | 23.0 | 5.1 | 2.9 | 0.3 | 0.3 | -0.4 | 1% | 6% | -13% | 1 | 4 | 4 | 33 | 30 | 30 |
| **E&P** | | | | | | | | | | | | | | | | | | |
| BBEP.OQ | 7.7 | 6.3 | 6.2 | 7.7 | 6.2 | 6.4 | 2.3 | 1.8 | 1.8 | 30% | 30% | 29% | 18 | 25 | 25 | 55 | 50 | 50 |
| **GPs and i-units** | | | | | | | | | | | | | | | | | | |
| ETE.N | 17.6 | 16.7 | 14.6 | 12.1 | 11.6 | 10.5 | 2.4 | 2.3 | 2.1 | 30% | 29% | 29% | na | na | na | na | na | na |
| NSH.N | 17.5 | 16.0 | 15.2 | 23.4 | 19.1 | 17.7 | 0.1 | 0.0 | 0.0 | 0% | 0% | 0% | na | na | na | na | na | na |
| KMR.N | 14.7 | 16.0 | 13.9 | 17.0 | 16.3 | 14.4 | 4.0 | 3.3 | 3.0 | 36% | 32% | 32% | na | na | na | na | na | na |
| **LP Average** | 13.8 | 14.3 | 13.5 | 14.0 | 13.8 | 13.0 | 3.7 | 3.3 | 3.2 | 30% | 29% | 29% | 100 | 108 | 105 | 624 | 783 | 663 |

*Source: Company filings, FactSet, Deutsche Bank*

*Priced as of February 11, 2012*

*FY11 numbers are report ed for : BWP, BPL, EPD, KMP, KMR,MMP, NS, PAA, SEP:*

Figure 2: Valuation and Recommendation

| Ticker | Cost of Equity | Discount/(Premium) for | | | Adjusted Cost of Equity | New Target Price | Old Target Price | Current Share Price | PT upside To share price | New Recommend-ation | Old Recommendation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | GP split | Business risk | Parent Quality | | | | | | | |
| EPD | 7.8% | -1.0% | 0.0% | 0.0% | 6.8% | **58.0** | 48.0 | 50.2 | 16% | BUY | BUY |
| ETP | 7.6% | 1.0% | 1.0% | -0.5% | 9.1% | **56.0** | 51.0 | 46.3 | 21% | BUY | HOLD |
| KMP | 7.6% | 1.0% | 0.0% | -0.5% | 8.1% | **98.0** | 70.0 | 87.8 | 12% | BUY | HOLD |
| KMR | 7.8% | 1.0% | 0.5% | -0.5% | 8.8% | **87.0** | NA | 78.9 | 10% | BUY | NA |
| RRMS | 7.8% | 0.0% | 1.0% | 0.0% | 8.8% | **25.0** | NA | 22.5 | 11% | BUY | NA |
| WES | 7.6% | 0.5% | 0.0% | 0.0% | 8.1% | **48.0** | 40.0 | 43.0 | 12% | BUY | BUY |
| BBEP | 8.9% | 0.0% | 3.0% | 0.0% | 11.9% | **20.0** | 20.0 | 18.8 | 6% | HOLD | HOLD |
| BPL | 7.9% | -1.0% | 2.0% | 0.0% | 8.9% | **67.0** | 60.0 | 63.8 | 5% | HOLD | HOLD |
| BWP | 7.8% | 0.5% | 1.5% | 0.0% | 9.8% | **29.0** | 31.0 | 27.1 | 7% | HOLD | HOLD |
| CHKM | 8.4% | 0.0% | 0.5% | 0.0% | 8.9% | **30.0** | NA | 27.7 | 8% | HOLD | NA |
| DPM | 7.7% | 0.5% | 0.0% | 0.0% | 8.2% | **47.0** | NA | 47.1 | 0% | HOLD | NA |
| EEP | 8.2% | 0.5% | 0.0% | 0.0% | 8.7% | **34.0** | 27.0 | 32.0 | 6% | HOLD | HOLD |
| EPB | 7.0% | 0.5% | 0.0% | 1.0% | 8.5% | **37.0** | NA | 35.7 | 4% | HOLD | NA |
| GEL | 7.9% | -1.0% | 2.0% | 0.0% | 8.9% | **30.0** | 31.0 | 30.0 | 0% | HOLD | HOLD |
| MMP | 7.8% | -1.0% | 1.0% | 0.0% | 7.8% | **73.0** | 65.0 | 69.3 | 5% | HOLD | BUY |
| NGLS | 8.4% | 0.5% | 0.0% | 0.0% | 8.9% | **42.0** | NA | 40.0 | 5% | HOLD | NA |
| NS | 8.0% | 0.5% | 1.0% | 0.0% | 9.5% | **59.0** | 65.0 | 57.3 | 3% | HOLD | HOLD |
| OKS | 7.5% | 0.5% | 0.0% | 0.0% | 8.0% | **57.0** | NA | 57.1 | 0% | HOLD | NA |
| PAA | 7.8% | 0.5% | 0.5% | 0.0% | 8.8% | **78.0** | 75.0 | 78.9 | -1% | HOLD | BUY |
| SEP | 7.2% | 0.5% | 0.5% | 0.0% | 8.2% | **33.0** | NA | 31.2 | 6% | HOLD | NA |
| TCP | 7.6% | 0.0% | 1.5% | 0.0% | 9.1% | **44.0** | NA | 45.5 | -3% | HOLD | NA |
| WPZ | 8.0% | 0.5% | -0.5% | 0.0% | 8.0% | **66.0** | NA | 61.2 | 8% | HOLD | NA |
| ETE | 8.1% | 0.0% | 1.0% | 0.5% | 9.6% | **43.0** | 47.0 | 41.8 | 3% | HOLD | BUY |
| NSH | 7.9% | 0.0% | 0.0% | 0.0% | 7.9% | **35.0** | 35.0 | 33.2 | 5% | HOLD | HOLD |

*Source: Company filings, FactSet, Deutsche Bank*

*Priced as of February 11, 2012*

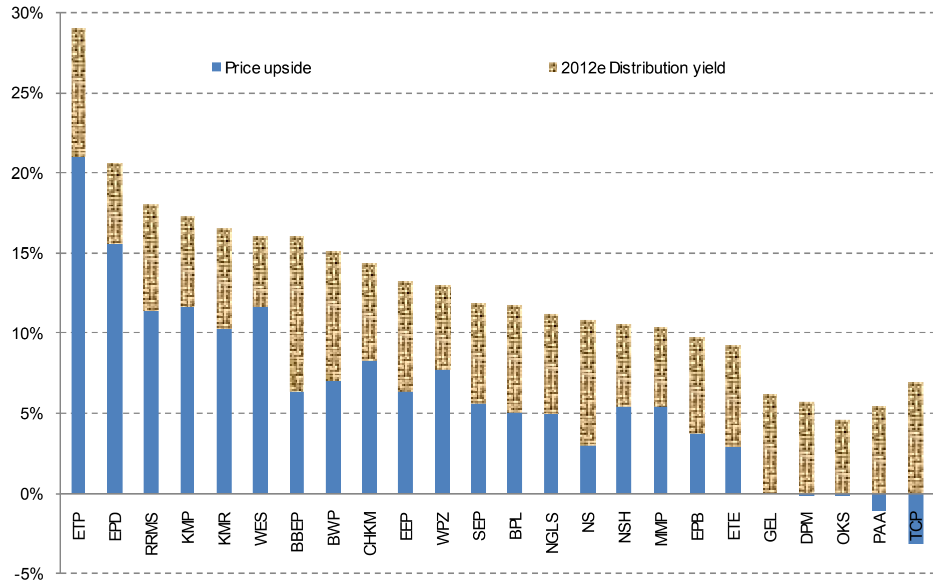
## Valuation Methodology

We use a three stage dividend discount model as a valuation tool for the MLPs. We have forecasted distribution growth per unit for the next five years based on management guidance and capital investment program information and our industry general and company specific analysis. We then normalize this to a long term growth rate of 2% over five years and a 2% terminal growth rate.

We calculate cost of equity using a Capital Asset Pricing Model (CAPM) and adjust it for:

- **LP/GP split:** 1% premium to partnerships without an Incentive Distribution Rights (IDR) burden; discount of 0.5% for MLPs that have an LP share of distributions between 70%-85%. 1% discount for the MLP’s that are in the high splits.
- **Quality of business:** Quantification of business based on visibility of current cash flow, future growth projects, and distribution coverage ratios. Premium applied for fee and contractually controlled business in processing and natural gas transmission; penalty for risky or more volatile commodity risked E&P or natural gas storage.
- **Parent Company “Quality”:** premium or discount to reflect drop-down opportunities and the balance sheet strength of the parent companies.

Figure 3: Total return (price upside +distribution yield)

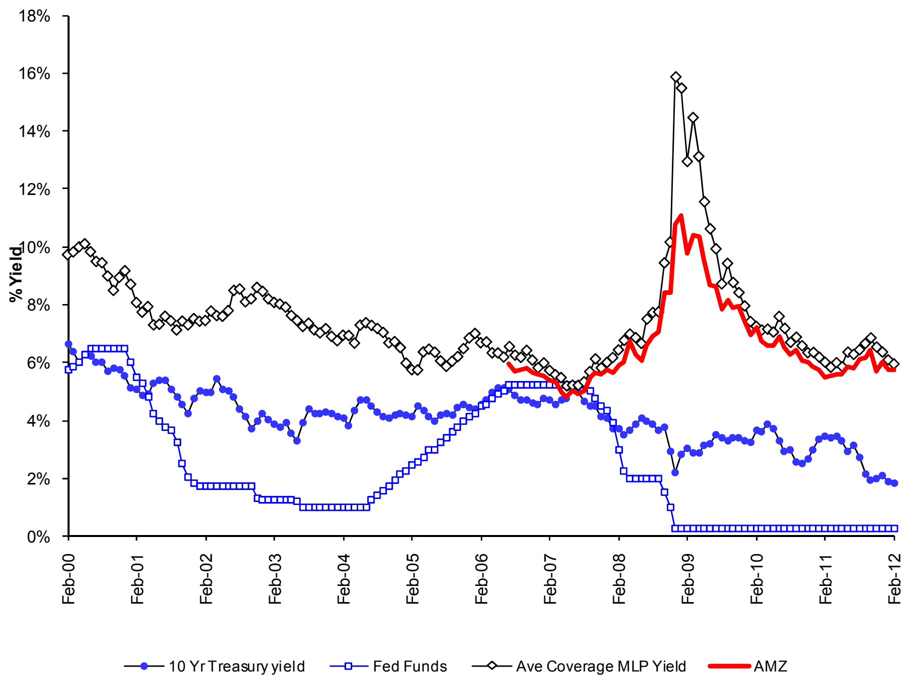



*Source: Deutsche Bank, FactSet*

*Priced as ofFebruary 11, 2012*

Our coverage group shows an average distribution yield of 6.0% currently. This compares to the 5.7% yield of the AMZ index. The combination of the current yield and our DDM based price targets shows total return expectations for our BUY rated stocks of 29.1% for ETP, 20.7% for EPD, 18.0% for RRMS, 17.3% for KMP, 16.5% for KMR, and 16.0% for WES. We currently rate the others in the group HOLD.

Figure 4: AMZ yield vs 10-yr treasury, Fed fund rate MLP (Average) yield




*Source: Deutsche Bank, FactSet*

The differentiation in the 10 year Treasury yield and the MLP yield in terms of the AMZ index and our coverage universe averaged about 300 basis points from 2000 to 2005 before narrowing to under 130 basis points in 2006-2007. Following the market decline and banking crisis of 2008 and 2009, a more normalized industry relationship has resulted in an average spread to Treasuries of 365 basis points in the 2010 and 2011 period, again suggesting that the sector is attractive on a yield relationship basis. With the current spread (AMZ vs 10yr treasury) of 370 basis points we believe that this relative attraction will continue through 2012.

## Distribution Coverage Ratio

- As shown in Figure 5 below. The highest coverage ratio companies are better able to sustain distributions in tougher environments. Also, they are able to raise their distributions more aggressively, providing benefits to holders and higher total returns.

Figure 5: Distribution Coverage ratio

| Tickers | 2010 | 1Q11 | 2Q11 | 3Q11 | 4Q11e | 2011e | 1Q12e | 2Q12e | 3Q12e | 4Q12e | 2012e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| EPD | **1.33** | 1.43 | 1.56 | 1.70 | 2.67 | **1.85** | 1.34 | 1.34 | 1.38 | 1.42 | **1.37** |
| PAA | **1.13** | 1.43 | 1.40 | 1.68 | 1.78 | **1.58** | 1.30 | 1.30 | 1.41 | 1.36 | **1.34** |
| WPZ | **1.64** | 1.79 | 1.51 | 1.32 | 1.46 | **1.52** | 1.52 | 1.47 | 1.42 | 1.35 | **1.44** |
| OKS | **1.03** | 1.30 | 1.45 | 1.63 | 1.67 | **1.52** | 1.51 | 1.24 | 1.17 | 1.09 | **1.25** |
| BBEP | **1.64** | 1.78 | 1.30 | 1.32 | 1.51 | **1.50** | 1.69 | 1.70 | 1.70 | 1.69 | **1.69** |
| WES | **1.68** | 1.58 | 1.59 | 1.30 | 1.50 | **1.49** | 1.34 | 1.34 | 1.60 | 1.51 | **1.45** |
| NGLS | **1.41** | 1.35 | 1.66 | 1.12 | 1.38 | **1.38** | 1.27 | 1.55 | 1.33 | 1.25 | **1.35** |
| EPB | **1.52** | 1.69 | 1.35 | 1.16 | 1.30 | **1.36** | 1.32 | 1.21 | 1.18 | 1.28 | **1.25** |
| MMP | **1.23** | 1.35 | 1.33 | 1.04 | 1.38 | **1.27** | 1.33 | 1.19 | 1.18 | 1.29 | **1.24** |
| CHKM | **1.09** | 1.12 | 1.04 | 1.27 | 1.28 | **1.18** | 1.31 | 1.28 | 1.28 | 1.24 | **1.28** |
| TCP | **1.28** | 1.39 | 1.16 | 1.05 | 1.12 | **1.17** | 1.20 | 1.19 | 1.14 | 1.16 | **1.17** |
| DPM | **1.03** | 1.56 | 1.13 | 0.73 | 1.25 | **1.16** | 1.67 | 1.03 | 0.89 | 1.38 | **1.24** |
| GEL | **1.49** | 1.23 | 1.12 | 1.21 | 1.09 | **1.16** | 1.13 | 1.06 | 1.09 | 1.10 | **1.10** |
| SEP | **1.16** | 1.59 | 0.73 | 1.41 | 0.70 | **1.10** | 1.42 | 0.83 | 1.33 | 0.79 | **1.09** |
| NS | **1.06** | 0.65 | 1.69 | 1.14 | 0.90 | **1.10** | 0.78 | 1.45 | 1.38 | 1.02 | **1.16** |
| RRMS | **na** | na | na | na | 1.09 | **1.09** | 0.71 | 0.74 | 1.83 | 1.95 | **1.31** |
| EEP | **1.25** | 1.17 | 1.08 | 1.03 | 1.02 | **1.07** | 1.27 | 1.21 | 1.26 | 1.16 | **1.22** |
| KMP | **1.01** | 1.04 | 0.87 | 1.04 | 1.10 | **1.01** | 1.01 | 0.92 | 1.18 | 1.08 | **1.05** |
| ETP | **0.92** | 1.34 | 0.68 | 0.83 | 1.14 | **1.00** | 1.29 | 1.04 | 1.00 | 1.10 | **1.10** |
| BPL | **1.20** | 1.09 | 0.89 | 0.92 | 0.80 | **0.92** | 1.07 | 1.03 | 1.01 | 1.14 | **1.06** |
| BWP | **1.13** | 1.11 | 0.82 | 0.53 | 1.05 | **0.88** | 1.26 | 0.75 | 0.81 | 1.11 | **0.98** |
| **Average** | **1.26** | **1.35** | **1.22** | **1.17** | **1.30** | **1.25** | **1.27** | **1.18** | **1.26** | **1.26** | **1.25** |

*Source: Deutsche Bank, Company data*

*FY11 numbers are reported for : BWP, BPL, EPD, KMP, KMR,MMP, NS, PAA, SEPa*

**DEMAND FOR INFRASTRUCTURE TO DRIVE GROWTH** We commence this coverage with a positive view of the MLP sector based upon our analysis of the macro fundamentals of North American Natural Gas markets and the related markets for natural gas liquids and oil. The ability of the sector to harvest the cash flows related to record capital expenditures of the past three years along with projected capital expenditures in the next few years indicate attractive growth ahead in dividends, distributions and total returns.

**UNIQUE SECULAR GROWTH PLUS ACCESS TO CAPITAL** The fundamentals that support our view are based on the strength of the industry balance sheet, its unparalleled access to capital, the contractually committed fee basis of a majority of the cash flows. The fee based business offsets much of the direct commodity risk and significant hedging minimizes the risk to earnings cash flows and returns from the non-fee based business. We believe that the Natural Gas and MLP sectors represent a unique secular growth story that will reward investors for years to come.

**EVOLUTION OF INDUSTRY TO HARD ASSETS ADDS TO SUPERIOR VALUATION OUTLOOK:** On a personal note, having been away from equities research for the past seven years after spending the previous twenty years analyzing the sector, the hard asset basis of the growth, the quality of the balance sheets, the favorable tax structure and the access to capital form the foundation of changes in the industry that indicate growth and expanding multiples that are far superior to the prospects for the industry historically.

**MID TEENS TOTAL RETURNS ON AN ANNUAL BASIS DRIVEN BY AVERAGE DISTRIBUTIONS OF 6%: DISTRIBUTION GROWTH OF 5% AND ORGANIC GROWTH LED SHARE PRICE APPRECIATION** We expect the next several years in the Master Limited Partnership sector to be a time of mid teens and higher total returns for investors based on the restructuring of the North American energy logistics infrastructure to the benefits of a combination of organic and acquisition oriented opportunities on a company specific basis. The fact that this growth can be achieved in a tax efficient manner and with relatively low risk in a market environment that we expect will continue to value cash distributions and dividends makes for a compelling industry picture. Without resorting to hyperbole, we will discuss the impact of growing production of oil, natural gas and natural gas liquids in North America as having few historic parallels in terms of magnitude, capital efficiency and as much environmental desirability as is possible with any fossil fuel based source of energy.

**COMMODITY AND INTEREST RATE RISK OFFSET BY FEE BASED BUSINESSES AND CONTRACTUAL PROVISIONS** The factors that we regard most highly in the potential to generate group leading and market beating performance are each discussed in detail below but may be summarized as: fee based or contractually controlled capital project investment that promotes visible growth; high quality balance sheets and parent company support that allow for unimpeded access to capital and acquisition opportunities via third party deals or drop-downs and assets that are best positioned in the highest growth shale basins on the continent.

**RISKS:**

The risks to our thesis of growth in North American oil, natural gas and natural gas liquids production and infrastructure are both general and industry specific:

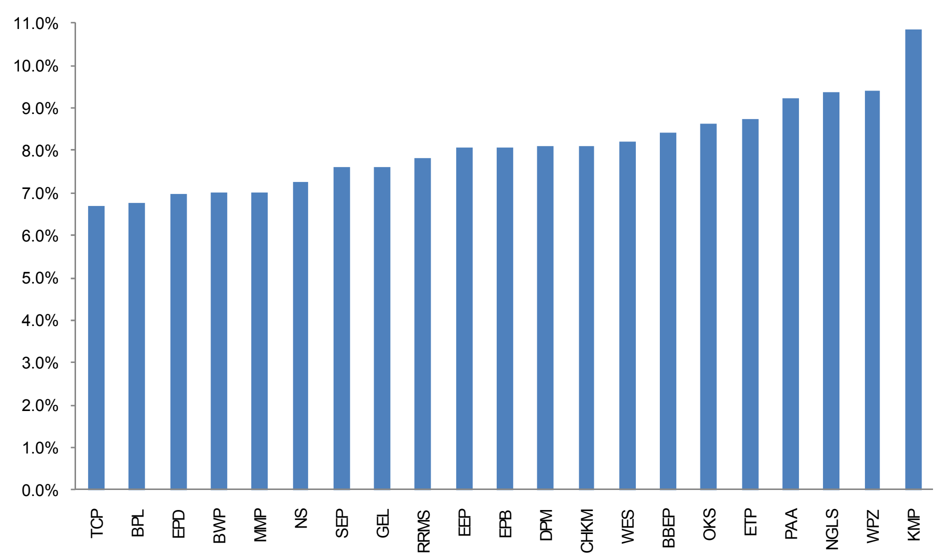
- The relatively weak industrial economy and limited GDP growth projected for the US could place limits on the growth of power generation demand for natural gas and the slower industrial economy could impact the utilization of NGL's, especially ethane.
- The current weakness in natural gas prices could begin to limit the drilling of new wells in the shale plays and thereby reduce the timing of the need for the critical infrastructure build that the sector is relying upon for its growth. We should note that we expect oil drilling and drilling in "wet gas" areas to continue during this low gas price period because the economics of oil and NGL's are expected to remain strong.
- The regulatory and legislative environment presents another risk, especially in the area of shale gas drilling with the potential for restrictions related to water usage, water disposal, fracturing fluid disclosure, utilization and limitation. Our view in this regard is to expect regulations to be enhanced on a statewide basis and for there to be additional costs borne by the industry as it adopts best practices to protect ground water through effective well design and in the use and disposal of fracturing fluids and production water.
- The legislative discussion regarding the tax structure of the industry has diminished from several points in 2011. The benefits of the avoidance of double taxation of MLP industry profits are difficult to quantify in valuation terms but a change in the structure would be a significant risk. We would note that the most recent House Ways and Means Committee disclosures have not included a change in MLP taxation and would add our opinion that legislators understand that the majority of MLP owners are over 50 years old and that the industry is a major jobs creator through capital expenditures.

## Figure 6: Weighted Average Cost of Capital (WACC)

| Ticker | Market Cap ($m) | Net debt ($m) | Cost of Equity | GP gross-up | Adjusted CoE | Cost of Debt | Cost of Capital |
|---|---|---|---|---|---|---|---|
| TCP | 2430 | 740 | 7.6% | 98.0% | 7.8% | 3.2% | 6.7% |
| BPL | 5936 | 2269 | 7.9% | 100.0% | 7.9% | 3.9% | 6.8% |
| EPD | 44121 | 14988 | 7.8% | 100.0% | 7.8% | 4.5% | 7.0% |
| BWP | 5382 | 3233 | 7.8% | 89.3% | 8.7% | 4.2% | 7.0% |
| MMP | 7809 | 2081 | 7.8% | 100.0% | 7.8% | 4.2% | 7.0% |
| NS | 3706 | 2517 | 8.0% | 86.7% | 9.3% | 4.3% | 7.3% |
| SEP | 3071 | 614 | 7.2% | 86.7% | 8.3% | 4.0% | 7.6% |
| GEL | 2159 | 548 | 7.9% | 100.0% | 7.9% | 6.5% | 7.6% |
| RRMS | 188 | 2 | 7.8% | 98.0% | 7.9% | 0.0% | 7.8% |
| EEP | 8730 | 4872 | 8.2% | 80.0% | 10.3% | 4.2% | 8.1% |
| EPB | 8321 | 3794 | 7.0% | 79.5% | 8.8% | 6.5% | 8.1% |
| DPM | 2093 | 695 | 7.7% | 78.3% | 9.8% | 2.9% | 8.1% |
| CHKM | 3905 | 1033 | 8.4% | 96.6% | 8.7% | 5.8% | 8.1% |
| WES | 3955 | 669 | 7.6% | 88.5% | 8.6% | 5.8% | 8.2% |
| BBEP | 1110 | 490 | 8.9% | 98.0% | 9.1% | 6.8% | 8.4% |
| OKS | 11634 | 3947 | 7.5% | 73.1% | 10.2% | 4.0% | 8.6% |
| ETP | 9702 | 8179 | 7.6% | 61.7% | 12.3% | 4.6% | 8.7% |
| PAA | 11783 | 4702 | 7.8% | 69.4% | 11.2% | 4.4% | 9.2% |
| NGLS | 3460 | 1407 | 8.4% | 79.4% | 10.5% | 6.5% | 9.4% |
| WPZ | 17789 | 7093 | 8.0% | 70.8% | 11.4% | 4.6% | 9.4% |
| KMP | 29236 | 12299 | 7.6% | 55.0% | 13.8% | 3.8% | 10.9% |

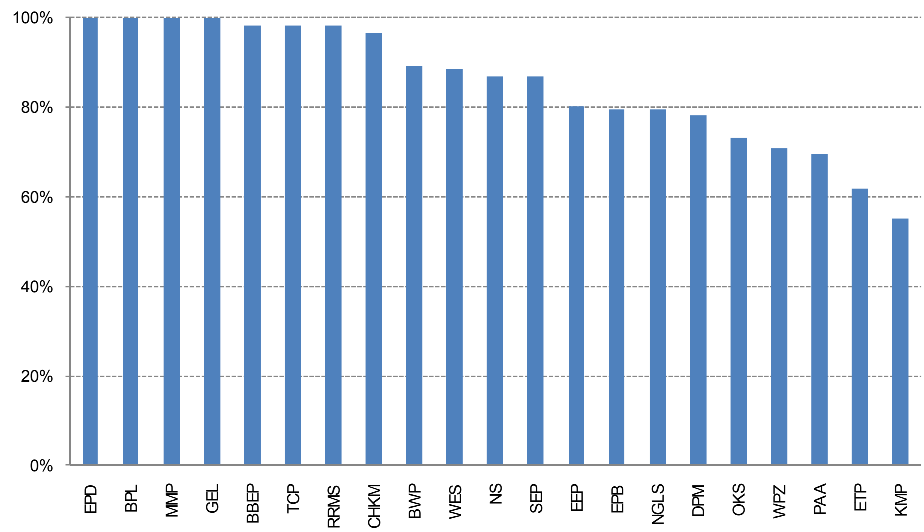
*Source: Deutsche Bank, FactSet, Company data*

## Figure 7: Cost of Capital – Advantage to MLPs with Low or No IDRs




*Source: Deutsche Bank, FactSet, Company data*

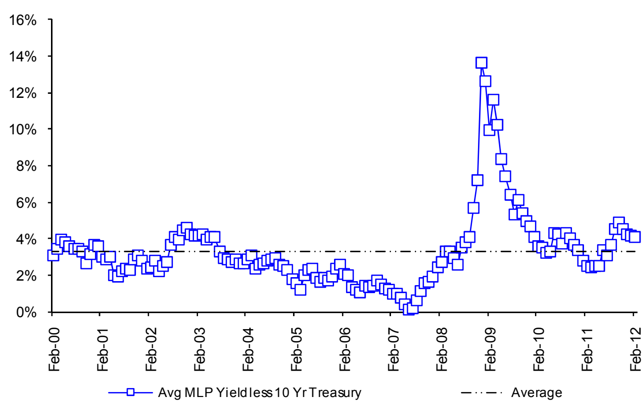
Figure 8: LP share of distributions – 2012e(%)




Source: Deutsche Bank, Company data

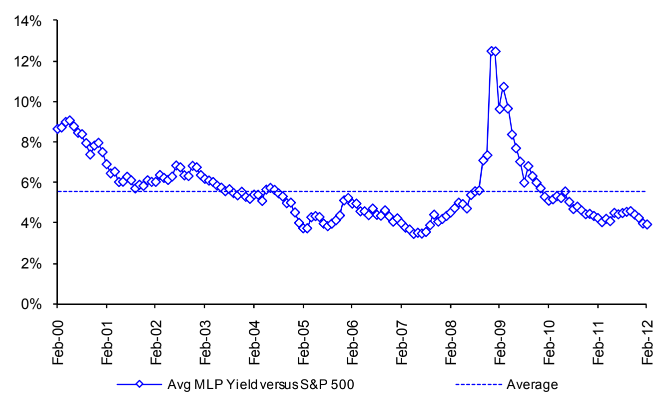
## MLP yield vs treasury yield

Figure 9: Average MLP yield spread over 10-treasury



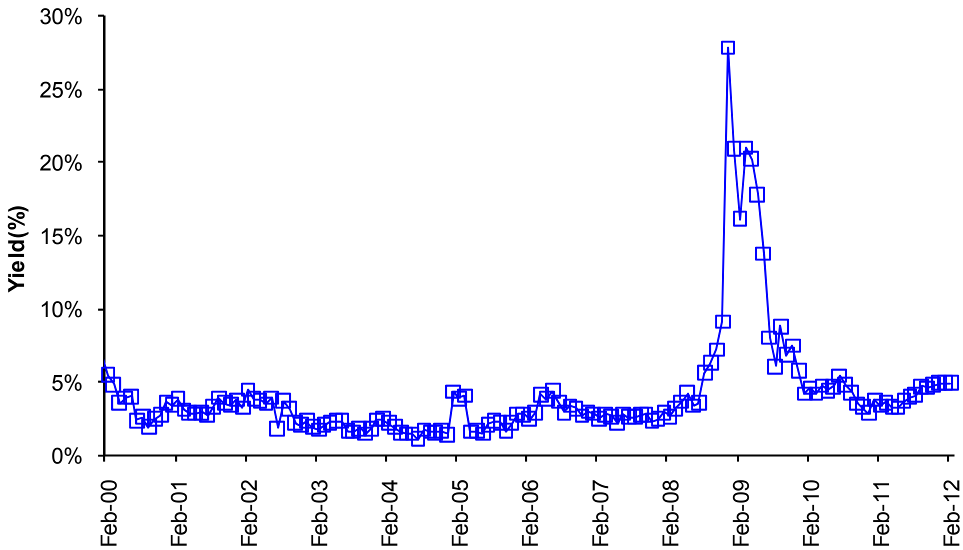

Source: Deutsche Bank, FactSet

Figure 10: MLP yield spread over S&P 500




Source: Deutsche Bank,FactSet

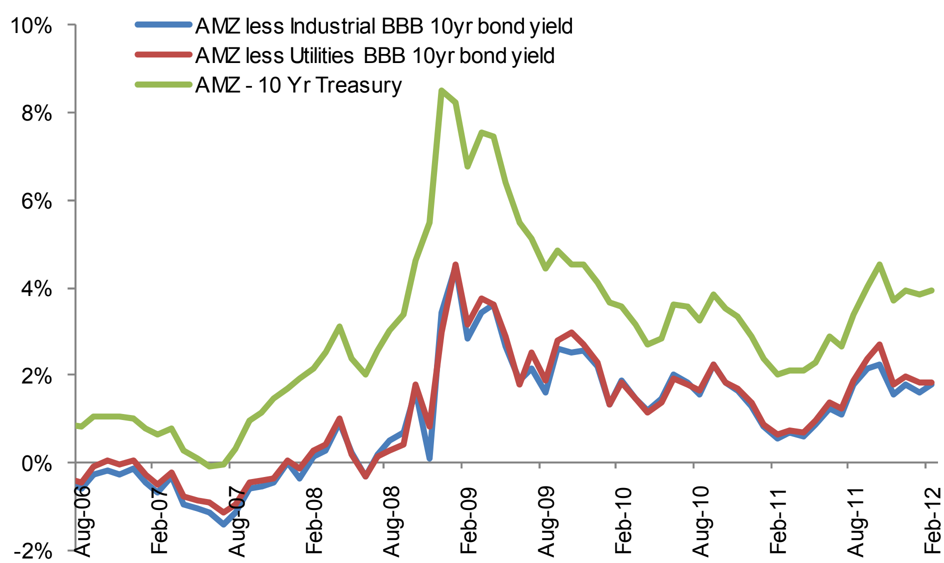
Figure 11: Difference between high – low yield




*Source: Deutsche Bank, FactSet*

The above charts show the yield difference between the best and worst within our coverage group. In 4Q08, DPM's yield peaked at 35% and BBEP and WPZ traded with yield in mid twenties for prolonged periods. But the stable pipeline businesses, SEP & EPB, traded between 7-8% during that period. Hence, we had a yield diffential of >25% during that period. Currently, WES and OKS trade slightly over 4% yield while BBEP trades close to 9% yield; ETP and BWP trades around 8%. Therefore, the current yield spread between processing and E&P is around 5% and the spread between pipeline business and E&P is around 3.0-3.5%.

Figure 12: AMZ yield spread over 10-yr treasury, US utilities BBB bond and US Industrial BBB bond yield




*Source: Deutsche Bank, Bloomberg Finance LP, FactSet*

# Macro view

## THEMES AND THESIS

The critical macro fundamentals upon which our favorable view of the sector are based on:

- **GROWING NATURAL GAS SUPPLY NEEDS TO BE GATHERED, PROCESSED, TRANSPORTED AND STORED** We forecast Natural Gas Supply growth of 1.8 % per year in the US with additional growth from Canada. We expect this to be mostly led by the emerging shale plays of the Marcellus, and Eagle Ford and Bakken, along with the Horn River/Montney region in Canada and the Haynesville and Fayetteville. The current economics of drilling wells in these areas suggest that the Marcellus and Bakken will receive the most attention primarily due to relatively low royalties and, in the case of Marcellus natural gas, generally higher producer price realizations because of proximity to markets.

Figure 13: U.S. and Canadian Shale Gas Production

bcfd

| | Marcellus | Haynesville | Eagle Ford | Barnett | Montney | Fayetteville | Horn River | Duvernay | Woodford | Other | Total NG |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2000 | - | - | - | 0.2 | - | - | - | - | - | 69.2 | 69.3 |
| 2001 | - | - | - | 0.3 | - | - | - | - | 0.0 | 71.1 | 71.4 |
| 2002 | - | - | - | 0.5 | - | - | - | - | 0.0 | 68.8 | 69.4 |
| 2003 | - | - | - | 0.7 | - | - | - | - | 0.0 | 68.5 | 69.2 |
| 2004 | - | - | - | 0.9 | - | 0.0 | - | - | 0.0 | 67.0 | 68.0 |
| 2005 | - | - | - | 1.2 | - | 0.0 | - | - | 0.0 | 65.5 | 66.7 |
| 2006 | - | - | - | 1.7 | 0.1 | 0.1 | - | - | 0.1 | 65.9 | 67.9 |
| 2007 | - | - | - | 2.6 | 0.2 | 0.3 | - | - | 0.2 | 66.5 | 69.8 |
| 2008 | 0.1 | 0.1 | - | 3.8 | 0.3 | 0.8 | 0.0 | - | 0.5 | 66.1 | 71.6 |
| 2009 | 0.5 | 1.2 | 0.0 | 4.1 | 0.4 | 1.3 | 0.1 | - | 0.7 | 63.5 | 71.8 |
| 2010 | 1.5 | 3.7 | 0.2 | 4.6 | 0.8 | 2.3 | 0.2 | 0.0 | 0.7 | 59.6 | 73.6 |
| 2011 | 2.9 | 6.0 | 0.9 | 4.9 | 1.2 | 2.8 | 0.4 | 0.0 | 0.7 | 57.2 | 77.0 |
| 2012 | 4.2 | 5.8 | 2.0 | 4.7 | 1.7 | 2.9 | 0.7 | 0.0 | 0.6 | 54.9 | 77.6 |
| 2013 | 5.6 | 5.9 | 2.5 | 4.7 | 2.0 | 3.2 | 0.8 | 0.1 | 0.6 | 52.6 | 77.8 |
| 2014 | 6.7 | 6.2 | 3.0 | 4.6 | 2.3 | 3.4 | 0.9 | 0.2 | 0.6 | 51.0 | 78.8 |
| 2015 | 7.7 | 6.5 | 3.3 | 4.6 | 2.8 | 3.4 | 1.0 | 0.3 | 0.7 | 50.2 | 80.5 |
| 2016 | 8.7 | 6.9 | 3.7 | 4.6 | 3.1 | 3.5 | 1.2 | 0.4 | 0.7 | 49.9 | 82.8 |
| 2017 | 9.5 | 7.4 | 4.0 | 4.5 | 3.5 | 3.7 | 1.5 | 0.6 | 0.8 | 49.5 | 85.0 |
| 2018 | 10.2 | 7.6 | 4.3 | 4.5 | 3.8 | 3.8 | 1.9 | 0.8 | 0.9 | 49.5 | 87.2 |
| 2019 | 10.7 | 7.8 | 4.5 | 4.5 | 4.1 | 3.9 | 2.3 | 0.9 | 0.9 | 49.8 | 89.3 |
| 2020 | 11.1 | 8.0 | 4.7 | 4.5 | 4.3 | 4.0 | 2.9 | 1.0 | 0.9 | 50.1 | 91.4 |

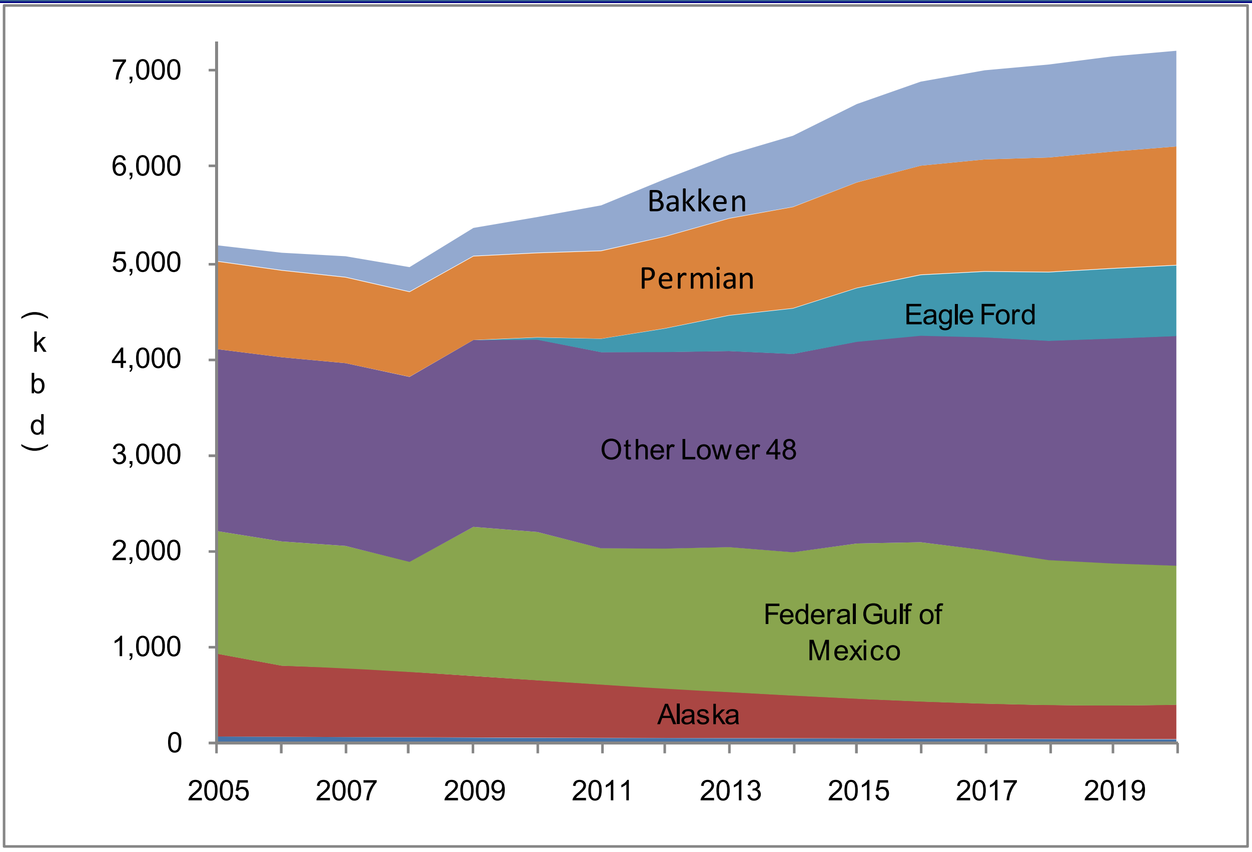
*Source: Wood Mackenzie and Deutsche Bank*

Figure 14: Oil Production from Major Shales

| (kbd) | Bakken | Permian | Eagle Ford | Federal Gulf of Mexico | Lower 48 | North America |
|---|---|---|---|---|---|---|
| 2005 | 165 | 910 | - | 1,282 | 2,960 | 7,654 |
| 2006 | 180 | 900 | - | 1,299 | 2,989 | 7,719 |
| 2007 | 216 | 890 | - | 1,277 | 2,999 | 7,828 |
| 2008 | 254 | 880 | - | 1,152 | 3,050 | 7,705 |
| 2009 | 291 | 870 | - | 1,559 | 3,097 | 8,142 |
| 2010 | 371 | 875 | 24 | 1,551 | 3,263 | 8,450 |
| 2011 | 472 | 910 | 141 | 1,425 | 3,555 | 8,679 |
| 2012 | 597 | 952 | 246 | 1,462 | 3,832 | 9,180 |
| 2013 | 666 | 1,005 | 372 | 1,515 | 4,075 | 9,566 |
| 2014 | 745 | 1,050 | 476 | 1,497 | 4,326 | 9,971 |
| 2015 | 818 | 1,094 | 561 | 1,621 | 4,564 | 10,424 |
| 2016 | 878 | 1,132 | 633 | 1,665 | 4,786 | 10,793 |
| 2017 | 931 | 1,162 | 686 | 1,606 | 4,987 | 11,062 |
| 2018 | 972 | 1,188 | 717 | 1,515 | 5,150 | 11,316 |
| 2019 | 996 | 1,210 | 732 | 1,485 | 5,270 | 11,664 |
| 2020 | 1,002 | 1,231 | 738 | 1,455 | 5,353 | 11,930 |

*Source: Wood Mackenzie and Deutsche Bank*

Figure 15: Oil Production from Major Shales




*Source: Wood Mackenzie and Deutsche Bank*

- **NATURAL GAS DEMAND GROWTH ACCELERATES WITH POWER GENERATION BUT NOT FAST ENOUGH TO BOOST PRICES** We forecast Natural Gas demand growth of 1.8% per year, led mostly by a 4.4% annual increase in natural gas for power generation. We recognize the controversies attached to the environmental basis for some of the growth but would contend that for our three to five year forecast period natural gas will maintain its price advantage versus coal, there will be no alternative power source that will approach the cost efficiency of natural gas and that existing utilization of natural gas fired power generation will rise to supplant coal and the majority fuel for US power generation.

Figure 16: Projected U.S. Natural Gas Consumption

(bcf per year)

| | 2011 | 2015 | 2020 | CAGR 2011-2015 | CAGR 2011-2020 |
|---|---|---|---|---|---|
| Power Generation | 6,850 | 8,126 | 10,764 | 4.4% | 5.1% |
| Industrial | 6,872 | 6,989 | 7,114 | 0.4% | 0.4% |
| Residential | 5,066 | 5,175 | 5,254 | 0.5% | 0.4% |
| Commercial | 3,159 | 3,320 | 3,271 | 1.3% | 0.4% |
| Other | 2,228 | 2,355 | 2,538 | 1.4% | 1.5% |
| Total | 24,175 | 25,965 | 28,941 | 1.8% | 2.0% |

Other* includes lease, plant, and pipeline fuel gas use.

*Source: ICF International, INGAA and Deutsche Bank*

- **HIGH OIL/GAS RATIO SUPPORTS GROWTH CASE, ESPECIALLY FOR NATURAL GAS LIQUIDS** Commodity pricing features of our thesis include relatively low natural gas prices and a oil/gas ratio, specifically $3.50 per mcf for 2012 and $4.10 for 2013 combines with oil at $105 per barrel for 2012 and $113 per barrel for 2013 making for an oil gas ratio of 30.0x in 2012 and 26.6x for 2013. The side bar story for our commodity expectations is that we anticipate continued strength in natural gas liquids in general and ethane in particular that will drive additional growth in earnings, cash flows and investment opportunities across the industry.

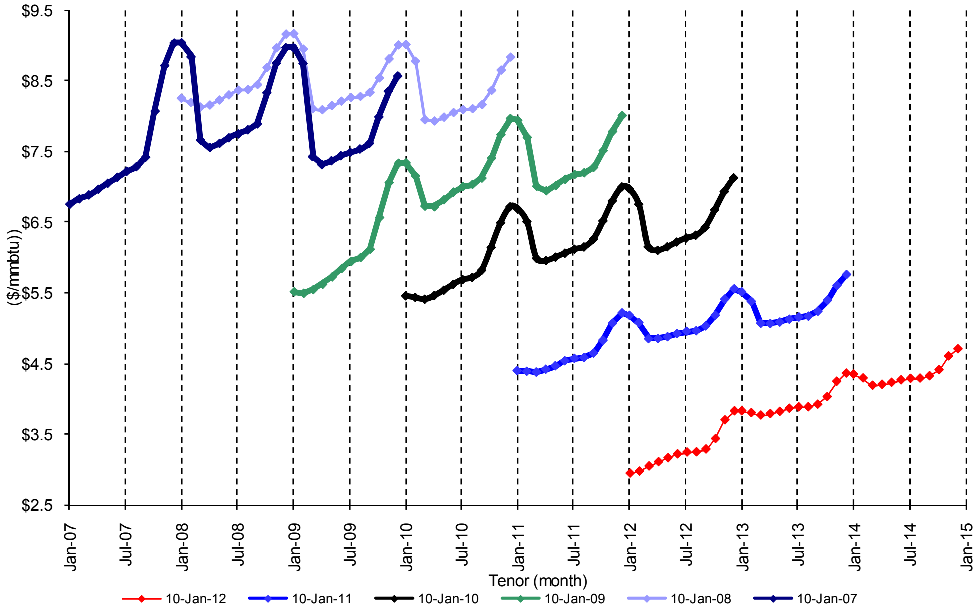
Figure 17: Pricing Outlook

| | WTI (USD/bbl) | Brent (USD/bbl) | WTI- Brent Spread (USD/bbl) | Nymex Gas (USD/mmBtu) | WTI/Gas Ratio | NGL Frac Spread (USD/mmBtu) |
|---|---|---|---|---|---|---|
| **2000** | **30.26** | **28.53** | | **4.32** | | **N/A** |
| **2001** | **25.95** | **24.86** | | **4.05** | | **N/A** |
| **2002** | **26.15** | **25.03** | | **3.37** | | **N/A** |
| **2003** | **30.99** | **28.48** | | **5.49** | | **N/A** |
| **2004** | **41.48** | **38.04** | | **6.18** | | **10.28** |
| **2005** | **56.70** | **55.25** | | **9.02** | | **5.16** |
| **2006** | **66.25** | **66.11** | | **6.98** | **9.5** | **16.85** |
| **2007** | **72.36** | **72.66** | | **7.12** | **10.2** | **23.57** |
| **2008** | **99.65** | **98.52** | **1.59** | **8.87** | **11.2** | **25.63** |
| **2009** | **62.09** | **62.67** | **-0.58** | **4.16** | **14.9** | **20.28** |
| **2010** | **79.61** | **80.34** | **-0.73** | **4.38** | **18.2** | **30.94** |
| Q1 2011A | 94.60 | 105.52 | -10.92 | 4.20 | 22.5 | |
| Q2 2011A | 102.34 | 116.99 | -14.65 | 4.38 | 23.4 | |
| Q3 2011A | 89.54 | 112.09 | -22.55 | 4.06 | 22.1 | |
| Q4 2011E | 94.06 | 109.02 | -14.96 | 3.48 | 27.0 | |
| **2011E** | **95.14** | **110.91** | **-15.77** | **4.03** | **23.6** | **44.52** |
| Q1 2012E | 104.00 | 114.00 | -10.00 | 3.25 | 32.0 | |
| Q2 2012E | 105.00 | 115.00 | -10.00 | 3.50 | 30.0 | |
| Q3 2012E | 105.00 | 115.00 | -10.00 | 3.50 | 30.0 | |
| Q4 2012E | 106.00 | 116.00 | -10.00 | 3.75 | 28.3 | |
| **2012E** | **105.00** | **115.00** | **-10.00** | **3.50** | **30.0** | **50.16** |
| **Q1 2013E** | 107.00 | 116.00 | -9.00 | 4.40 | 24.3 | |
| **Q2 2013E** | 113.00 | 120.00 | -7.00 | 4.10 | 27.6 | |
| **Q3 2013E** | 117.00 | 124.00 | -7.00 | 4.15 | 28.2 | |
| **Q4 2013E** | 115.00 | 120.00 | -5.00 | 4.35 | 26.4 | |
| **2013E** | 113.00 | 120.00 | -7.00 | 4.25 | 26.6 | **51.90** |
| **2014E** | 117.00 | 123.00 | -6.00 | 4.50 | 26.0 | **53.39** |
| **2015E** | 120.00 | 125.00 | -5.00 | 5.00 | 24.0 | **53.37** |
| **2016E** | 123.00 | 125.00 | -2.00 | 5.25 | 23.4 | |
| **2017E** | 126.00 | 128.00 | -2.00 | 5.50 | 22.9 | |
| **2018E** | 129.00 | 131.00 | -2.00 | 6.00 | 21.5 | |
| **2019E** | 132.00 | 134.00 | -2.00 | 6.25 | 21.1 | |
| **2020E** | 135.00 | 135.00 | 0.00 | 6.50 | 20.8 | |

*Source: Bloomberg Finance LP, Deutsche Bank, and CMAI*

DB price deck suggests that fundamentals of natural gas will remain difficult in terms of the economics of drilling natural gas wells. The liquids prone gas plays are receiving 80% or more of their economic value from oil and liquids currently. We expect drilling to slow down further in the higher cost areas that are further from markets and gas prone like Haynesville. However, we expect that the drilling rates in the Marcellus will hold up better because of the lower royalties and location premium that the area commands.

Figure 18: Natural Gas Forward Curves showing diminishing seasonal price differential




*Source: Deutsche Bank, NYMEX*

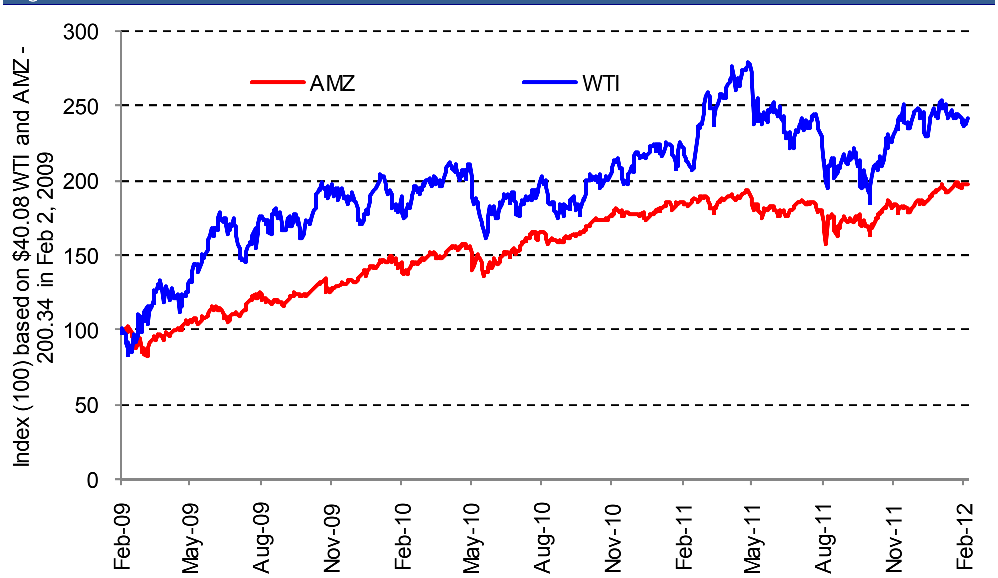
As natural gas prices have declined and power generation demand has grown, the seasonal differential has declined, making natural gas storage margins and values lower.

# Key themes

**EXPLORATION OF SHALE IS DONE, EXPLOITATION REQUIRES INFRASTRUCTURE** Much has been written about the need for infrastructure growth in North America to serve the shale plays as they are drilled more aggressively and the natural gas, natural gas liquids and oil production need to find routes to markets. We will attempt to extend that discussion with a specific identification of shale plays that promote the best infrastructure growth opportunities related to natural gas, oil and natural gas liquids and where the relative change in infrastructure in place and to be developed presents the best opportunities. The differentiation by the quality of each business line among our coverage companies will be the outgrowth of this macro analysis.

**KEEPING TRACK OF CORRELATION TO CRUDE** It is clear based on the charts that begin each Company report that the dominant macro fundamental that governs industry share price performance and valuations is the relationship with crude oil. While this doesn't make sense from the perspective of how the companies make money and generate growth, the generalization is true that a better environment for commodity prices presents better opportunities for growth in the drilling budgets, demand factors and industry financial condition that create growth. The DB view of commodity prices is presented in Figure 17 and discussed in Commodities Pricing Section of this report. We would summarize these views as generally positive for the North American Natural Gas and MLP sector in that drilling rig rates continue to be relatively high and the shale plays continue to be developed aggressively.

Figure 19: AMZ vs WTI




*Source: Deutsche Bank, FactSet, Bloomberg Finance LP*

**QUALITY OF BUSINESS AWARD GOES TO PIPELINES FOLLOWED BY GATHERING AND PROCESSING** Each of our company reports details the derivation of its cash flows by business segment. We further differentiate valuations from a public market perspective by identifying the premium multiple businesses and which companies are best positioned for growth in the highest multiple manner. Considering the market beating performance by the Natural Gas and MLP's sectors in 2011, we believe the best total return potential inures to the benefit of the combination of growth and multiple appreciation inherent in the business mix of Buy rated.

**DIFFERENTIATING VALUATIONS** The favorable overview that we present for the industry currently does not provide for universal attractiveness of the MLP equities from a valuation point of view because of the differentiation of the assets within the sector in terms of growth rates, security of cash flows and the financial fundamentals of fee based or margin exposed business. The valuation tables above (Figure 21) address these issues with the caveats that the MLPs have essentially become holding companies dominated by their interests in MLP units.

Our analysis of the various segments of the MLP universe is summarized below in terms of sectors that show favorable characteristics currently and those that do not.

- **Large Diversified**: multi-business line companies with access to capital, a dominance of fee based business and visibility of growth in distributable cash flows and distributions. Our current Buy ratings for EPD and KMP represent the best positioned of the multi business line companies in our opinion.
- **Pipelines and NGLs**: The most favorable view that we hold for sustainable and visible growth among the sub-sectors of the industry is for the Pipelines. The combination of fee based financial fundamentals, security of growth and access to capital presents a compelling story. The C-corp components of this industry sub-sector are more attractive currently in our view, as the progress toward holding company structures continue and the enhanced growth of the merger, acquisition and restructuring stories in the group. We favor ETP, as it moves ahead to complete the acquisition of Southern Union (SUG).
- **Gathering and Processing**: our favorable view of this segment of the industry is based on the need for dramatic increases in capacity to serve the shale plays in liquids extraction and natural gas production. The need to hook-up new wells on a timely basis to support the economics of the producing segment of the industry is crucial as well in the low natural gas pricing environment. An offset to the positive fundamentals in this sector is heavier reliance on margin based business compared to the sector overall and long line pipelines in particular. At this time, our valuation models show lesser distribution yields across this sub-sector of our universe, indicating that the growth prospects have been recognized and exacerbating the potential for commodity price changes and risks to impact valuations. Exceptions to this, based upon growth in distributions and drop-downs adding to growth potential are CHKM and WES.
- **Liquids Focused**: given the growth in oil and natural gas liquids production that is forecast for North America over the next several years, especially in the emerging shale plays of the Bakken and the Eagle Ford along with the Western Canada Oil Sands, it is this sub-sector that contains the best potential for relative change in growth rates and potential returns for investors in our view. While our enthusiasm must be offset by the margin sensitivity of the growth and the current yields, we believe that the growth in the Bakken, the Wattenberg and the Granite Wash will be significant enough to support superior performance for BUY rated RRMS.
- **Storage**: perhaps the only sub-sector with current fundamentals that are not benefitting from the strong macro picture around the industry, natural gas storage rates have declined precipitously under a combination of supply dynamics and reduced seasonal pricing differentials and volatility. While this could reverse as more natural gas is focused on power generation and supply patterns are reorganized to meet the location of the new shale production, we consider storage MLP and asset valuations to be at risk for the next few years.

## Organic Growth

- The capital expenditure projections for us of the companies in our coverage group effectively tell the same story, record levels of capital expenditures over the past three years are being harvested for growth now while new records in capital are being spent each year to plant the future growth opportunities of the next several years. The differentiation in our models and in Company guidance relative to maintenance capital vs growth capital is another very attractive piece of the upside.

## Drop-Down Related Growth

- We favor MLP's with drop-down opportunities, as indicated for KMP because of the parent KMI acquiring EP, ETP's because of ETE's acquisition of SUG and for WES and CHKM because of the quantity of assets and incentive for their parent companies, CHK and APC to aggressively drop-down assets to the MLPs.

## Cost of Capital

- As shown in Figure 20 below, the MLPs' without IDR's have a lower cost of capital, thereby providing an advantage in the bidding for acquisitions and the generation of attractive returns in organic projects that are funded externally.

Figure 20: Weighted Average Cost of Capital (WACC)

| Ticker | Market Cap ($m) | Net debt ($m) | Cost of Equity | GP gross-up | Adjusted CoE | Cost of Debt | Cost of Capital |
|---|---|---|---|---|---|---|---|
| TCP | 2430 | 740 | 7.6% | 98.0% | 7.8% | 3.2% | 6.7% |
| BPL | 5936 | 2269 | 7.9% | 100.0% | 7.9% | 3.9% | 6.8% |
| EPD | 44121 | 14988 | 7.8% | 100.0% | 7.8% | 4.5% | 7.0% |
| BWP | 5382 | 3233 | 7.8% | 89.3% | 8.7% | 4.2% | 7.0% |
| MMP | 7809 | 2081 | 7.8% | 100.0% | 7.8% | 4.2% | 7.0% |
| NS | 3706 | 2517 | 8.0% | 86.7% | 9.3% | 4.3% | 7.3% |
| SEP | 3071 | 614 | 7.2% | 86.7% | 8.3% | 4.0% | 7.6% |
| GEL | 2159 | 548 | 7.9% | 100.0% | 7.9% | 6.5% | 7.6% |
| RRMS | 188 | 2 | 7.8% | 98.0% | 7.9% | 0.0% | 7.8% |
| EEP | 8730 | 4872 | 8.2% | 80.0% | 10.3% | 4.2% | 8.1% |
| EPB | 8321 | 3794 | 7.0% | 79.5% | 8.8% | 6.5% | 8.1% |
| DPM | 2093 | 695 | 7.7% | 78.3% | 9.8% | 2.9% | 8.1% |
| CHKM | 3905 | 1033 | 8.4% | 96.6% | 8.7% | 5.8% | 8.1% |
| WES | 3955 | 669 | 7.6% | 88.5% | 8.6% | 5.8% | 8.2% |
| BBEP | 1110 | 490 | 8.9% | 98.0% | 9.1% | 6.8% | 8.4% |
| OKS | 11634 | 3947 | 7.5% | 73.1% | 10.2% | 4.0% | 8.6% |
| ETP | 9702 | 8179 | 7.6% | 61.7% | 12.3% | 4.6% | 8.7% |
| PAA | 11783 | 4702 | 7.8% | 69.4% | 11.2% | 4.4% | 9.2% |
| NGLS | 3460 | 1407 | 8.4% | 79.4% | 10.5% | 6.5% | 9.4% |
| WPZ | 17789 | 7093 | 8.0% | 70.8% | 11.4% | 4.6% | 9.4% |
| KMP | 29236 | 12299 | 7.6% | 55.0% | 13.8% | 3.8% | 10.9% |

*Source: Deutsche Bank, FactSet, Company data*

# Valuation

## Methodology

We use a three stage dividend discount model as a valuation tool for the MLPs. We have forecasted distribution growth per unit for the next five years based on our financial analysis, management guidance and capital investment program information. Following the initial period, we then normalize this growth to a long-term growth of rate of 2% over a period of 5 years and assumed a terminal growth rate of 2%.

We calculate cost of equity using a Capital Asset pricing Model (CAPM) and adjust it for:

- **LP/GP split:** 1% premium for MLP's without an Incentive Distribution Rights (IDR) burden; discount of 0.5% for MLPs that have an LP share of distributions between 70%-85%; discount of 1% for the negative impact of MLP's in high splits.
- **Quality of business:** Premium applied for MLP's with greater visibility of growth and higher coverage ratio for distributions. Discount for MLP's that have greater risk in commodity leverage or lesser quantities of fee based or contractually controlled business.
- **Parent Company "Quality":** Premium for MLP's with drop-down opportunities and parent company or General Partners with balance sheet strength.

## Price targets and recommendations

Figure 21: Valuation and recommendation

| Ticker | Cost of Equity | Discount/(Premium) for | | | Adjusted Cost of Equity | New Target Price | Old Target Price | Current Share Price | PT upside To share price | New Recommend-ation | Old Recommendation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | GP split | Business risk | Parent Quality | | | | | | | |
| EPD | 7.8% | -1.0% | 0.0% | 0.0% | 6.8% | **58.0** | 48.0 | 50.2 | 16% | BUY | BUY |
| ETP | 7.6% | 1.0% | 1.0% | -0.5% | 9.1% | **56.0** | 51.0 | 46.3 | 21% | BUY | HOLD |
| KMP | 7.6% | 1.0% | 0.0% | -0.5% | 8.1% | **98.0** | 70.0 | 87.8 | 12% | BUY | HOLD |
| KMR | 7.8% | 1.0% | 0.5% | -0.5% | 8.8% | **87.0** | NA | 78.9 | 10% | BUY | NA |
| RRMS | 7.8% | 0.0% | 1.0% | 0.0% | 8.8% | **25.0** | NA | 22.5 | 11% | BUY | NA |
| WES | 7.6% | 0.5% | 0.0% | 0.0% | 8.1% | **48.0** | 40.0 | 43.0 | 12% | BUY | BUY |
| BBEP | 8.9% | 0.0% | 3.0% | 0.0% | 11.9% | **20.0** | 20.0 | 18.8 | 6% | HOLD | HOLD |
| BPL | 7.9% | -1.0% | 2.0% | 0.0% | 8.9% | **67.0** | 60.0 | 63.8 | 5% | HOLD | HOLD |
| BWP | 7.8% | 0.5% | 1.5% | 0.0% | 9.8% | **29.0** | 31.0 | 27.1 | 7% | HOLD | HOLD |
| CHKM | 8.4% | 0.0% | 0.5% | 0.0% | 8.9% | **30.0** | NA | 27.7 | 8% | HOLD | NA |
| DPM | 7.7% | 0.5% | 0.0% | 0.0% | 8.2% | **47.0** | NA | 47.1 | 0% | HOLD | NA |
| EEP | 8.2% | 0.5% | 0.0% | 0.0% | 8.7% | **34.0** | 27.0 | 32.0 | 6% | HOLD | HOLD |
| EPB | 7.0% | 0.5% | 0.0% | 1.0% | 8.5% | **37.0** | NA | 35.7 | 4% | HOLD | NA |
| GEL | 7.9% | -1.0% | 2.0% | 0.0% | 8.9% | **30.0** | 31.0 | 30.0 | 0% | HOLD | HOLD |
| MMP | 7.8% | -1.0% | 1.0% | 0.0% | 7.8% | **73.0** | 65.0 | 69.3 | 5% | HOLD | BUY |
| NGLS | 8.4% | 0.5% | 0.0% | 0.0% | 8.9% | **42.0** | NA | 40.0 | 5% | HOLD | NA |
| NS | 8.0% | 0.5% | 1.0% | 0.0% | 9.5% | **59.0** | 65.0 | 57.3 | 3% | HOLD | HOLD |
| OKS | 7.5% | 0.5% | 0.0% | 0.0% | 8.0% | **57.0** | NA | 57.1 | 0% | HOLD | NA |
| PAA | 7.8% | 0.5% | 0.5% | 0.0% | 8.8% | **78.0** | 75.0 | 78.9 | -1% | HOLD | BUY |
| SEP | 7.2% | 0.5% | 0.5% | 0.0% | 8.2% | **33.0** | NA | 31.2 | 6% | HOLD | NA |
| TCP | 7.6% | 0.0% | 1.5% | 0.0% | 9.1% | **44.0** | NA | 45.5 | -3% | HOLD | NA |
| WPZ | 8.0% | 0.5% | -0.5% | 0.0% | 8.0% | **66.0** | NA | 61.2 | 8% | HOLD | NA |
| ETE | 8.1% | 0.0% | 1.0% | 0.5% | 9.6% | **43.0** | 47.0 | 41.8 | 3% | HOLD | BUY |
| NSH | 7.9% | 0.0% | 0.0% | 0.0% | 7.9% | **35.0** | 35.0 | 33.2 | 5% | HOLD | HOLD |

*Source: Deutsche Bank, Company data, FactSet, Prices as at Feb 10th*

## Hydraulic Fracturing

### At least we agree on how to spell "fracking"

The debate regarding hydraulic fracturing and potential future regulation and legislation is raging at the same time that the enormous benefits of the shale plays are becoming more and more visible. From job creation to the impact on energy security, shale is the most significant development in the US energy picture in history. The more we analyze the potential for shale natural gas and oil to remake the US energy supply picture for decades to come, the more we believe that the previous statement is not hyperbole. While the full story has not yet been written and risks remain, we believe that the contribution to US energy security to be represented by shale will be difficult to over-estimate. Having said that, the risk that regulation and legislation could change the trajectory of the shale opportunity is real and must be addressed. We would note the following in the highly charged political environment of today in which the only thing agreed to so far seems to be that everyone is discussing hydraulic fracturing with the short-hand of "fracking" as opposed to the original term in the industry of “fracing”.

- We expect stringent rules to be put in place relative to the disclosure of chemicals in fracking fluids.
- We expect strict inspection of well bore and casing construction.
- We expect additional treatment, disposal and transportation requirements to be imposed on produced water.
- We expect limits to be placed on the fracking of wells that are within metropolitan areas and their watersheds.
- We expect the industry to embrace these rules and to adopt best practices that will protect the environment in which they expect to operate and prosper for many years to come.

### 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 favored by investors as they derive most or all of their revenues abroad and don’t pay US taxes.

### Inflation & Interest rate risks

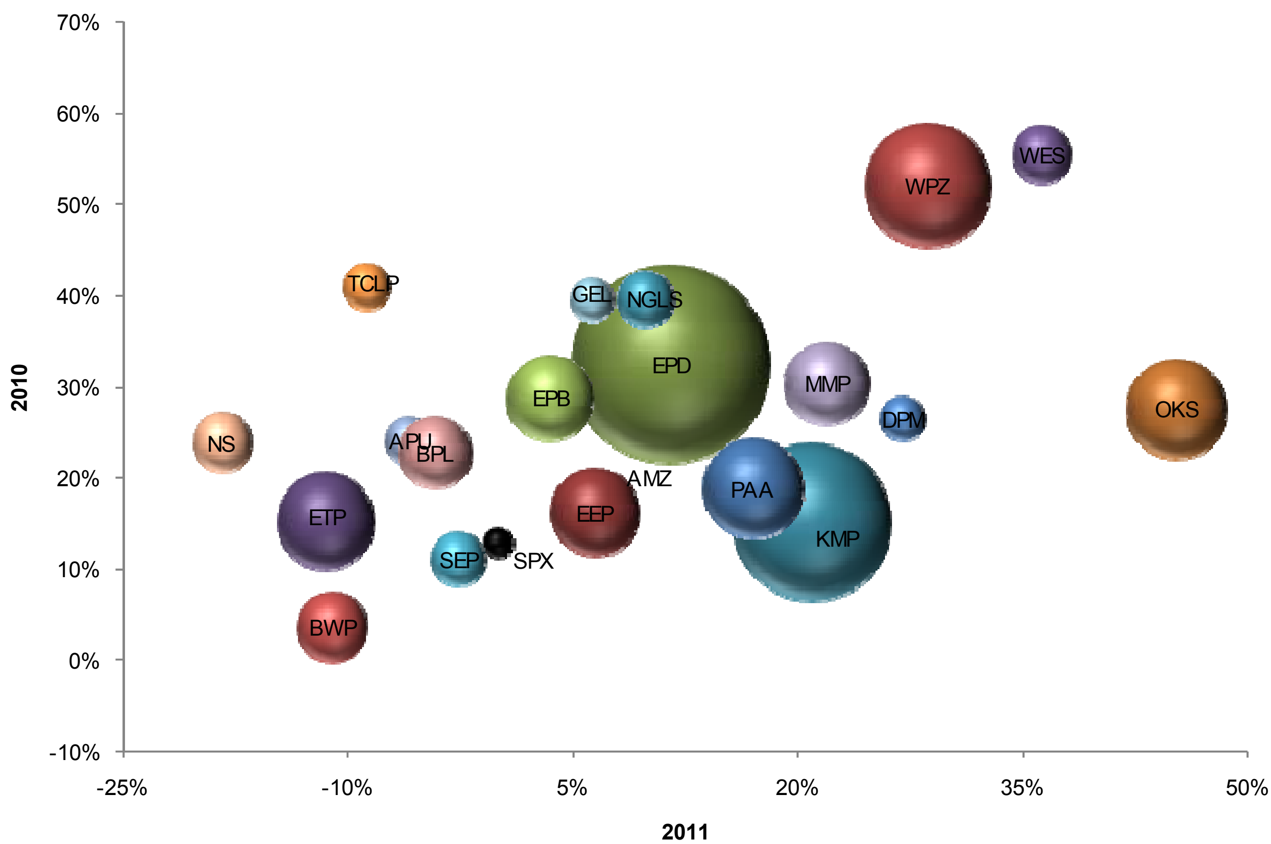
General risks to the MLPs are highlighted by rising inflation rates, which diminish the relative attractiveness of dividend-valued stocks such as MLPs or falling interest rates on T-Bills, being symptomatic of risk aversion, which is implicit in MLPs vs Treasuries.

### Other risks

If the US sees another major GDP slowdown, perhaps accelerated by super-high oil prices because of unrest in the Middle East, 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.

# Price Performance

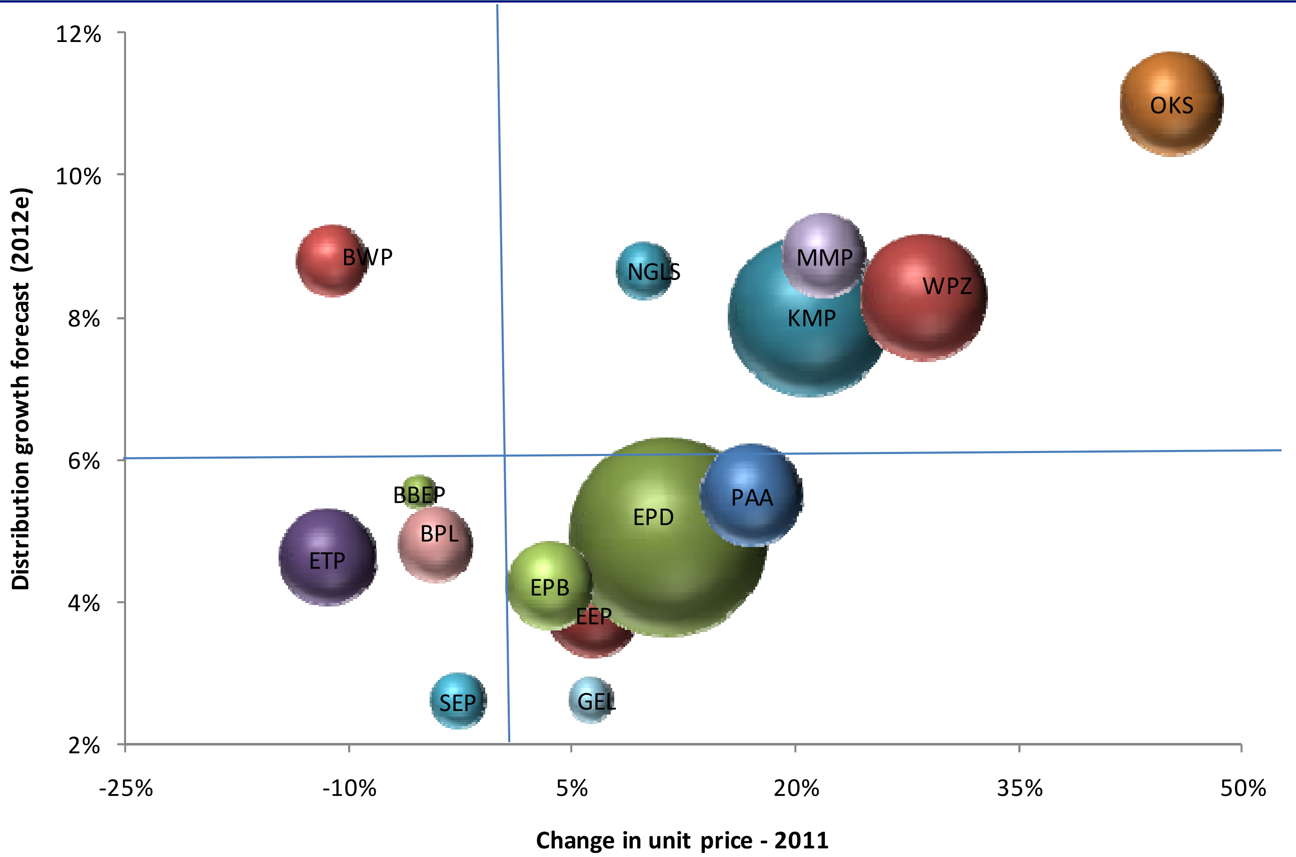
Figure 22: MLP price performance 2011 vs 2010




*Source: Deutsche Bank, FactSet*

Group performance as defined by AMZ exceeded S&P by 7.3% in 2011 on a share price only basis. When the average distribution yield and S&P dividends are included, the comparison is 13.0% total return for MLPs and 2.0% total return for S&P.

Figure 23: 2011 price performance vs Distribution growth forecast




*Source: Deutsche Bank, FactSet, Company data*

# COMPANY SECTIONS

| Ticker | Partnership Name | Sub-Title | Current Price ($) | Price Target ($) | Page No |
|---|---|---|---|---|---|
| EPD | Enterprise Products Partners | Premier Organic Grower Making All The Right Moves | 50.19 | 58.00 | 25 |
| ETP | Energy Transfer Partners | Challenges Reflected In Unit Price & Yield, Opportunities Ahead | 46.29 | 56.00 | 27 |
| KMP | Kinder Morgan Energy Partners | Core Grower With Added Upside Catalysts Via EP Acquisition | 87.79 | 98.00 | 29 |
| RRMS | Rose Rock Midstream | Small Cap Name With Big Potential In Oil Storage And Transportation | 22.45 | 25.00 | 31 |
| WES | Western Gas Partners | Drop-Downs To Fuel Impressive Growth Led By Rockies | 43.00 | 48.00 | 33 |
| BWP | Boardwalk Pipeline Partners | Storage Slows Growth And High Maintenance Capex But Situation Improving | 27.10 | 29.00 | 35 |
| BBEP | BreitBurn Energy Partners | Fully Valued On Limited Liquidity Despite Recent Plusses | 18.80 | 20.00 | 37 |
| BPL | Buckeye Partners | Coverage & Leverage Concerns But Big Upside At Borco | 63.75 | 67.00 | 38 |
| CHKM | Chesapeake Midstream Partners | Marcellus Drop-Down Adds Growth Opportunities; Haynesville Exposure Leads To Hold | 27.70 | 30.00 | 40 |
| DPM | DCP Midstream Partners | Rated Hold On Valuation & Dry Gas Exposure | 47.10 | 47.00 | 42 |
| EPB | El Paso Pipeline Partners | Uncertain Drop-Down Outlook, Higher Gp Split At KMP | 35.65 | 37.00 | 44 |
| EEP | Enbridge Energy Partners | Bakken & Permian Upside Ahead But Nat Gas Pressure Today | 31.96 | 34.00 | 46 |
| GEL | Genesis Energy | GoM Exposure Cuts Both Ways; Industrial Economy A Factor Too | 30.02 | 30.00 | 48 |
| MMP | Magellan Midstream Partners | Fairly Valued In Current Oil & Products Environment | 69.27 | 73.00 | 50 |
| NS | NuStar Energy | Asphalt Leverage A Risk In Current Fiscal Environment | 57.26 | 59.00 | 52 |
| OKS | Oneok Partners | Tighter Basis Differentials In Mid-Continent Suggests Fair Value | 57.08 | 57.00 | 54 |
| PAA | Plains All American Pipeline | Nat Gas Storage & Marketing Exposure Pressure Strong Growth | 78.88 | 78.00 | 56 |
| SEP | Spectra Energy Partners | Lower Distribution Growth, Slower Pace Of Drop-Downs | 31.24 | 33.00 | 58 |
| NGLS | Targa Resources Partners | Rated Hold On Commodity Exposure To Oil/Gas Ratio | 40.01 | 42.00 | 60 |
| TCP | TC Pipelines | Solid Yield But Volume And Recontracting Risk | 45.45 | 44.00 | 62 |
| WPZ | Williams Partners | Top 2011 Performer Restructuring Done | 61.24 | 66.00 | 64 |

*Source: Deutsche Bank forecasst – Priced as of February 11, 2012*

# Enterprise Products Partners (EPD, $50.19, BUY, TP, $58)

## Premier Organic Grower Making All The Right Moves

## Outlook

EPD is a major player in the transportation and fractionation of natural gas liquids (NGLs). After the successful integration of TEPPCO (2009), EPE (2010) and Duncan Energy Partners (2011) EPD begins 2012 with additional growth potential in the ATEX pipeline that will build capacity for ethane from the Marcellus to the Gulf Coast. This adds to the dominant position EPD has in many of the shale plays. Current oil and natural gas prices have led to a widening of fractionation spreads as another critical plus for EPD that we expect to be sustained for some time. With 1.3x distribution coverage and a 5% distribution growth rate, we consider EPD to be a premier core holding in the group. EPD is rated Buy with a target price of $58 per unit.

LOW COST OF CAPITAL: EPD has the lowest cost of capital among the big partnerships, adding to its attraction and ability to find attractive organic growth investments in the shale plays. EPD has $4.5bn of growth projects under construction in Eagle Ford and Haynesville shales along with NGL pipelines in Texas, the Marcellus and the Rockies.

SHALE OPPORTUNITES: EPD has numerous growth projects in the Eagle Ford shale, ranging from natural gas gathering systems to crude, NGL and natural gas pipelines and storage terminals, most of which are scheduled to come on-stream in 2012. In the Haynesville shale it has (i) Haynesville gathering system consisting of 140-miles of gathering and treating system with 1Bcf/d of capacity which will expand the partnership's footprint in Haynesville and Bossier. (ii) EPD completed the $1.5mm, 270-mile Acadian Haynesville Extension pipeline in 4Q11. The project is supported by long-term firm contracts with shippers for 90% of the capacity of 1.8bcf/d. The 125mbpd, 600miles pipeline will connect Pennsylvania to Missouri and it is proposed to be in-service in 1Q14.

SEAWAY: ANOTHER MID-CONTINENT OPPORTUNITY: EPD along with Enbridge (ENB) announced the reversal of 400mbpd Seaway crude oil pipeline at an expected cost of $300mm. The first phase of this reversal is expected to be complete by 2Q12 with an initial capacity of 150mbpd and full completion of the project by 2Q13. After the Seaway reversal, EPD cancelled the Wrangler project, a new pipeline from Cushing to the Gulf Coast announced as a JV with ENB. EPD also has a joint venture with Enbridge (35%) and Anadarko (15%) to construct a pipeline, Texas Express NGL pipeline, with an initial capacity of 280mbbd (expandable to 400mbpd). The project is expected to be in-service in 2Q13.

## Valuation

We use a three stage dividend discount model to derive our target price. We forecast a distribution of $2.56 per unit in 2012 & $2.68 per unit in 2013 and anticipate a 5% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We estimate a cost of equity of 6.8% as a discount rate. Our discount rate is adjusted for better than average M&A opportunities arising from no IDRs (-1%). Using the above methodology, we arrive at a $58 revised target price for our BUY recommendation.

## Risks

A narrowing of the spread between oil and natural gas prices would have an impact on the fractionation business of EPD, especially if it occurred rapidly.

**Figure 24: Distribution Coverage ($ in millions)**

| Distributable Cash Flow ($m) | 2010 | 1Q | 2Q | 3Q | 4Q | 2011 | 1QE | 2QE | 3QE | 4QE | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Adjusted EBITDA | 3133.7 | 891.7 | 918.8 | 963.3 | 1202.5 | 3976.3 | 994.5 | 1012.1 | 1055.5 | 1092.7 | 4154.8 | 4484.6 |
| Less: Interest | -709.7 | -183.8 | -188.3 | -189.0 | -183.0 | -744.1 | -193.4 | -198.4 | -203.4 | -205.9 | -801.1 | -850.6 |
| Less:Maintenance Capex | -240.2 | -52.7 | -83.9 | -81.2 | -78.9 | -296.7 | -75.0 | -75.0 | -75.0 | -75.0 | -300.0 | -250.0 |
| Others | 130.8 | 39.4 | 128.2 | 169.3 | 461.8 | 798.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less: GP Interest | -197.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Distributable Cash Flow to LP** | **2116.8** | **694.6** | **774.8** | **862.4** | **1402.4** | **3734.2** | **726.0** | **738.7** | **777.1** | **811.9** | **3053.6** | **3383.9** |
| EPCO - No of EPD's units it has agreed to waive distributi | | 30.6 | 30.6 | 30.6 | 30.6 | 30.6 | 26.1 | 26.1 | 26.1 | 26.1 | 26.1 | 23.7 |
| Total LP Units Outstanding | 687.3 | 813.1 | 820.8 | 827.6 | 848.4 | 827.5 | 865.9 | 865.9 | 878.8 | 878.8 | 872.3 | 895.3 |
| Distributable Cash Flow per LP Unit | 3.08 | 0.85 | 0.94 | 1.04 | 1.65 | 4.51 | 0.84 | 0.85 | 0.88 | 0.92 | 3.50 | 3.78 |
| **Cash Distribution per LP Unit** | **2.32** | **0.60** | **0.61** | **0.61** | **0.62** | **2.44** | **0.63** | **0.64** | **0.64** | **0.65** | **2.56** | **2.68** |
| Total Unit Coverage Ratio | 1.3x | 1.4x | 1.6x | 1.7x | 2.7x | 1.9x | 1.3x | 1.3x | 1.4x | 1.4x | 1.4x | 1.4x |
| *Cash Distribution per LP unit Growth (Y/Y)* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* | *5%* |
| **Total Distribution to EPE** | | | | | | | | | | | | |
| GP interest | | | | | | | | | | | | |
| IDR interest | | | | | | | | | | | | |
| Common units held by EPE | 21.60 | - | - | - | - | - | - | - | - | - | - | - |
| IDR | 251.2 | - | - | - | - | - | - | - | - | - | - | - |
| 2% GP interest | 37.6 | - | - | - | - | - | - | - | - | - | - | - |
| **GP Interest** | **288.8** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Common units share | **50.0** | - | - | - | - | - | - | - | - | - | - | - |
| **Total** | **338.8** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 2.32 | 0.60 | 0.61 | 0.61 | 0.62 | 2.44 | 0.63 | 0.64 | 0.64 | 0.65 | 2.56 | 2.68 |
| LP Units | 687.3 | 813.1 | 820.8 | 827.6 | 848.4 | 827.5 | 865.9 | 865.9 | 878.8 | 878.8 | 872.3 | 895.3 |
| Distribution to LP | 1,591.1 | 485.8 | 496.6 | 506.9 | 526.0 | 2,014.9 | 543.3 | 549.8 | 564.6 | 571.2 | 2,228.8 | 2,394.9 |
| Distribution to GP | 288.8 | - | - | - | - | - | - | - | - | - | - | - |
| Total Distributions | 1,879.9 | 485.8 | 496.6 | 506.9 | 526.0 | 2,014.9 | 543.3 | 549.8 | 564.6 | 571.2 | 2,228.8 | 2,394.9 |

*Source: Company filings, Deutsche Bank*

# Energy Transfer Partners (ETP, $46.29, BUY, TP, $56)

## Challenges Reflected in Unit Price & Yield, Opportunities Ahead

### Outlook

We expect 2012 to be a transformational year for ETP (and its General Partner ETE) with elements that range from the closing of the Southern Union (SUG, $43.04) acquisition to the potential for the restoration of distribution growth that has been lacking for the units over the past three years. SUG assets, led by the 50% holding in the Citrus Pipeline, will be drop-downs to ETP that will re-establish its growth while ETP's pipelines will benefit in a proportionally greater way than its peers from increasing demand for natural gas in power generation. ETP's new growth oriented pipelines, Tiger and Fayetteville Express, plus other projects coming on line in 2012 and the recently completed sale of its propane business all add to the attraction at the current valuation.

RESTORING DISTRIBUTION GROWTH: ETP has been struggling with tight coverage ratios and has not increased distributions for the last three years. We believe that the combination of the SUG acquisition by parent ETE and organic capital spending, mostly on pipelines will revive distribution growth at ETP over the next year when combined with drop downs related to the SUG acquisition. ETE has already announced the drop down of ETE/SUG's 50% interest in Citrus Corp for $1.9bn to ETP. We consider the recently completed sale of the propane business as a plus that secures the visibility of the current yield of 7.5% and reduces the volatility of overall cash flow generation. We expect ETP to continue to manage its business with an eye on its credit ratings by issuing equity in 2012 but we regard that expectation as fully discounted in the share price.

POST SUG CLOSING DROP-DOWNS: Our analysis shows that SUG has about $5 billion of assets that could be dropped down to ETP and RGP. Beyond Citrus, SUG owns 6,450 miles of interstate gas pipelines with 3.9 Bcf/d capacity and 100 Bcf of storage facilities. In the gathering and processing business, it has 5,500 miles of gas and liquid pipelines, 5 cryogenic processing plants (capacity - 475 MMcf/d) and 5 natural gas treating plants (capacity - 585 MMcf/d).

ORGANIC GROWTH AHEAD AS WELL: ETP has presence in most of the shale gas plays and in other natural gas producing basins. The partnership has forecasted $1.5bn of growth capex in 2012. It has announced $1.0bn investment in Eagle Ford Shale including a $400m natural gas processing facility at Jackson county and 20-inch NGL pipeline connecting Jackson County and Mont Belvieu. In addition, it also has a 450MMcf/d capacity pipeline at Woodford shale, from Carter County to the 200MMcf/d cryogenie plant at Godley, at a total cost of $360mn. The pipeline is expected to be in service in 4Q12 and the Godley expansion plant in 3Q13. The project is supported by long term contracts from ExxonMobil (XOM).

SALE OF PROPANE ADDS TO STABILITY OF CASH FLOWS: ETP sold its retail propane business to APU for $1.5bn of cash and 30.3mn APU units. The cash from this transaction will be used to fund the Citrus drop-down acquisition from SUG/ETE. The removal of the seasonality and volatility of the propane business from ETP is a plus in terms of securing its current distribution.

## Valuation

We use a three stage dividend discount model to derive our target price. We forecast a distribution of $3.74 per unit in 2012 & $3.96 per unit in 2013 and anticipate a 4% growth rate through 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use a cost of equity of 9.1% as our discount rate. Our discount rate is adjusted for (i) the high GP/LP split (+1%), (ii) drop-down opportunities at attractive price from ETE-SUG deal (-0.5%) and (iii) low coverage ratio and exposure to low liquids shales (+1%). Using the above methodology we derive a revised target price of $56 for ETP.

## Risks

Lower basis differentials plus specific leverage to lower natural gas prices are a risk for ETP because of its pipeline network across Texas and its position in retained fuel and a lesser level of hedges in place for 2012 than in previous years. We have reflected current natural gas price in our estimates.

ETP shows a relatively low coverage ratio and its need to maintain investment grade credit ratings are likely to combine in the issuance of additional equity this year.

Figure 25: Distribution Coverage ($ in millions)

| | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable Cash Flow ($m)** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| Adjusted EBITDA | 1,494.5 | 459.1 | 375.4 | 385.3 | 495.9 | 1,715.7 | 503.4 | 464.6 | 473.6 | 510.6 | 1,952.2 | 2,086.8 |
| Distribution from APU LP units | | | | | | | 22.4 | 23.3 | 23.3 | 23.3 | 92.4 | 95.6 |
| Maintenance Capex | (99.3) | (19.6) | (29.5) | (31.4) | (45.0) | (125.5) | (32.5) | (32.5) | (32.5) | (32.5) | (130.0) | (130.0) |
| Interest | (412.6) | (107.2) | (116.5) | (124.0) | (125.9) | (473.6) | (124.5) | (125.9) | (129.3) | (132.7) | (512.5) | (538.0) |
| Others | 45.8 | 6.3 | (5.1) | 38.0 | 5.0 | 44.2 | 3.0 | 3.0 | 3.0 | 3.0 | 12.0 | 12.0 |
| **Distributable Cash Flow** | **1,028.5** | **338.5** | **224.3** | **267.9** | **330.0** | **1,160.8** | **371.8** | **332.5** | **338.1** | **371.7** | **1,414.1** | **1,526.5** |
| Distributions to GP | (409.0) | (105.3) | (105.3) | (113.2) | (114.7) | (438.5) | (119.4) | (124.2) | (130.2) | (136.2) | (510.0) | (584.6) |
| **Distributable Cash Flow to LP** | **619.5** | **233.2** | **119.0** | **154.7** | **215.3** | **722.3** | **252.4** | **208.3** | **207.9** | **235.5** | **904.1** | **941.8** |
| Total LP Units Outstanding | 188.7 | 194.5 | 194.5 | 209.2 | 212.1 | 202.6 | 214.8 | 217.5 | 220.2 | 223.0 | 218.9 | 229.8 |
| Distributable Cash Flow per LP Unit | 3.28 | 1.20 | 0.61 | 0.74 | 1.02 | 3.57 | 1.17 | 0.96 | 0.94 | 1.06 | 4.13 | 4.10 |
| **Cash Distribution per LP Unit** | **$ 3.58** | **$ 0.89** | **$ 0.89** | **$ 0.89** | **$ 0.89** | **$ 3.58** | **$ 0.91** | **$ 0.92** | **$ 0.94** | **$ 0.96** | **$ 3.74** | **$ 3.96** |
| Total Unit Coverage Ratio | 0.9x | 1.3x | 0.7x | 0.8x | 1.1x | 1.0x | 1.3x | 1.0x | 1.0x | 1.1x | 1.1x | 1.0x |
| **Total Distribution to ETE** | | | | | | | | | | | | |
| IDR | 387.2 | 99.7 | 99.7 | 107.2 | 108.6 | 415.2 | 113.1 | 117.7 | 123.4 | 129.2 | 483.4 | 554.7 |
| 2% GP interest | 21.8 | 5.6 | 5.6 | 6.0 | 6.1 | 23.3 | 6.3 | 6.5 | 6.8 | 7.0 | 26.6 | 29.9 |
| **GP Interest** | **409.0** | **105.3** | **105.3** | **113.2** | **114.7** | **438.5** | **119.4** | **124.2** | **130.2** | **136.2** | **510.0** | **584.6** |
| Class F Units | - | - | - | - | - | - | - | - | - | - | - | - |
| Class G Units | - | - | - | - | - | - | - | - | - | - | - | - |
| Common units share | 178.8 | 44.9 | 44.9 | 44.9 | 44.9 | 179.5 | 45.6 | 46.4 | 47.4 | 48.4 | 187.7 | 198.5 |
| Proceeds from LP Units | 178.8 | 44.9 | 44.9 | 44.9 | 44.9 | 179.5 | 45.6 | 46.4 | 47.4 | 48.4 | 187.7 | 198.5 |
| **Total** | **587.7** | **150.2** | **150.2** | **158.0** | **159.6** | **618.0** | **165.1** | **170.6** | **177.5** | **184.6** | **697.8** | **783.2** |

*Source: Deutsche Bank, Company filings*

# Kinder Morgan Energy Partners (KMP $87.79, Buy, TP $98) and Kinder Morgan Management (KMR, $78.92, Buy, TP $87)

## Core Grower With Added Upside Catalysts Via EP Acquisition

### Outlook

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. The acquisition of El Paso, by its GP, Kinder Morgan Inc (KMI, 32.35, Buy, TP, 36.00), provides the partnership a significant growth opportunity as well as a minimization of the risk inherent in the KMP CO2 business unit. KMP's relatively high cost of capital from high distribution splits and the scale of the partnership had made organic growth more difficult in a "move the needle" manner. In our opinion, the KMI-EP deal has changed that scenario for the 2012-2015 period. We value EP's pipeline/MLP-able assets at $18bn and expect KMI to gradually drop-down most of them in the next three year or so. The acquisition also provides KMP access to the major shale gas plays where it does not have foothold such as Marcellus and Permian basins. We note EP has $1bn of growth projects on stream in the liquid-rich Marcellus. In organic growth, we believe shale gas projects will add for the growth for KMP in most of the fast growing shale gas plays, including Eagle Ford, Haynesville, Fayetteville and Barnett.

INCREASED GROWTH GUIDANCE: Kinder Morgan revised its growth target guidance for FY12E to over 8%, excluding the drop-down opportunities from KMI-EP deal, up from its previous 5% growth rate.

NEW FOOTHOLDS IN MARCELLUS AND PERMIAN: We value EP's stand-alone pipeline business, excluding EPB, at $17bn based on 13x 2012 EV/EBITDA. Over the next few years, we see KMP and EPB acquiring these assets through drop-down transactions. EP's pipeline segment constitutes FERC regulated interstate natural gas pipelines and it has access to the major shale gas plays where KMP does not have foothold such as Marcellus and Permian basins.

HIGH SPLITS A MANAGEABLE ISSUE: KMP has been operating at high splits since 1998. Its current LP/GP split is at 55/45, which makes its cost of capital one of the highest in the MLPs group. This makes the attraction of the EP assets and the additive nature of the deal  more compelling in our view.

## Valuation

We use a three stage dividend discount model to derive our target price. We forecast distribution of $4.98 per unit in 2012 & $5.36 per unit in 2013 and anticipate a 7% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use a cost of equity of 8.1%, adjusted for (i) the high GP/LP split (+1%), (ii) a strong parent with attractive drop-down opportunities following the EP deal (-0.5%). Using the above methodology we arrive at a revised target price of $98 and a BUY recommendation. For KMR, using the same methodology with a 0.5% discount for i-units, we arrive at a $87PT and Hold recommendation.

## Risks

Approximately 30% of KMP's EBITDA comes from oil production through enhanced oil recovery and CO2 production and transportation. The profitability of the business is sensitive to the crude oil prices.

Figure 26: Distribution Coverage ($ in millions)

| | | | | | | | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **L.P. Unit Coverage** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1QE** | **2QE** | **3QE** | **4QE** | **2012E** | **2013E** |
| **Distributable Cash Flow ($m)** | | | | | | | | | | | | |
| **Net Income** | **1324.6** | **337.8** | **230.5** | **214.5** | **475.0** | **1257.8** | **495.5** | **485.2** | **611.4** | **593.8** | **2185.9** | **2611.6** |
| Add: Depreciation and amortization (incl Rex) | 1056.3 | 266.9 | 274.8 | 305.2 | 298.5 | 1145.4 | 293.2 | 292.4 | 306.9 | 317.1 | 1209.7 | 1282.9 |
| Less: Maintenance Capex | -179.2 | -35.9 | -49.3 | -55.0 | -71.9 | -212.1 | -62.5 | -62.5 | -62.5 | -62.5 | -250.0 | -262.5 |
| Others | 220.2 | 95.9 | 169.0 | 234.7 | 28.2 | 527.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less: Distributions to GP | -1056.6 | -289.3 | -302.3 | -302.2 | -303.2 | -1197.0 | -319.5 | -333.4 | -347.7 | -362.2 | -1362.8 | -1581.4 |
| **Distributable Cash Flow to LP** | **1365.3** | **375.4** | **322.7** | **397.2** | **426.6** | **1521.9** | **406.8** | **381.7** | **508.2** | **486.2** | **1782.8** | **2050.7** |
| **LP Unit Coverage** | | | | | | | | | | | | |
| Total LP Units Outstanding | 307.1 | 317.2 | 321.4 | 329.8 | 334.4 | 326.0 | 334.9 | 339.0 | 343.2 | 347.4 | 341.1 | 356.8 |
| Distributable Cash Flow per LP Unit | $ 4.45 | $ 1.18 | $ 1.00 | $ 1.20 | $ 1.28 | $ 4.67 | $ 1.21 | $ 1.13 | $ 1.48 | $ 1.40 | $ 5.23 | $ 5.75 |
| **Cash Distribution per LP Unit** | **4.40** | **1.14** | **1.15** | **1.16** | **1.16** | **4.61** | **1.20** | **1.23** | **1.26** | **1.29** | **4.98** | **5.36** |
| Total Unit Coverage Ratio | 1.0x | 1.0x | 0.9x | 1.0x | 1.1x | 1.0x | 1.0x | 0.9x | 1.2x | 1.1x | 1.0x | 1.1x |
| Excess cash flow | 13.72 | 13.75 | (46.89) | 14.64 | 38.70 | 20.20 | 4.82 | (35.32) | 75.77 | 38.05 | 83.32 | 137.57 |
| *Growth in distribution* | *4.8%* | *6.5%* | *5.5%* | *4.5%* | *2.7%* | *4.8%* | *5.3%* | *7.0%* | *8.6%* | *11.2%* | *8.0%* | *7.6%* |
| **Total Distribution to KMI (GP)** | | | | | | | | | | | | |
| IDR | 1049.9 | 282.0 | 294.6 | 300.2 | 301.2 | 1177.8 | 317.8 | 331.4 | 345.3 | 359.6 | 1353.5 | 1546.0 |
| 2% GP interest | 27.6 | 7.4 | 7.7 | 7.8 | 7.8 | 30.7 | 8.2 | 8.5 | 8.8 | 9.1 | 34.7 | 39.0 |
| **GP Interest** | **1,077.6** | **289.3** | **302.3** | **308.0** | **309.0** | **1,208.4** | **326.0** | **339.9** | **354.2** | **368.7** | **1,388.1** | **1,585.0** |
| GP Distribution as a % of total distribution | 44.3% | 44.5% | 44.6% | 44.6% | 44.6% | 44.6% | 44.8% | 44.9% | 45.0% | 45.1% | 45.0% | 45.3% |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 4.40 | 1.14 | 1.15 | 1.16 | 1.16 | 4.61 | 1.20 | 1.23 | 1.26 | 1.29 | 4.98 | 5.36 |
| LP Units | 307.8 | 316.5 | 327.1 | 329.8 | 330.9 | 326.0 | 334.9 | 339.0 | 343.2 | 347.4 | 341.1 | 356.8 |
| Less: I Units | (87.9) | (91.3) | (92.3) | (93.4) | (94.4) | (92.9) | (95.5) | (96.6) | (97.8) | (99.0) | (97.2) | (102.2) |
| Net LP Units for whom distribution is paid | 219.9 | 225.2 | 234.8 | 236.4 | 236.4 | 233.2 | 239.4 | 242.4 | 245.4 | 248.4 | 243.9 | 254.6 |
| **CASH Distribution to LPs -(EXCL. I UNITS)** | **967.6** | **256.7** | **270.0** | **274.2** | **274.2** | **1,075.0** | **287.3** | **298.2** | **309.2** | **320.4** | **1,214.6** | **1,364.8** |
| **Distribution to GPs** | **1,077.6** | **289.3** | **302.3** | **308.0** | **309.0** | **1,208.4** | **326.0** | **339.9** | **354.2** | **368.7** | **1,388.1** | **1,585.0** |
| **Total Cash Distribution Excl I Units** | **2,045.2** | **546.0** | **572.3** | **582.2** | **583.2** | **2,283.4** | **613.2** | **638.1** | **663.4** | **689.1** | **2,602.8** | **2,949.8** |

*Source: Deutsche Bank, Company filings*

# Rose Rock Midstream (RRMS, $22.45, Buy, TP, $25)

## SMALL CAP NAME WITH BIG POTENTIAL IN OIL STORAGE AND TRANSPORTATION

### Outlook

We are initiating coverage of RRMS with a BUY rating and a $25 PT. The primary operation of the partnership is the long-term fee-based terminaling business in Cushing. It has growth projects in place to add 1.95MMBbl of capacity which is in addition to 5.0MMBbls of existing storage capacity. Currently, there is a supply glut at Cushing due to the growing production from North Dakota and Canadian oil sands. We expect this to be partly relieved in 2012 with the reversal of the Seaway Pipeline and additional other new capacity.

LONG TERM CONTRACTS AND FEE BUSINESS: 95% of the storage capacity operates under long-term, fee-based contracts and 73% of RRMS total margins are derived from fee-based/fixed-margin operations. Its marketing operations involves purchasing crude from buyers and sales to the traders and refiners, and is exposed to crude oil price and basis risks. A portion of the gathering and processing operations and Bakken operations fall under this category. Its gathering and processing system has 640-mile, 35kbpd crude oil gathering and transportation pipelines and 670KBbls of storage in Kansas and northern Oklahoma. In Bakken Shale, it has a 6.2kbpd crude oil gathering, storage, transportation and marketing business.

WHITE CLIFFS PROVIDES CURRENT GROWTH AND A DROP-DOWN OPPORTUNITY: RRMS also operates a 32kbpd crude oil truck unloading facility at Platteville, which connects to the origination point of its parent, SemGroup's White Cliffs Pipeline. The enhanced growth projections for oil in the DJ and Niobrara basin of Colorado adds to the potential of White Cliffs as a drop-down asset for RRMS.

RRMS is a mid-continent oil play that is well positioned for the growth in the Wattenberg, the Bakken and the Granite Wash with Cushing capacity to back it up. It also has an attractive 2012E yield compared to its closest peers, Magellan (MMP (5.1%), and Plains All American (PAA (5.5%) Assuming distributions at MQD level for the 2012, for RRMS we get a 2012 yield of 7.3% and a target price of $25.

### Valuation

We use a three stage dividend discount model to derive our target price. We forecast a distribution of $1.50 per unit in 2012 & $1.58 per unit in 2013 and anticipate a 6% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. Then we use cost of equity of 8.8% as discount rate. Our discount rate is adjusted for (i) high leverage on storage operations and relatively low fee-based margins (1%). Using the above methodology, we arrive at a $25 target price.

### Risks

Prolonged period of crude oil futures in backwardation. Production from North Dakota and Oil sands are crucial to the Cushing supply and any disruption to that production would make Cushing storage much attractive and would challenge the future capacity additions. Currently we view the market condition associated with the marketing operations as positive but a substantial price risk and basis risk is associated with it. Any change in the market environment, would pull the margins downs.

The Cushing storage capacity of RRMS is marketed under term contracts of 3-5 years duration. The confluence of events with Keystone, growing oil production, the Seaway reversal and the Brent/WTI spread are all positive currently but they must be watched closely for a negative margin in marketing.

## Figure 27: Distribution Coverage ($ in millions)

| RRMS | | | | | | | | | E | E | E | E | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **1Q** | **2Q** | **3Q** | **4Q** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **1Q** | **2Q** | **3Q** | **4Q** | **2013** |
| EBITDA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | 8.2 | 8.2 | 6.0 | 6.8 | 13.5 | 13.5 | 39.8 | 15.0 | 15.0 | 15.0 | 15.0 | 60.0 |
| Less:Cash interest expenses | | | | | 0.0 | | | | (0.6) | (0.6) | (0.6) | (0.6) | (0.6) | (0.6) | (2.4) | (0.6) | (0.6) | (0.6) | (0.6) | (2.4) |
| Less:Maintenance expenditure | | | | | 0.0 | | | | (0.8) | (0.8) | (0.9) | (1.4) | (1.2) | (0.3) | (3.8) | (1.0) | (1.0) | (1.0) | (1.0) | (4.0) |
| Less:Others | | | | | 0.0 | | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Distributable cash flow** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **6.8** | **6.8** | **4.5** | **4.7** | **11.7** | **12.6** | **33.6** | **13.4** | **13.4** | **13.4** | **13.4** | **53.6** |
| Less: GP distributions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) | (0.5) | (0.1) | (0.1) | (0.1) | (0.1) | (0.5) |
| **Distributable cash flow to LP** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **6.6** | **6.6** | **4.4** | **4.6** | **11.6** | **12.5** | **33.1** | **13.3** | **13.3** | **13.3** | **13.3** | **53.1** |
| Total LP Units Outstanding | 0.0 | 0.0 | 0.0 | 0.0 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Distributable cash flow per unit | #DIV/0! | #DIV/0! | #DIV/0! | #DIV/0! | 0.00 | 0.00 | 0.00 | 0.00 | 0.40 | 0.40 | 0.26 | 0.28 | 0.69 | 0.74 | 1.97 | 0.79 | 0.79 | 0.79 | 0.79 | 3.16 |
| **Cash Distribution per LP Unit** | **na** | **na** | **na** | **na** | **na** | **na** | **na** | **na** | **0.07** | **0.07** | **0.37** | **0.37** | **0.38** | **0.38** | **1.50** | **0.39** | **0.39** | **0.40** | **0.40** | **1.58** |
| Coverage ratio | **na** | **na** | **na** | **na** | na | **na** | **na** | **na** | 1.09 | 1.09 | 0.71 | 0.74 | 1.83 | 1.95 | 1.31 | 2.04 | 2.01 | 1.99 | 1.96 | 2.00 |
| Cash Distribution per LP unit - Growth % (Y/Y) | | | | | | | | | | | | | | 6% | na | 5% | 5% | 5% | 5% | 5% |
| **Distribution: LP-GP Split** | | | | | | | | | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | | | | | | | | | |
| Distribution per unit | | | | | | | | | 0.36 | 0.07 | 0.37 | 0.37 | 0.38 | 0.38 | 1.50 | 0.39 | 0.39 | 0.40 | 0.40 | 1.58 |
| LP Units | | | | | | | | | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 | 16.8 |
| Distribution to LPs | | | | | | | | | 6.1 | 1.1 | 6.2 | 6.3 | 6.3 | 6.4 | 25.2 | 6.5 | 6.6 | 6.7 | 6.8 | 26.5 |
| Distribution to GPs | | | | | | | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 | 0.1 | 0.1 | 0.1 | 0.1 | 0.5 |
| **Total Distribution** | | | | | | | | | **6.2** | **1.2** | **6.3** | **6.4** | **6.5** | **6.5** | **25.7** | **6.6** | **6.7** | **6.8** | **6.9** | **27.1** |
| GPs share in total distribution | | | | | | | | | 2% | 10% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% |

*Source: Deutsche Bank, Company Filings*

# Western Gas Partners (WES, $43.00, BUY, TP, $48)

## Drop-Downs To Fuel Impressive Growth Led By Rockies

## Outlook

Western Gas is a growth-oriented midstream natural gas partnership partially owned by Anadarko (46%). 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). In addition, APC holds $4bn midstream assets that are drop-down candidates for WES. The prevailing high oil/gas ratio coupled with the development of liquid-rich shales provides an ideal scenario for the natural gas midstream business. With strong growth potential backed by dropdowns assets and favorable NGL economics we rate Western Gas as a BUY.

STEADY DROP DOWNS FROM APC: The partnership has been growing steadily with drop-downs from Anadarko, has acquired $1.1bn worth assets since IPO. We forecast drop-downs in the range of $700m for the next two years and $250m thereafter; which gives an incremental EBITDA of $85-90m for the next two years and $30-32m thereafter (based on EV/EBITDA - 8x).

LOW RISK GROWTH: Western Gas receives roughly two-thirds of its throughput from the liquids-rich, low-risk plays in the Rocky Mountains area; Greater Buttes, Wattenberg, Powder River Basin and Green River basins. Further, 97% of its gross margin is derived from fee-based/fixed-price operations Even though WES lacks a strong exposure to shale plays, Anadarko has a midstream portfolio in some of the best emerging US shale plays: Marcellus, Haynesville and Eagle Ford. We believe APC could drop down some of these assets in the future, thus providing the partnership exposure to shale plays.

STRONG PARENT BACKING A PLUS: We prefer MLPs backed by strong parents. As we have seen in the past, these MLPs have fared better when capital market conditions deteriorated. Some supportive parents have suspended IDRs to help alleviate the pressure on the LP’s cash flows and allow it to maintain wider distributions. Western falls in this case of a midstream services provider with a strong E&P GP.

## Valuation

We use a three stage dividend discount model to derive the target price. We forecast a distribution of $1.89 per unit in 2012 and $2.13 per unit in 2013 and anticipate a 14% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 8.1% as discount rate. Our discount rate is adjusted for (i) the GP/LP split (+0.5%). Using the above methodology we arrive at a revised target price of $48.

## Risks

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.

### Figure 28: Distribution Coverage ($ in millions)

| | | | | | | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **2009** | **1Q** | **2Q** | **3Q** | **4Q** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| EBITDA | 107.0 | 38.7 | 42.1 | 56.0 | 57.8 | 194.6 | 57.7 | 64.7 | 68.1 | 74.9 | 265.4 | 71.5 | 75.2 | 93.4 | 93.1 | 333.2 | 359.2 |
| Less:Interest expenses | 6.9 | 0.7 | 0.6 | -1.4 | -1.8 | -1.9 | -1.9 | -2.5 | -4.7 | -4.1 | -13.2 | -4.1 | -4.1 | -4.8 | -4.8 | -17.8 | -21.2 |
| Less:Maintenance expenditure | -16.0 | -3.9 | -3.7 | -6.0 | -5.6 | -19.2 | -4.7 | -4.4 | -9.7 | -8.2 | -27.0 | -8.6 | -9.0 | -11.2 | -11.2 | -40.0 | -43.1 |
| Less:Others | 1.2 | -0.2 | -2.6 | -3.1 | -0.6 | -6.6 | -1.2 | -3.7 | -3.9 | -3.0 | -11.7 | -3.0 | -3.0 | -3.0 | -3.0 | -12.0 | -12.0 |
| **Distributable cash flow** | **99.2** | **35.3** | **36.4** | **45.5** | **49.8** | **167.0** | **49.9** | **54.2** | **49.9** | **59.6** | **213.5** | **55.8** | **59.1** | **74.4** | **74.2** | **263.5** | **282.8** |
| Less: GP distributions | -1.5 | -0.4 | -0.5 | -0.8 | -1.0 | -2.8 | -1.4 | -1.8 | -2.5 | -2.9 | -8.6 | -3.3 | -4.7 | -6.2 | -7.6 | -21.7 | -44.6 |
| **Distributable cash flow to LP** | **97.7** | **34.9** | **35.9** | **44.7** | **48.7** | **164.2** | **48.5** | **52.4** | **47.4** | **56.7** | **205.0** | **52.5** | **54.4** | **68.2** | **66.6** | **241.7** | **238.3** |
| Total LP Units Outstanding | 56.6 | 63.2 | 65.7 | 68.8 | 73.3 | 67.8 | 78.7 | 81.4 | 87.1 | 87.1 | 83.6 | 87.1 | 87.1 | 89.1 | 89.1 | 88.1 | 89.9 |
| Distributable cash flow per unit | 1.73 | 0.55 | 0.55 | 0.65 | 0.66 | 2.42 | 0.62 | 0.64 | 0.54 | 0.65 | 2.45 | 0.60 | 0.62 | 0.77 | 0.75 | 2.74 | 2.65 |
| **Cash Distribution per LP Unit** | **$ 1.26** | **$ 0.34** | **$ 0.35** | **$ 0.37** | **$ 0.38** | **$ 1.44** | **$ 0.39** | **$ 0.41** | **$ 0.42** | **$ 0.44** | **$ 1.65** | **$ 0.45** | **$ 0.47** | **$ 0.48** | **$ 0.50** | **$ 1.89** | **$ 2.13** |
| Coverage ratio | 1.37 | 1.62 | 1.56 | 1.76 | 1.75 | 1.68 | 1.58 | 1.59 | 1.30 | 1.50 | 1.49 | 1.34 | 1.34 | 1.60 | 1.51 | 1.45 | 1.24 |
| Cash Distribution per LP unit - Growt | 66% | 13% | 13% | 16% | 15% | 14% | 15% | 16% | 14% | 14% | 15% | 15% | 15% | 14% | 14% | 15% | 13% |
| **Distribution: LP-GP Split** | | | | | | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | | | | | | |
| Distribution per unit | 1.26 | 0.34 | 0.35 | 0.37 | 0.38 | 1.44 | 0.39 | 0.41 | 0.42 | 0.44 | 1.65 | 0.45 | 0.47 | 0.48 | 0.50 | 1.89 | 2.13 |
| LP Units | 56.6 | 63.2 | 65.7 | 68.8 | 73.3 | 67.8 | 78.7 | 81.4 | 87.1 | 87.1 | 83.6 | 87.1 | 87.1 | 89.1 | 89.1 | 88.1 | 89.9 |
| | (0.1) | - | - | - | - | (0.2) | - | - | - | - | (0.2) | - | - | - | - | (0.1) | (0.0) |
| Distribution to LPs | 71.3 | 21.5 | 23.0 | 25.5 | 27.9 | 97.6 | 30.7 | 33.0 | 36.6 | 37.9 | 137.9 | 39.2 | 40.5 | 42.8 | 44.1 | 166.4 | 191.5 |
| Distribution to GPs | 1.5 | 0.4 | 0.5 | 0.8 | 1.0 | 2.8 | 1.4 | 1.8 | 2.4 | 2.9 | 8.5 | 3.3 | 4.7 | 6.2 | 7.6 | 21.7 | 44.6 |
| **Total Distribution** | **72.8** | **21.9** | **23.5** | **26.2** | **28.9** | **100.4** | **32.1** | **34.8** | **39.0** | **40.7** | **146.4** | **42.5** | **45.2** | **48.9** | **51.6** | **188.2** | **236.1** |
| GPs share in total distribution | 2% | 2% | 2% | 3% | 4% | 3% | 4% | 5% | 6% | 7% | 6% | 8% | 10% | 13% | 15% | 12% | 19% |

*Source: Company filings, Deutsche Bank*

# Boardwalk Pipeline Partners (BWP, $27.10, Hold, TP, $29)

## Storage Slows Growth and High Maintenance Capex But Situation Improving

### Outlook

BWP is engaged in the transportation and storage of natural gas, with operations primarily in the Gulf Region and the central US, split into two key subsidiaries, Gulf South and Texas Gas. Growth from pipeline projects, Gulf Crossing (1.6bcf/d) and Southeast Expansion (1.2bcf/d $330m) are ahead. Increased maintenance capex owing to pipeline anomalies and underperformance by the natural gas storage business have limited volumes and reduced revenues. The presence of Loews (L, $38.10)as a strong parent reduces the downside risk of the partnership. Low coverage, exposure to nat gas storage and pipeline integrity cause us to have a rating of Hold.

EAGLE FORD INITIATIVES BUILD FOR THE FUTURE BUT LOW COVERAGE IS AN OFFSET: Though we view BWP's entry into natural gas gathering and transmission business in Eagle Ford as positive, the partnership has been facing challenges with the current business. The partnership's distributable cash flow has been lower than expected for the last two quarters, impacted by lower parking and lending and storage revenues. Consequently, the coverage ratio for the last two quarters has dropped below 1.0x.

STORAGE ACQUISITION WELL PRICED BUT NOT WELL TIMED FOR NEAR TERM ACCRETION: In 4Q11, BWP, along with BPHC an affiliate of its GP Loews Corp, acquired Petal and Hattiesburg Gas Storage and related entities from EPD for $550m in cash. The partnership owns 20% of the JV formed to acquire Petal and Hattiesburg which has seven salt dome natural gas storage caverns in Forrest County, Mississippi, with 29 Bcf of total storage capacity (19 Bcf of working capacity). The partnership expects to complete the purchase of the remaining 80% of Petal and Hattiesburg or a portion of it in FY12.

### Valuation

We use a three stage dividend discount model to derive our target price. We forecast a distribution of $2.21 per unit in 2012 & $2.29 per unit in 2013 and anticipate a 3.8% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 9.8% as discount rate. Our discount rate is adjusted for (i) the GP/LP split (+0.5%), (ii) for its storage exposure and pipe integrity issues/risks (+1.5%). Using the above methodology we arrive at a revised target price of $29.

### Risks

BWP must deliver its projects on time and according to their new budget, in order to meet expectations. A key concern may be the health of US E&P industry in the low natural gas price environment The upside risk is a better margin in natural gas storage.

## Figure 29: Distribution Coverage ($ in millions)

| | | | | | | | E | E | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **1Q** | **2Q** | **3Q** | **4Q** | **2013** |
| **Distributable Cash Flow ($m)** | | | | | | | | | | | | | | | | |
| **EBITDA** | 657.8 | 186.9 | 139.8 | 148.0 | 171.3 | 646.0 | 199.1 | 152.7 | 160.5 | 192.6 | 705.2 | 221.8 | 165.9 | 170.5 | 203.7 | 762.3 |
| Less: Interest | (146.3) | (59.1) | (25.1) | (65.4) | (37.8) | (187.4) | (38.3) | (38.6) | (39.0) | (39.3) | (155.2) | (39.6) | (39.9) | (40.2) | (40.5) | (160.2) |
| Less: Maintenance Capex | (63.0) | (15.4) | (26.3) | (18.9) | (20.0) | (80.6) | (22.5) | (22.5) | (22.5) | (22.5) | (90.0) | (22.5) | (22.5) | (22.5) | (22.5) | (90.0) |
| Less: Others | (0.1) | 0.0 | 0.1 | 0.2 | | 0.3 | | | | | | | | | | |
| Less: GP Interest | (26.7) | (7.3) | (7.5) | (8.1) | (8.5) | (31.4) | (11.2) | (12.0) | (13.0) | (13.9) | (50.1) | (14.8) | (15.6) | (16.6) | (17.5) | (64.5) |
| **DCF to LP** | **421.7** | **105.1** | **81.0** | **55.8** | **105.0** | **346.9** | **127.1** | **79.5** | **86.0** | **116.9** | **410.0** | **145.0** | **87.9** | **91.2** | **123.1** | **447.6** |
| **Cash distributed** | | | | | | | | | | | | | | | | |
| Class B units | 27.5 | 6.9 | 6.9 | 6.9 | 6.9 | 27.5 | 6.9 | 6.9 | 6.9 | 6.9 | 27.5 | 6.9 | 6.9 | 6.9 | 6.9 | 27.5 |
| LP units | 347.9 | 88.7 | 90.3 | 92.7 | 93.1 | 364.7 | 95.8 | 96.6 | 98.0 | 98.9 | 389.4 | 99.8 | 100.7 | 102.1 | 103.0 | 405.6 |
| **LP Unit Coverage** | | | | | | | | | | | | | | | | |
| Total LP Units Outstanding | 169.7 | 169.7 | 172.0 | 175.7 | 175.7 | 173.3 | 175.7 | 175.7 | 176.7 | 176.7 | 176.2 | 176.7 | 176.7 | 177.6 | 177.6 | 177.1 |
| DCF per LP Unit | 2.32 | 0.58 | 0.43 | 0.28 | 0.56 | 1.84 | 0.68 | 0.41 | 0.45 | 0.62 | 2.17 | 0.78 | 0.46 | 0.47 | 0.65 | 2.37 |
| **Cash Distribution per LP Unit** | **$ 2.05** | **$ 0.52** | **$ 0.53** | **$ 0.53** | **$ 0.53** | **$ 2.11** | **$ 0.55** | **$ 0.55** | **$ 0.56** | **$ 0.56** | **$ 2.21** | **$ 0.57** | **$ 0.57** | **$ 0.58** | **$ 0.58** | **$ 2.29** |
| Total Unit Coverage Ratio | 1.1x | 1.1x | 0.8x | 0.5x | 1.1x | 0.9x | 1.3x | 0.8x | 0.8x | 1.1x | 1.0x | 1.4x | 0.8x | 0.8x | 1.1x | 1.0x |
| **Distribution** | | | | | | | | | | | | | | | | |
| Common units | 347.9 | 88.7 | 90.3 | 92.7 | 93.1 | 364.8 | 95.8 | 96.6 | 98.0 | 98.9 | 389.4 | 99.8 | 100.7 | 102.1 | 103.0 | 405.7 |
| 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 | 6.9 | 6.9 | 6.9 | 6.9 | 27.5 |
| GP Unit | 26.7 | 7.3 | 7.5 | 8.1 | 8.5 | 31.4 | 11.2 | 12.0 | 13.0 | 13.9 | 50.1 | 14.8 | 15.6 | 16.6 | 17.5 | 64.5 |
| **Total Distribution** | **402.1** | **102.8** | **104.7** | **107.6** | **108.5** | **423.6** | **113.8** | **115.6** | **117.9** | **119.7** | **466.9** | **121.4** | **123.2** | **125.6** | **127.4** | **497.7** |
| LP share of distributions | 93% | 93% | 93% | 92% | 92% | 93% | 90% | 90% | 89% | 88% | 89% | 88% | 87% | 87% | 86% | 87% |

*Source: Company filings, Deutsche Bank*

# BreitBurn Energy Partners (BBEP, $18.80, Hold, TP, $20)

## FULLY VALUED ON LIMITED LIQUIDITY DESPITE RECENT PLUSSES

### Outlook

BBEP has delivered on its stated strategy of growth through acquisition of high growth, high quality E&P assets. Our neutral stance was originally predicated by worry of significant equity issuance from new E&P MLPs and E&P related Royalty Trusts, subsequently distribution suspension and a major legal case left us on the sidelines. With these issues resolved, our remaining concern is soft natural gas markets, with weak expected pricing. Accordingly, we rate BBEP Hold.

### Valuation

We use a three stage dividend discount model to derive our target price. We forecast distribution of $1.81 per unit in 2012 & $1.91 per unit in 2013 and anticipate a 5.0% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 11.9% as discount rate. Our discount rate is adjusted for (i) +3.0% for the commodity risk and conflicting nature of MLP structure and E&P business (the need to pay out all cash flows with the liquidating nature of the reserves and the need for increasing capex for drilling). Using the above methodology we arrive at a revised target price of $20 and a Hold recommendation.

### Risks

Risks include low liquidity, which makes for poor trading in the units and restrictive debt covenants. The upside risk is a potential that natural gas prices may exceed our expectation.

Figure 30: Distribution Coverage ($ in millions)

| | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **$ million** | **2010** | **1Q** | **2Q** | **3Q** | **4QE** | **2011** | **1QE** | **2QE** | **3QE** | **4QE** | **2012** | **2013** |
| Adjusted EBITDA | 228 | 56.1 | 51.7 | 51.8 | 53.4 | 213 | 63.2 | 63.9 | 64.5 | 64.6 | 256 | 250 |
| Less: Maintenance capex | (26.8) | (3.2) | (5.6) | (6.5) | (2.9) | (18.3) | (6.3) | (6.3) | (6.3) | (6.3) | (25.0) | (25.0) |
| Less: Interest | (37.2) | (9.4) | (11.3) | (10.3) | (11.3) | (42.0) | (10.5) | (12.5) | (12.5) | (12.5) | (50.0) | (42.0) |
| Others | (26.2) | 0.3 | (2.3) | (1.0) | | (3.0) | (2.0) | | | | (2.0) | - |
| **Distributable cash flow** | **137.8** | **43.8** | **32.5** | **34.0** | **39.2** | **149.8** | **44.4** | **45.1** | **45.7** | **45.8** | **179.1** | **182.7** |
| | | | | | | | | | | | | |
| Units | 54.0 | 59.0 | 59.0 | 59.0 | 59.0 | 58.4 | 59.0 | 59.0 | 59.0 | 59.0 | 58.4 | 58.4 |
| Distributable cash flow per LP unit | 2.55 | 0.74 | 0.55 | 0.58 | 0.66 | 2.57 | 0.75 | 0.76 | 0.77 | 0.78 | 3.07 | 3.13 |
| Cash Distribution per LP Unit | $ 1.56 | $ 0.42 | $ 0.42 | $ 0.44 | $ 0.44 | $ 1.72 | $ 0.45 | $ 0.45 | $ 0.46 | $ 0.46 | $ 1.81 | $ 1.91 |
| Coverage Ratio | 1.6x | 1.8x | 1.3x | 1.3x | 1.5x | 1.5x | 1.7x | 1.7x | 1.7x | 1.7x | 1.7x | 1.6x |
| **Cash Distribution to LP** | | | | | | | | | | | | |
| Units | 54.0 | 59.0 | 59.0 | 59.0 | 59.0 | 58.4 | 59.0 | 59.0 | 59.0 | 59.0 | 58.4 | 58.4 |
| Distribution per unit | 1.6 | 0.4 | 0.4 | 0.4 | 0.4 | 1.7 | 0.4 | 0.5 | 0.5 | 0.5 | 1.8 | 1.9 |
| **Total distribution** | **84.2** | **24.6** | **24.9** | **25.7** | **26.0** | **100.2** | **26.3** | **26.6** | **26.9** | **27.2** | **105.7** | **111.6** |

*Source: Deutsche Bank, Company Filings*

# Buckeye Partners (BPL, $63.75, Hold, TP, $67)

## COVERAGE & LEVERAGE CONCERNS BUT BIG UPSIDE AT BORCO

### Outlook

BPL operates one of the nation's largest common carrier oil pipeline networks providing transportation services primarily in the Northeast and upper Midwest states. Buckeye now owns and operates approximately 6,000 miles of pipelines, over 100 liquid petroleum storage terminals and 30Bcf of gas storage. It has been consistently acquiring terminals and pipeline assets. Recently, it has restructured its assets portfolio and focused on the BORCO terminals, the fourth largest oil & petroleum products storage terminal in the world, acquired in 2010 for $1.7bn, refined products terminals and pipelines acquired from BP for $165m and sale of its equity in West Texas LPG Pipeline.

GAS STORAGE AND LOW COVERAGE RATIO: In addition to natural gas storage concerns that caused a 2011 write-off, the cash coverage ratio has dropped to about 1.0x. Although we believe the acquisitions coupled with heavy investments in the international terminal operations will generate significant cash flow, the upside in cash flows at Borco is 12 to 18 months away, in our view. In the interim, BPL has become a higher risk MLP with limited potential for upside through capital investments and asset acquisitions.

ACQUISITIONS:

BORCO: BPL acquired BORCO, 21.6MMBbls marine storage capacity located in Freeport, Bahamas, with 80% of the revenue derived from long-term take-or-pay contracts in 2011. It has near term expansion projects to expand capacity by 8MMbbls. Total project investment is expected to be 350-400m and an annual EBITDA contribution of $70-80m from 2H12.

TERMINALS: BPL also acquired 650miles of pipelines and 33 petroleum products terminals from BP for $165m. In April, it sold its 20% interest in the 2,295-mile NGL pipeline that connects New Mexico to Mont Belvieu to Atlas Pipeline Partners for $85mn.

STORAGE WRITE OFF: BPL wrote-off $165m in the 3Q11 related to their investments in Lodi Gas Storage, which it acquired for 50m in 2008. The segment contribution from the segment fell from 10% in 2009 to 0% in 2011 ($40m in 2009 to $0m in 2011). We don't expect the natural gas storage business to recover in the near future and therefore forecast a weak segment contribution in natural gas storage for the next few years.

### Valuation

We use a three stage dividend discount model to derive our target price. We forecast distribution of $4.28 per unit in 2012 & $4.48 per unit in 2013 and anticipate a 5.0% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 8.9% as discount rate. Our discount rate is adjusted for (i) no IDR burden on LP cash flow (-1.0%) and (ii) for exposure to storage business and coverage concerns/risks (+2.0%). Using the above methodology we arrive at a revised target price of $67.

## Risks

BPL derives about 50% of its EBITDA from its terminals business and about half of that is related to gasoline. Recent economic data have been encouraging but the gasoline market remains challenged in terms of demand. As an oil product pipeline operator, the potential for a slowdown in demand, particularly a fall in demand, is a threat. The upside risk is related to a higher margin in natural gas storage.

### Figure 31: Distribution Coverage ($ in millions)

| | 2010 | 1Q | 2Q | 3Q | 4Q | 2011 | 1QE | 2QE | 3QE | 4QE | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable Cash Flow ($ Mn)** | | | | | | | | | | | | |
| EBITDA | 380.4 | 122.2 | 117.7 | 125.9 | 122.7 | 488.4 | 143.3 | 142.1 | 142.1 | 157.4 | 584.9 | 646.3 |
| Less: Interest | -88.9 | -28.5 | -28.6 | -33.2 | -29.3 | -119.6 | -32.3 | -32.8 | -33.3 | -33.8 | -132.3 | -141.0 |
| Less: Maintenance Capex | -31.2 | -7.5 | -12.3 | -16.8 | -20.9 | -57.5 | -15.1 | -15.1 | -15.1 | -15.1 | -60.5 | -66.6 |
| Others | 11.8 | 1.2 | 0.0 | 5.5 | -0.2 | 6.5 | 2.0 | 2.0 | 2.0 | 2.0 | 8.0 | 8.0 |
| Less: GP Interest | -41.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Distributable Cash Flow to LP** | **230.9** | **87.3** | **76.8** | **81.4** | **72.3** | **317.9** | **97.8** | **96.2** | **95.6** | **110.4** | **400.1** | **446.8** |
| **LP Unit Coverage** | | | | | | | | | | | | |
| Total LP Units Outstanding | 49.8 | 80.3 | 85.3 | 86.2 | 86.6 | 84.6 | 87.2 | 87.7 | 88.3 | 88.9 | 88.0 | 90.5 |
| Distributable Cash Flow per LP Unit | $4.64 | $1.09 | $0.90 | $0.94 | $0.83 | $3.76 | $1.12 | $1.10 | $1.08 | $1.24 | $4.55 | $4.94 |
| **Cash Distribution per LP Unit** | **$3.88** | **$1.00** | **$1.01** | **$1.03** | **$1.04** | **$4.08** | **$1.05** | **$1.06** | **$1.08** | **$1.09** | **$4.28** | **$4.48** |
| Total Unit Coverage Ratio | 1.2x | 1.1x | 0.9x | 0.9x | 0.8x | 0.9x | 1.1x | 1.0x | 1.0x | 1.1x | 1.1x | 1.1x |
| **DPU Growth (Y/Y)** | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 0.97 | 1.00 | 1.01 | 1.03 | 1.04 | 1.02 | 1.05 | 1.06 | 1.08 | 1.09 | 1.07 | 1.12 |
| LP Units | 49.8 | 80.3 | 85.3 | 86.2 | 86.6 | 84.6 | 87.2 | 87.7 | 88.3 | 88.9 | 88.0 | 90.5 |
| Distribution to LPs | 193.0 | 80.3 | 86.4 | 88.3 | 89.9 | 344.8 | 91.6 | 93.2 | 94.9 | 96.6 | 376.3 | 404.8 |
| LP share of distributions | 82% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

*Source: Deutsche Bank, Company Filings*

# Chesapeake Midstream Partners (CHKM, $27.70, Hold, TP $30)

## MARCELLUS DROP-DOWN ADDS GROWTH OPPORTUNITIES; HAYNESVILLE EXPOSURE LEADS TO HOLD RATING

### Outlook

We are initiating coverage of CHKM with a Hold rating and a $30 TP. Since its IPO in July 2010 CHKM has been the beneficiary of two significant drop-downs from its parent and General Partner, Chesapeake Energy (CHK,$22.13, TP, $31.00, Rating Hold) the most recent of which provides CHKM with a major position in the rapidly developing Marcellus Shale, this adds to the existing CHKM assets in the Barnett Shale, the Haynesville Shale and the Mid-Continent region of the US. We anticipate that CHKM will continue to be the beneficiary of drop-downs that will come from the estimated $1.6 billion of midstream assets owned by CHK that qualify for MLP inclusion. It should also be noted that CHK plans to spend over $2 billion on midstream assets at the corporate level in the next two years to debottleneck existing systems in preparation for new production. This will add to the potential for CHKM to benefit from drop-downs in the future. The most recent drop-down, in the Marcellus, was completed in December 2011 at about 8.7x projected 2012 ebitda and is expected to be immediately accretive to CHKM cash flows and distributions. Equally important is that the acquisition diversifies CHKMs holdings, adds assets in another rapidly growing shale play and reduces CHKMs customer concentration from its heavy reliance on CHK. We also favor the CHKM fixed fee model that secures both the current distribution forecast for 2012 of $1.69 per unit and the expected distribution growth rate of 14% despite the current environment of relatively low natural gas prices. As a reaction to the lower natural gas prices that are currently impacting the valuation of CHK, we believe that attractively valued drop-downs to CHKM may occur on a more rapid pace than otherwise planned as CHK seeks to secure capital for its ongoing drilling program.

### Valuation

Our dividend discount model produces a current target price for CHKM of $30 per unit that combines with the current distribution yield of 6.0% to generate an expected total return of 12.2% for the current year. We regard CHKM's cost of equity capital of about 8.9% and its Weighted Average Cost of Capital of 8.1% as adding to the attractive positioning it shows in terms of making acquisitions and raising capital for its capital expenditure budgets. Our Hold rating more relates to concern about the reduced levels of drilling to be done by CHK and others in the low natural gas price environment that currently prevails and thus reducing the upside potential for CHKM.

### Risks

Beyond the overall group risks described earlier, CHKM also bears risk in the current environment due to its asset position in the Haynesville Shale, an area of relatively high costs that is experiencing reduced drilling rig operating rates currently. Although CHKM has the clear offset to this risk of fixed fee contracts, a prolonged reduction on drilling would reduce the growth in volumes expected to be transported on its systems.

Also, CHKM has a greater concentration of customers, led by CHK, as producer on its systems. We would note that the Marcellus acquisition changes this dynamic somewhat with the addition of Total (TOT, EUR40.58, TP, EUR46.00) as a major customer for CHK, but overall business concentration is high relative to the group. The upside risk is a turnaround in drilling in the Haynesville field that would create more volume for the company to transport.

Figure 32: Distribution Coverage ($ in millions)

| CHKM | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| EBITDA | 174.1 | 72.1 | 78.4 | 88.0 | 98.5 | 336.9 | 113.8 | 117.7 | 121.5 | 123.8 | 476.8 | 543.0 |
| Less:Cash interest expenses | (3.9) | (3.4) | (6.5) | (4.3) | (5.2) | (19.4) | (13.0) | (14.9) | (14.9) | (15.7) | (58.6) | (68.0) |
| Less:Maintenance expenditure | (35.0) | (18.5) | (18.5) | (18.5) | (18.5) | (74.0) | (20.0) | (20.0) | (20.0) | (20.0) | (80.0) | (80.0) |
| Adjustment for minimum volume commitments | (31.4) | 5.3 | 0.0 | 2.2 | 0.0 | 7.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Less:Others | (0.1) | (0.2) | (0.1) | (0.5) | 0.0 | (0.9) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Distributable cash flow** | **103.7** | **55.2** | **53.2** | **66.9** | **74.7** | **250.0** | **80.8** | **82.8** | **86.6** | **88.1** | **338.3** | **394.9** |
| Less: GP distributions | (1.6) | (1.0) | (1.0) | (1.1) | (1.2) | (4.3) | (1.6) | (1.9) | (2.4) | (3.1) | (9.0) | (18.3) |
| **Distributable cash flow to LP** | **102.1** | **54.2** | **52.2** | **65.9** | **73.5** | **245.7** | **79.2** | **80.9** | **84.1** | **85.0** | **329.2** | **376.6** |
| | | | | | | | | | | | | |
| Total LP Units Outstanding | 138.2 | 138.3 | 138.3 | 138.6 | 147.4 | 140.7 | 149.6 | 151.8 | 154.0 | 156.2 | 152.9 | 161.9 |
| Distributable cash flow per unit | 0.74 | 0.39 | 0.38 | 0.48 | 0.50 | 1.75 | 0.53 | 0.53 | 0.55 | 0.54 | 2.15 | 2.33 |
| **Cash Distribution per LP Unit** | **0.55** | **0.35** | **0.36** | **0.38** | **0.39** | **1.48** | **0.40** | **0.42** | **0.43** | **0.44** | **1.69** | **1.86** |
| Coverage ratio | 1.09 | 1.12 | 1.04 | 1.27 | 1.28 | 1.18 | 1.31 | 1.28 | 1.28 | 1.24 | 1.28 | 1.25 |
| Cash Distribution per LP unit - Growth % (Y/Y) | | | | 11% | 16% | | 15% | 14% | 14% | 13% | 14% | 10% |
| | | | | | | | | | | | | |
| **Distribution: LP-GP Split** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 0.55 | 0.35 | 0.36 | 0.38 | 0.39 | 1.48 | 0.40 | 0.42 | 0.43 | 0.44 | 1.69 | 1.86 |
| LP Units | 138.2 | 138.3 | 138.3 | 138.6 | 147.4 | 140.7 | 149.6 | 151.8 | 154.0 | 156.2 | 152.9 | 161.9 |
| | | | | | | | | | | | | |
| Distribution to LPs | 76.5 | 48.4 | 50.1 | 52.0 | 57.5 | 207.8 | 60.2 | 63.0 | 65.9 | 68.7 | 257.7 | 301.2 |
| Distribution to GPs | 1.6 | 1.0 | 1.0 | 1.1 | 1.2 | 4.3 | 1.6 | 1.9 | 2.4 | 3.1 | 9.0 | 18.3 |
| **Total Distribution** | **78.1** | **49.4** | **51.2** | **53.0** | **58.7** | **212.1** | **61.8** | **64.9** | **68.3** | **71.9** | **266.7** | **319.5** |
| GPs share in total distribution | 2% | 2% | 2% | 2% | 2% | 2% | 3% | 3% | 4% | 4% | 3% | 6% |

*Source: Company filings, Deutsche Bank*

# DCP Midstream Partners (DPM, $47.10, Hold, TP, $47)

## RATED HOLD ON VALUATION & DRY GAS EXPOSURE

### Outlook

We are initiating coverage of DPM with a hold rating and $47 PT. Predominately a gathering and processing player in the Gulf Coast, it has a large exposure to the dry gas plays like Haynesville shale and the Gulf of Mexico. It is supported by a strong parent, DCP Midstream, providing assistance in growth capital with co-investments and drop-downs. DPM has more exposure to the dry gas plays that are less attractive currently and we anticipate that distribution growth and coverage will be tighter than that shown by the more liquids oriented MLP's in the current low natural gas price environment.

In 2011, the partnership completed drop-down acquisition of the remaining interest in the East Texas system for $165m, 20% of which was paid for with DPM units. The East Texas system has 550mmcf/d of processing capacity and 900-miles of gathering and transportation pipelines located in the Haynesville shale making for some exposure to a higher cost dry gas basin that is experiencing reduced drilling rig rates currently. In our view, DPM will continue to be the source of speculation relative to its ultimate ownership, based upon the 50/50 joint venture between Spectra Energy and ConocoPhillips that controls its units.

Parent DCP Midstream, has quality assets in liquid-rich Shales like Niobrara, WoodFord-Cana, Wolfberry, and Granite Wash. Significant drop down of these assets would aid DPM to increase distribution higher than our forecast.

Growth of the distribution to unit-holders has been relatively low against some of its gathering and processing peers, a 2% growth in FY10 and a 4% in FY11e. To add to this, it is also having trouble with tight coverage, 1.0x in FY10 and 1.1x in FY11e, which we think is low for a partnership which generate only 60% of its margins from fee-based business.

### Valuation

Our valuation for DPM shows a target price of $47. Growth of distributions to common holders has been relatively low compared to the gathering and processing MLP peers with 2% in 2010 and 4% in 2011.Combining this with a distribution coverage ratio of about 1.0x for 2012 we initiate coverage with a Hold rating.

We use a three stage dividend discount model to derive our target price. We forecast distribution of $2.67 per unit in 2012 & $2.79 per unit in 2013 and anticipate a 5.0% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. Then we use cost of equity of 8.2% as discount rate. Our discount rate is adjusted for (i) relatively high GP/LP split (0.5%). Using the above methodology, we arrive at a $47 target price.

## Risks

DPM assets in the Haynesville shale are likely to experience a reduction in volumetric growth because of the slow-down of drilling in the current natural gas price environment.

DPM has made big strides in increasing the percentage of its business that is fee based, however, the magnitude of its liquids business and retention of processed gas makes it more leveraged to natural gas prices than its peers. The upside risk is a better performance in natural gas liquids margin that would allow improved coverage ratio and distribution growth.

Figure 33: Distribution Coverage ($ in millions)

| DCP Midstream Partners | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| EBITDA | 149.5 | 52.3 | 45.0 | 32.3 | 50.4 | 180.0 | 63.3 | 45.8 | 42.3 | 57.9 | 209.3 | 229.3 |
| Less:Cash interest expenses | (29.1) | (8.0) | (8.4) | (8.6) | (8.6) | (33.6) | (8.7) | (8.8) | (8.9) | (8.9) | (35.3) | (36.4) |
| Less:Maintenance expenditure | (5.6) | (1.7) | (2.3) | (2.6) | (2.0) | (8.6) | (2.0) | (2.0) | (2.0) | (2.0) | (8.0) | (8.0) |
| Distribution from unconsalidated affiliates, net e | 6.2 | 2.7 | 2.7 | 2.3 | 2.5 | 10.2 | 2.5 | 2.5 | 2.5 | 2.5 | 10.0 | 10.0 |
| Less:Others | (12.1) | 1.0 | 1.3 | 4.2 | 1.0 | 7.5 | 1.0 | 1.0 | 1.0 | 1.0 | 4.0 | 4.0 |
| **Distributable cash flow** | **108.9** | **46.3** | **38.3** | **27.6** | **43.2** | **155.4** | **56.1** | **38.5** | **35.0** | **50.5** | **180.1** | **198.9** |
| Less: GP distributions | (18.5) | (5.9) | (6.7) | (7.0) | (7.3) | (26.9) | (7.7) | (8.1) | (8.4) | (8.8) | (33.0) | (38.8) |
| **Distributable cash flow to LP** | **90.4** | **40.4** | **31.6** | **20.6** | **35.9** | **128.5** | **48.4** | **30.4** | **26.5** | **41.7** | **147.1** | **160.1** |
| Total LP Units Outstanding | 36.1 | 41.3 | 44.1 | 44.1 | 44.2 | 43.4 | 44.4 | 44.5 | 44.6 | 44.8 | 44.6 | 45.1 |
| Distributable cash flow per unit | 2.51 | 0.98 | 0.72 | 0.47 | 0.81 | 2.96 | 1.09 | 0.68 | 0.59 | 0.93 | 3.30 | 3.55 |
| **Cash Distribution per LP Unit** | **2.44** | **0.63** | **0.63** | **0.64** | **0.65** | **2.55** | **0.66** | **0.66** | **0.67** | **0.68** | **2.67** | **2.79** |
| Coverage ratio | 1.03 | 1.56 | 1.13 | 0.73 | 1.25 | 1.16 | 1.67 | 1.03 | 0.89 | 1.38 | 1.24 | 1.27 |
| Cash Distribution per LP unit - Growth % (Y/Y) | 2% | 4% | 4% | 5% | 5% | 4% | 5% | 5% | 5% | 5% | 5% | 5% |
| **Distribution: LP-GP Split** | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 2.44 | 0.63 | 0.63 | 0.64 | 0.65 | 2.55 | 0.66 | 0.66 | 0.67 | 0.68 | 2.67 | 2.79 |
| LP Units | 36.1 | 41.3 | 44.1 | 44.1 | 44.2 | 43.4 | 44.4 | 44.5 | 44.6 | 44.8 | 44.6 | 45.1 |
| Distribution to LPs | 87.9 | 25.8 | 27.9 | 28.2 | 28.6 | 110.5 | 29.1 | 29.5 | 29.9 | 30.3 | 118.8 | 125.7 |
| Distribution to GPs | 18.5 | 5.9 | 6.7 | 7.0 | 7.3 | 26.9 | 7.7 | 8.1 | 8.4 | 8.8 | 33.0 | 38.8 |
| **Total Distribution** | **106.4** | **31.7** | **34.6** | **35.2** | **36.0** | **137.5** | **36.8** | **37.5** | **38.3** | **39.1** | **151.8** | **164.4** |
| GPs share in total distribution | 17% | 19% | 19% | 20% | 20% | 20% | 21% | 21% | 22% | 22% | 22% | 24% |

*Source: Company filings, Deutsche Bank*

# El Paso Pipeline Partners (EPB, $36.65, Hold, TP, $37)

## UNCERTAIN DROP-DOWN OUTLOOK, HIGHER GP SPLIT AT KMP

### Outlook

We are initiating coverage of EPB with a Hold rating and $37/unit price target. Since its IPO in 2007, EPB has grown predominately through drop-down transactions. It has acquired $4.8bn of assets from El Paso (EP, $27.18, TP, $31.00) and added $1.9bn of growth capital expenditures. The pending acquisition of EP by KMI, expected to close in 2Q'12, creates concern about the sustainability of growth because of the higher IDR split of 45% at KMP versus 18% at EPB.

EPB is a pure play, natural gas pipeline transportation MLP with 13,000-miles of pipelines, operating in the Gulf Coast and Rockies. It derives 90% of revenue through capacity reservation charges. Its pipeline network operates as four systems: CIG, WIC, SNG and Elba Express. WIC and CIG distribute gas out of the major producing regions in the Rockies like Green River, Uinta, Piceance, Powder River and Anadarko Basins. While SNG transports natural gas from GoM, Texas, Mississippi and Louisiana, Elba Express transports natural gas supplies from the Elba Island LNG terminal to markets.

We expect that at some point following the completion of the acquisition and the related drop-downs, that KMI will move to "simplify" its structure through a buy-in or other corporate transaction with EPB. Accordingly, we would note a sum-of-the-parts value for EPB of $42 currently and will continue to monitor the discount to NAV at EPB following the closing of the KMI deal.

### Valuation

We continue to model EPB on a stand alone basis with a cost of equity of 8.5% and a weighted average cost of capital of 8.1%. We consider these metrics to be of lesser importance currently because of the pending acquisition of EP by KMI.

We use a three stage dividend discount model to derive our target price. We forecast distributions of $2.10 per unit in 2012 & $2.29 in 2013 and anticipate a 5.0% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. Then we use cost of equity of 8.5% as discount rate. Our discount rate is adjusted for (i) relatively high GP/LP split (0.5%) and (ii) lack of clarity on the quality drop-downs (1.0x). Using the above methodology, we arrive at a $37 target price.

### Risks

We expect that the acquisition of EP by KMI will be approved later this year. We recognize that certain of the assets of each company are in similar regions in the Rockies. This may result in required asset sales for FTC approval that will impact EPB.

We expect a lesser level of drop-down related growth for EPB following the acquisition because of the higher splits for the GP at KMP vs EPB. The upside risk is subsequent to the closing of the acquisition of EP by KMI, EPD will be acquired or merged into KMP at a private market valuation.

Figure 34: Distribution Coverage ($ in millions)

| EPB | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| EBITDA | 656 | 230 | 238 | 223 | 249 | 940 | 252 | 247 | 249 | 270 | 1019 | 1151 |
| Less:Cash interest expenses | (170) | (57) | (59) | (64) | (63) | (243) | (63) | (64) | (64) | (65) | (257) | (275) |
| Less:Maintenance expenditure | (75) | (20) | (26) | (22) | (29) | (97) | (25) | (25) | (25) | (25) | (100) | (120) |
| Distribution from equity investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pre-partnership distributable cash flow | (18) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less:Others | (4) | (1) | (7) | 0 | 0 | (8) | 0 | 0 | 0 | 0 | 0 | 0 |
| **Distributable cash flow** | **389** | **152** | **146** | **137** | **157** | **592** | **164** | **158** | **160** | **179** | **662** | **756** |
| Less: GP distributions | (18) | (12) | (17) | (20) | (22) | (72) | (25) | (27) | (29) | (32) | (113) | (162) |
| **Distributable cash flow to LP** | **371** | **140** | **129** | **117** | **135** | **520** | **139** | **131** | **131** | **147** | **548** | **594** |
| Total LP Units Outstanding | 149.7 | 179.9 | 197.9 | 206.0 | 206.6 | 197.6 | 207.4 | 208.1 | 208.8 | 212.6 | 209.2 | 217.5 |
| Distributable cash flow per unit | 2.48 | 0.78 | 0.65 | 0.57 | 0.65 | 2.63 | 0.67 | 0.63 | 0.63 | 0.69 | 2.62 | 2.73 |
| **Cash Distribution per LP Unit** | **$ 1.63** | **$ 0.46** | **$ 0.48** | **$ 0.49** | **$ 0.50** | **$ 1.93** | **$ 0.51** | **$ 0.52** | **$ 0.53** | **$ 0.54** | **$ 2.10** | **$ 2.29** |
| Coverage ratio | 1.52 | 1.69 | 1.35 | 1.16 | 1.30 | 1.36 | 1.32 | 1.21 | 1.18 | 1.28 | 1.25 | 1.19 |
| Cash Distribution per LP unit - Growth % (Y/Y) | 19% | 21% | 20% | 20% | 14% | 18% | 11% | 8% | 8% | 8% | 9% | 9% |
| **Distribution: LP-GP Split** | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 1.63 | 0.46 | 0.48 | 0.49 | 0.50 | 1.93 | 0.51 | 0.52 | 0.53 | 0.54 | 2.10 | 2.29 |
| LP Units | 149.7 | 179.9 | 197.9 | 206.0 | 206.6 | 197.6 | 207.4 | 208.1 | 208.8 | 212.6 | 209.2 | 217.5 |
| Distribution to LPs | 244.0 | 82.8 | 95.0 | 100.9 | 103.3 | 381.4 | 105.8 | 108.2 | 110.7 | 114.8 | 439.4 | 498.1 |
| Distribution to GPs | 18.2 | 11.9 | 17.3 | 20.2 | 22.4 | 71.9 | 24.7 | 27.0 | 29.3 | 32.1 | 113.2 | 161.6 |
| **Total Distribution** | **262.1** | **94.7** | **112.3** | **121.1** | **125.8** | **453.3** | **130.5** | **135.2** | **140.0** | **146.9** | **552.5** | **659.7** |
| GPs share in total distribution | 7% | 13% | 15% | 17% | 18% | 16% | 19% | 20% | 21% | 22% | 20% | 24% |

*Source: Deutsche Bank, Company Filings*

# Enbridge Energy Partners (EEP, $31.96, Hold, TP, $34)

## Bakken & Permian Upside Ahead But Nat Gas Pressure Today

### Outlook

EEP is one of the major transportation service providers in Bakken and Permian crude oil and participates in Oil sands transmission through its parent Enbridge (ENB).. It is backed by a strong parent, Enbridge, (ENB, $38.98, Buy, TP, $44.00), which transports 65% of US Canadian crude imports to the US. EEP will benefit from any opportunities arising from US Midwest refiners' conversion into heavy crude refining. The partnership also has significant gas midstream operations in Haynesville, Granite Wash and Anadarko basin.

EEP is 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. The Bakken production to Enbridge mainline pipeline connection is expected to be in-service in 2013.

EEP has significant assets in Haynesville shale, Barnett Shale and Granite Wash that bear watching due to the potential impact on growth that could occur as drilling rig rates are reduced in the current natural gas price environment.

The partnership has announced its intention to construct an NGL pipeline, Texas Express, from Granite Wash/Barnett Shale to Mont Belvieu at a cost of $1.1bn (EEP 35% share). It will also receive volumes from Rockies, Permian and Mid-continent regions through Enterprise's Mid-American pipelines. Texas Express, a JV with EPD (45%) and Anadarko (20%), would have an initial capacity of 280kbpd (expandable to 400kbpd) and expected to be in-service in 2013

Enbridge Energy Partners provides natural gas gathering and processing services in East Texas (Haynesville Shale and Bossier Sands), Fort Worth (Barnett Shale) and Anadarko (Granite Wash) basins. It has total gathering capacity of 2.5bcf/d and a processing capacity of 950MMcf/d including the Allison Plant in the liquids rich Granite Wash formation. It is also constructing $230m, 150MMCf/d Ajax Gas plant which is expected to be in-service in 1Q13. EEP acquired Elk city systems from Anadarko for $700m in 2010.

Roughly 60% of operating EBITDA coming from liquids pipelines and 40% from natural gas related business. Natural gas business has commodity price exposure through keep-whole and percent of liquids contracts, which are mostly hedged. Also, it purchase and re-sale natural gas and NGLs. 75% of EEP margins are from fee-based business and 25% commodity exposed.

We believe the long-term industrial case for owning Enbridge Energy Partners is strong, but at this time we see the units as fairly valued.

## Valuation

We use a three stage dividend discount model to derive our target price. We forecast a distribution of $2.20 per unit in 2012 & $2.29 per unit in 2013 and anticipate a 4% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 8.7% as discount rate. Our discount rate is adjusted for (i) the GP/LP split (+0.5%). Using the above methodology we arrive at a revised target price of $34.

## Risks

EEP pipelines show leverage to natural gas that is likely to have a negative impact before the plusses inherent in its Bakken and Permian Baisn oil related growth can provide benefits. The upside risk is an improved level of drilling for natural gas in the Gulf coast offshore pipelines which would increase the volume through the pipeline.

Figure 35: Distribution Coverage ($ in millions)

| | 2010 | 1Q | 2Q | 3Q | 4QE | 2011E | 1QE | 2QE | 3QE | 4QE | 2012E | 2013E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable Cash Flow ($ Mn)** | | | | | | | | | | | | |
| Adjusted EBITDA | 1042.0 | 246.6 | 325.9 | 282.3 | 316.7 | 1171.5 | 323.6 | 328.7 | 345.4 | 344.4 | 1342.1 | 1469.8 |
| Less: Interest and other | (258.1) | (38.8) | (78.5) | (78.7) | (80.9) | (276.9) | (68.6) | (72.3) | (76.1) | (79.8) | (296.7) | (389.2) |
| Less: Maintenance Capex | (65.9) | (15.8) | (24.9) | (28.9) | (55.4) | (125.0) | (28.8) | (28.8) | (28.8) | (28.8) | (115.0) | (125.0) |
| Less:Non Cash Derivative gain or loss | (19.4) | (18.1) | (49.2) | 2.5 | - | (64.8) | - | - | - | - | - | - |
| **Distributable Cash Flow** | **698.6** | **173.9** | **173.3** | **177.2** | **180.4** | **704.8** | **226.3** | **227.7** | **240.6** | **235.8** | **930.4** | **955.6** |
| Less: Distribution to GP | (77.9) | (21.1) | (26.0) | (27.7) | (28.3) | (103.1) | (31.1) | (34.6) | (35.4) | (39.1) | (140.2) | (178.7) |
| **Distributable Cash Flow to LP** | **620.7** | **152.8** | **147.3** | **149.5** | **152.1** | **601.7** | **195.2** | **193.0** | **205.2** | **196.7** | **790.1** | **776.9** |
| **LP Unit Coverage** | | | | | | | | | | | | |
| Total LP Units Outstanding, Excluding i-units | 244.0 | 254.6 | 255.7 | 273.1 | 278.8 | 265.6 | 284.9 | 291.0 | 297.2 | 303.3 | 294.1 | 315.3 |
| Distributable Cash Flow per LP Unit | 2.54 | 0.60 | 0.58 | 0.55 | 0.55 | 2.27 | 0.69 | 0.66 | 0.69 | 0.65 | 2.69 | 2.46 |
| **Cash Distribution per LP Unit** | **$ 2.04** | **$ 0.51** | **$ 0.53** | **$ 0.53** | **$ 0.53** | **$ 2.11** | **$ 0.54** | **$ 0.55** | **$ 0.55** | **$ 0.56** | **$ 2.20** | **$ 2.29** |
| Total Unit Coverage Ratio | 1.2x | 1.2x | 1.1x | 1.0x | 1.0x | 1.1x | 1.3x | 1.2x | 1.3x | 1.2x | 1.2x | 1.1x |
| Check | 98.509 | | | | | -19.055 | | | | | 188.443 | -13.234 |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 2.04 | 0.51 | 0.53 | 0.53 | 0.53 | 2.11 | 0.54 | 0.55 | 0.55 | 0.56 | 2.20 | 2.29 |
| LP Units | 244.0 | 254.6 | 255.7 | 273.1 | 278.8 | 265.6 | 284.9 | 291.0 | 297.2 | 303.3 | 294.1 | 315.3 |
| Less: I Units | (17.1) | (35.9) | (36.4) | (37.1) | (37.6) | (36.7) | (38.2) | (38.8) | (39.5) | (40.1) | (39.1) | (41.8) |
| Less: Class C units | - | - | - | - | - | - | - | - | - | - | - | - |
| Net LP Units for whom distribution is paid | 226.9 | 218.7 | 219.3 | 236.1 | 241.2 | 228.8 | 246.7 | 252.2 | 257.7 | 263.2 | 254.9 | 273.6 |
| CASH Distribution to LPs -(EXCL. I UNITS) | 463.4 | 112.4 | 116.8 | 125.7 | 128.4 | 483.1 | 133.2 | 138.7 | 141.7 | 147.4 | 560.9 | 626.4 |
| Distribution to GPs | 77.9 | 21.1 | 26.0 | 27.7 | 28.3 | 103.1 | 31.1 | 34.6 | 35.4 | 39.1 | 140.2 | 178.7 |
| **Total Distribution** | **541.3** | **133.5** | **142.7** | **153.5** | **156.7** | **586.2** | **164.3** | **173.3** | **177.1** | **186.5** | **701.1** | **805.2** |
| LP share of distribution (%) | 85.6% | 84.2% | 81.8% | 81.9% | 81.9% | 82.4% | 81.1% | 80.0% | 80.0% | 79.0% | 80.0% | 77.8% |

*Source: Company filings, Deutsche Bank*

# Genesis Energy (GEL, $30.02, Hold, TP, $30)

## GoM Exposure Cuts Both Ways; Industrial Economy A Factor Too

### Outlook

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 from refineries into global mining and paper processing. But we are concerned about the GEL exposure to lower Gulf of Mexico offshore production, through their Cameron Highway (CHOPS) pipeline. Hold

### Valuation

We use a three stage dividend discount model to derive the target price. We forecast distribution of $1.84 per unit in 2012 & $1.96 per unit in 2013 and anticipate a 6.0% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 8.9% as discount rate. Our discount rate is adjusted for (i) no IDR burden on LP units (-1.0%) and (ii) risks related to high commodity exposure in its businesses, refinery services and supply & logistics (+2.0%). Using the above methodology we arrive at a revised target price of $30.

### Risks

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. The commodity leverage of the refinery services business of GEL shows risk in terms of pricing and demand for Sodium Hydrochloride (NaHS) and Caustic Soda (NaOH). Lower CHOPS capacity utilization present a risk as well. The upside risk is the faster improvement in the industrial economy which will increase demand for their industrial products.

## Figure 36: Distribution Coverage ($ in millions)

| | | | | | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **1Q** | **2Q** | **3Q** | **4Q** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| EBITDA | 21500 | 29425 | 32365 | 34406 | 117696 | 29932 | 40776 | 42813 | 45525 | 159046 | 47130 | 46442 | 47671 | 48891 | 190134 | 193108 |
| Less:Interest expenses | -3204 | -3760 | -6542 | -9418 | -22924 | -8699 | -9011 | -8960 | -9299 | -35969 | -8551 | -8579 | -8606 | -8634 | -34370 | -31645 |
| Less:Maintenance expenditure | -625 | -918 | -716 | -597 | -2856 | -779 | -610 | -2244 | -900 | -4533 | -900 | -900 | -900 | -900 | -3600 | -3600 |
| Less:Others | 291 | 983 | 2934 | 3524 | 7732 | 11850 | -1041 | 5500 | 0 | 16309 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Distributable cash flow** | **17962** | **25730** | **28041** | **27915** | **99648** | **32304** | **30114** | **37109** | **35327** | **134854** | **37679** | **36964** | **38165** | **39357** | **152164** | **157863** |
| Less: GP distributions | -2636 | -2945 | -3459 | | -9040 | | | | | 0 | | | | | 0 | 0 |
| **Distributable cash flow to LP** | **15326** | **22785** | **24582** | **27915** | **90608** | **32304** | **30114** | **37109** | **35327** | **134854** | **37679** | **36964** | **38165** | **39357** | **152164** | **157863** |
| | | | | | | | | | | | | | | | | |
| Total LP Units Outstanding | 39,586 | 39,586 | 39,586 | 40,648 | 39,851 | 64,615 | 64,615 | 71,965 | 73,792 | 68,747 | 73,869 | 75,696 | 75,773 | 75,850 | 75,297 | 76,917 |
| Distributable cash flow per unit | 0.39 | 0.58 | 0.62 | 0.69 | 2.27 | 0.50 | 0.47 | 0.52 | 0.48 | 1.96 | 0.51 | 0.49 | 0.50 | 0.52 | 2.02 | 2.05 |
| **Cash Distribution per LP Unit** | **$ 0.37** | **$ 0.38** | **$ 0.39** | **$ 0.40** | **$ 1.53** | **$ 0.41** | **$ 0.42** | **$ 0.43** | **$ 0.44** | **$ 1.69** | **$ 0.45** | **$ 0.46** | **$ 0.46** | **$ 0.47** | **$ 1.84** | **$ 1.96** |
| Coverage ratio | 1.05 | 1.53 | 1.60 | 1.72 | 1.49 | 1.23 | 1.12 | 1.21 | 1.09 | 1.16 | 1.13 | 1.06 | 1.09 | 1.10 | 1.10 | 1.05 |
| Cash Distribution per LP unit Growth (Y/Y) | 9% | 9% | 10% | 11% | 10% | 11% | 11% | 10% | 10% | 10% | 10% | 11% | 8% | 7% | 9% | 7% |
| | | | | | | | | | | 48.6% | | | | | | |
| **Distribution: LP-GP Split** | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | | | | | |
| Distribution per unit | 0.37 | 0.38 | 0.39 | 0.40 | 1.53 | 0.41 | 0.42 | 0.43 | 0.44 | 1.69 | 0.45 | 0.46 | 0.46 | 0.47 | 1.84 | 1.96 |
| LP Units | 39,586 | 39,586 | 39,586 | 40,648 | 39,851 | 64,615 | 64,615 | 71,965 | 73,792 | 68,747 | 73,869 | 75,696 | 75,773 | 75,850 | 75,297 | 76,917 |
| | - | - | - | - | (19) | - | - | - | - | (197) | - | - | - | - | (20) | (39) |
| Distribution to LPs | 14,548 | 14,845 | 15,339 | 16,259 | 60,972 | 26,331 | 26,815 | 30,765 | 32,468 | 116,182 | 33,241 | 34,820 | 34,855 | 35,649 | 138,546 | 150,757 |
| Distribution to GPs | 2,636 | 2,945 | 3,459 | | 9,040 | | | | | | | | | | | |
| **Total Distribution** | **17,184** | **17,789** | **18,799** | **16,259** | **70,013** | **26,331** | **26,815** | **30,765** | **32,468** | **116,182** | **33,241** | **34,820** | **34,855** | **35,649** | **138,546** | **150,757** |
| *GPs share in total distribution* | *15%* | *17%* | *18%* | *0%* | *13%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |

*Source: Company filings, Deutsche Bank*

# Magellan Midstream Partners (MMP, $69.27, Hold, TP, $73)

## FAIRLY VALUED IN CURRENT OIL & PRODUCTS ENVIRONMENT

### Outlook

Magellan is an oil product transportation and storage play. In recent years, the partnership has been investing in crude linked projects. It is converting (and reversing) the eastern leg of Houston-to-El Paso pipeline (formerly known as the Longhorn Pipeline) and constructing pipeline to transport crude to Gulf coast from Eagle Ford Shale. An additional attraction is the MMP hedge against inflation. The recent revision of the PPI-indexation (PPI+2.65 from PPI+1.3) would boost transportation margins. We are also 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. Though we view Magellan's investments in the crude oil related business at low cost of capital as a positive, storage exposure prohibits us from an outright positive. Hold.

We view Magellan's investments in the crude Oil related business as a positive. It is converting (and reversing) eastern leg of Houston-to-El Paso pipeline (formerly known as the Longhorn Pipeline) and constructing pipeline to transport crude to Gulf coast from Eagle Ford Shale. It has made 60% of its near term capex in the crude linked assets. It is also Cushing-Tulsa pipeline, Osage pipeline and Cushing storage facilities.

NEW EAGLE FORD EXPOSURE A PLUS: MMP is constructing a 150-miles pipeline to transport condensate from Eagle Ford Shale to Corpus Christi. The 100kbpd Double Eagle Pipeline, a 50/50 JV with Copano, is supported by long-term commitment from Talisman Energy and Statoil. Total cost of the project is expected to be around $150m and it would be in service by 1Q13. To facilitate storage, MMP will expand its Corpus Christi terminal, by constructing a new 500Mbbl condensate storage and a new dock delivery pipeline.

CUSHING STORAGE: Along with PAA, MMP is one of the largest storage solution providers in Cushing. It has 12MMBbls of storage capacity and currently has 4MMbbl of additional capacity under-construction. It is also considering opportunities at Cushing, Galena Park and Corpus Christi.

NO IDRs & LOW CAPITAL COST: MMP is one of the few partnerships that provide exposure to strong fee-based operations with low-cost of capital. While the fee-based operations secure the current distribution, low cost of capital assures lucrative growth prospects. Approximately 85% of its operating margins are derived from petroleum products transportation and storage and it has no Incentive Distribution Rights (IDRs).

### Valuation

We use a three stage dividend discount model to derive our target price. We forecast distribution of $3.45 per unit in 2012 & $3.69 per unit in 2013 and anticipate an 7.7% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 7.8% as discount rate. We have adjusted our discount rate for (i) no IDRs (-1.0%), (ii) for storage business exposure (+1.0%). Using the above methodology we arrive at a target of $73.

## Risks

The key concern is the negative US petroleum product demand; a sustained significant downturn would reduce pipeline throughput, subsequently competition would reduce the market-based margin too.

Roughly 40% of MMP transportation volumes are PPI-indexed which is fixed till 2016, so any dramatic increase in the operating cost of the pipes would affect the margins. Although MMP's core business is not commodity price linked, it has to carry oil product inventories, depending on the transportation volume, for blending, fractionation and line-fill, etc. which may see changes in value. The upside risk is a better GDP recovery than anticipated that creates more demand for petroleum products.

Figure 37: Distribution Coverage ($ in millions)

| | | | | | | | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 1Q | 2Q | 3Q | 4Q | 2011 | 1Q | 2Q | 3Q | 4Q | 2012 | 2013 |
| **EBITDA** | 517.1 | 146.1 | 159.3 | 168.0 | 170.7 | 644.1 | 168.6 | 161.2 | 168.0 | 186.6 | 684.4 | 730.0 |
| Others | 21.3 | 5.9 | (4.9) | (28.0) | 3.5 | (23.5) | 0.2 | 0.2 | 0.2 | 0.2 | 0.8 | 0.8 |
| Interest | (96.2) | (26.5) | (26.0) | (27.3) | (29.0) | (108.8) | (29.5) | (29.5) | (29.9) | (29.9) | (118.8) | (122.6) |
| Maintenance Capex | (44.6) | (8.7) | (10.7) | (18.9) | (17.7) | (56.0) | (11.6) | (15.0) | (20.2) | (24.7) | (71.5) | (78.7) |
| Distributable Cash Flow | 397.5 | 116.9 | 117.7 | 93.8 | 127.5 | 455.9 | 127.7 | 117.0 | 118.1 | 132.2 | 494.9 | 529.6 |
| GP Interest | - | - | - | - | - | - | - | - | - | - | - | - |
| **Distributable Cash Flow to LP** | **397.5** | **116.9** | **117.7** | **93.8** | **127.5** | **455.9** | **127.7** | **117.0** | **118.1** | **132.2** | **494.9** | **529.6** |
| Total LP Units Outstanding | 109.5 | 112.8 | 112.8 | 112.9 | 113.5 | 113.0 | 114.4 | 115.3 | 115.3 | 116.2 | 115.3 | 118.3 |
| Distributable Cash Flow per LP Unit | 3.63 | 1.04 | 1.04 | 0.83 | 1.12 | 4.03 | 1.12 | 1.01 | 1.02 | 1.14 | 4.29 | 4.48 |
| **Cash Distribution per LP Unit** | **$ 2.96** | **$ 0.77** | **$ 0.79** | **$ 0.80** | **$ 0.82** | **$ 3.17** | **$ 0.84** | **$ 0.86** | **$ 0.87** | **$ 0.89** | **$ 3.45** | **$ 3.69** |
| Total Unit Coverage Ratio | 1.2x | 1.3x | 1.3x | 1.0x | 1.4x | 1.3x | 1.3x | 1.2x | 1.2x | 1.3x | 1.2x | 1.2x |
| Cash Distribution per LP unit Growth (Y/Y) | 4% | 7% | 7% | 7% | 8% | 7% | 9% | 9% | 9% | 9% | 9% | 7% |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 2.96 | 0.77 | 0.79 | 0.80 | 0.82 | 3.17 | 0.84 | 0.86 | 0.87 | 0.89 | 3.45 | 3.69 |
| LP Units | 109.5 | 112.8 | 112.8 | 112.9 | 113.5 | 113.0 | 114.4 | 115.3 | 115.3 | 116.2 | 115.3 | 118.3 |
| **Distribution to LPs** | **323.7** | **86.8** | **88.6** | **90.3** | **92.5** | **358.2** | **96.1** | **98.6** | **100.3** | **102.9** | **397.8** | **436.5** |
| **Distribution to GPs** | | | | | | | | | | | | |
| **Total Distribution** | **323.7** | **86.8** | **88.6** | **90.3** | **92.5** | **358.2** | **96.1** | **98.6** | **100.3** | **102.9** | **397.8** | **436.5** |
| GPs share in total distribution | - | - | - | - | - | - | - | - | - | - | - | - |

*Source: Deutsche Bank, Company Filings*

# Nustar Energy Partners (NS, $57.26, Hold, TP, $59)

## ASPHALT LEVERAGE A RISK IN CURRENT FISCAL ENVIRONMENT

### Outlook

Nustar is one of the largest terminals and independent petroleum pipelines operators in the US. The company sees strength in asphalt on low supplies of heavy oil, more heavy oil using cokers being added globally, and strong demand for asphalt, combined with low asphalt stocks. However we see the units as fairly valued, with concerns over weak local government finances under-mining the asphalt story, we remain at HOLD.

LOW RETURNS IN ASPHALT AND TRANSPORT IMPACT DISTRIBUTION GROWTH: In 2011, NuStar was impacted by low returns from asphalt and transportation operations. Distribution growth has been stagnating for the last couple years. Internal growth investments in Eagle Ford and St. James terminals benefitted 2011. The biggest positive for the partnership is the relatively low cost of capital owing to the IDRs cap at 25%. This would help the incremental cash flow to be very accretive to the LP unit holders.

NEW REFINING ASSETS HELP MARGINS BUT NOT ENOUGH: Margin from its asphalt business remains low on weak asphalt demand coupled with high feedstock cost. To counter the segment's sagging returns, Nustar purchased San Antonio refinery from the bankrupt AGE Refining for $41m in April 2011. Before the acquisition, NS had two asphalt refineries with a combined throughput capacity of 104kbpd. Notwithstanding, the segment's margin in 3Q11 fell by >20% y-o-y and its overall performance in 2011 was below the annual target. Looking forward, Eagle Ford liquids production is expected to lower the transportation cost and if WTI continues to trade at a discount to Brent, San Antonio's profitability would get a boost.

### Valuation

We use a three stage dividend discount model to derive our target price. We forecast distribution of $4.48 per unit in 2012 & $4.58 per unit in 2013 and anticipate an 3% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 9.5% as discount rate. We have adjusted our discount rate for (i) for IDRs effect, LP/GP split, (0.5%) (ii) for its exposure to asphalt and refining business (+1.0%). Using the above methodology we arrive at a target of $59.

### 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. The upside risk is a greater demand for infrastructure related projects than anticipated.

## Figure 38: Distribution Coverage ($ in millions)

| | | | | | | | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| **Distributable Cash Flow ($ Millions)** | | | | | | | | | | | | |
| Adjusted EBITDA | $ 458.0 | $ 98.4 | $ 160.0 | $ 138.0 | $ 96.3 | $ 492.8 | $ 106.0 | $ 168.0 | $ 163.2 | $ 134.7 | $ 571.8 | $ 617.8 |
| Interest Expense | (78.3) | (20.5) | (20.6) | (21.6) | (21.0) | (83.7) | (21.4) | (21.8) | (22.1) | (22.5) | (87.8) | (93.6) |
| Maintenance Capex | (54.0) | (8.0) | (18.1) | (15.1) | (9.1) | (50.3) | (15.1) | (15.1) | (15.1) | (15.1) | (60.5) | (66.6) |
| Others | (2.7) | (14.6) | 8.9 | (9.9) | 9.6 | (6.0) | (0.4) | (10.3) | (6.6) | (4.5) | (21.7) | (22.4) |
| General Partner Share | (38.8) | (10.2) | (10.6) | (10.6) | (10.9) | (42.2) | (11.3) | (11.5) | (12.1) | (12.2) | (47.0) | (51.7) |
| **Distributable Cash Flow to LP** | **284.2** | **45.2** | **119.6** | **80.8** | **65.0** | **310.5** | **57.8** | **109.3** | **107.3** | **80.4** | **354.8** | **383.6** |
| **LP Unit Coverage** | | | | | | | | | | | | |
| Total LP Units Outstanding | 62.3 | 64.6 | 64.6 | 64.6 | 66.2 | 65.0 | 67.0 | 67.9 | 68.7 | 69.5 | 68.3 | 71.5 |
| Distributable Cash Flow per LP Unit | $ 4.56 | $ 0.70 | $ 1.85 | $ 1.25 | $ 0.98 | $ 4.78 | $ 0.86 | $ 1.61 | $ 1.56 | $ 1.16 | $ 5.20 | $ 5.36 |
| **Cash Distribution per LP Unit** | **$ 4.28** | **$ 1.08** | **$ 1.10** | **$ 1.10** | **$ 1.10** | **$ 4.36** | **$ 1.11** | **$ 1.11** | **$ 1.13** | **$ 1.13** | **$ 4.48** | **$ 4.58** |
| Total Unit Coverage Ratio | 1.1x | 0.7x | 1.7x | 1.1x | 0.9x | 1.1x | 0.8x | 1.5x | 1.4x | 1.0x | 1.2x | 1.2x |
| ***DPU Growth (Y/Y)*** | *1%* | *1%* | *3%* | *2%* | *2%* | *2%* | *3%* | *1%* | *3%* | *3%* | *3%* | *2%* |
| | | | | | | | | | | | | |
| **Total Distribution to NSH** | | | | | | | | | | | | |
| Common units held by NSH | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 |
| IDR | 32.7 | 8.6 | 9.0 | 9.0 | 9.2 | 35.7 | 9.6 | 9.7 | 10.3 | 10.4 | 40.0 | 44.1 |
| 2% GP interest | 6.1 | 1.6 | 1.6 | 1.6 | 1.7 | 6.5 | 1.7 | 1.7 | 1.8 | 1.8 | 7.1 | 7.6 |
| **GP Interest** | **38.8** | **10.2** | **10.6** | **10.6** | **10.9** | **42.2** | **11.3** | **11.5** | **12.1** | **12.2** | **47.0** | **51.7** |
| Common units share | 43.7 | 11.0 | 11.2 | 11.2 | 11.2 | 44.5 | 11.3 | 11.3 | 11.5 | 11.5 | 45.7 | 46.7 |
| **Total** | **82.5** | **21.1** | **21.8** | **21.8** | **22.0** | **86.7** | **22.6** | **22.8** | **23.6** | **23.7** | **92.7** | **98.4** |
| | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 4.28 | 1.08 | 1.10 | 1.10 | 1.10 | 4.36 | 1.11 | 1.11 | 1.13 | 1.13 | 4.48 | 4.58 |
| LP Units | 62.35 | 64.61 | 64.61 | 64.61 | 66.23 | 65.01 | 67.04 | 67.85 | 68.67 | 69.48 | 68.26 | 71.52 |
| | | | | | | | | | | | | |
| **% of LP cash flow** | **87%** | **87%** | **87%** | **87%** | **87%** | **87%** | **87%** | **87%** | **87%** | **87%** | **87%** | **86%** |

*Source: Deutsche Bank, Company Filings*

# ONEOK Partners (OKS, $57.08, Hold, TP, $57)

## TIGHTER BASIS DIFFERENTIALS IN MID-CONTINENT SUGGESTS FAIR VALUE

### Outlook

We initiate coverage of OKS with a Hold rating and a target price of $57 per unit. OKS was the best performer in the group in 2011 in recognition of its rapid growth capital expenditure deployment, accretive drop-downs and presence in some of the most prolific shale plays in the US. In our opinion, the current distribution yield for OKS of 4.3% combined with our projection of tighter basis differentials for the Conway to Mont Belvieu liquids market that is a critical leverage point for OKS suggests a full valuation and a Hold rating for the shares currently. We consider OKS to have a superior outlook as it invests $1.5bn-$1.8bn in Bakken infrastructure that will form its growth in 2013 and beyond.

### Valuation

We use a three stage dividend discount model to derive our target price. We forecast distribution of $4.62 per unit in 2012 & $4.89 per unit in 2013 and anticipate an 8.7% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 8.0% as discount rate. We have adjusted our discount rate for (i) for IDRs effect, LP/GP split, (0.5%). Using the above methodology, we arrive at a price target of $57.

### Risks

OKS is a major competitor in the transportation of NGL's from Conway, Kansas to Mont Belvieu, Texas. The recent addition of capacity along this route and the plans for more to come into service in 2012 and 2013 reduce its competitive advantage and impact its growth. The upside risk is a better than expected basis differentials for the Conway to Mont Belvieu liquids.

## Figure 39: Distribution Coverage ($ in millions)

| Distributable cash flow | 2009 | 2010 | 1Q | 2Q | 3Q | 4Q | 2011 | 1Q | 2Q | 3Q | 4Q | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| EBITDA | 817.8 | 866.4 | 254.6 | 275.7 | 313.3 | 335.2 | 1178.9 | 308.0 | 296.6 | 309.7 | 319.6 | 1233.8 | 1344.3 |
| Less:Cash interest expenses | (206.0) | (204.3) | (57.3) | (57.6) | (55.7) | (55.0) | (225.6) | (55.8) | (59.0) | (62.2) | (65.4) | (242.5) | (264.8) |
| Less:Maintenance expenditure | (59.3) | (62.5) | (11.5) | (18.7) | (22.4) | (30.0) | (82.5) | (12.0) | (20.0) | (25.0) | (30.0) | (87.0) | (95.0) |
| Distribution from unconsolidated affiliates, net of inc | 37.1 | 12.9 | 0.4 | 9.0 | 0.2 | 0.0 | 9.6 | 5.0 | 5.0 | 5.0 | 5.0 | 20.0 | 20.0 |
| Less:Others | (30.4) | (21.9) | (1.3) | (1.1) | (1.4) | 0.0 | (3.8) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Distributable cash flow** | **559.2** | **590.6** | **185.0** | **207.3** | **234.1** | **250.2** | **876.6** | **245.1** | **222.5** | **227.5** | **229.2** | **924.3** | **1004.5** |
| Less: GP distributions | (96.7) | (119.7) | (32.6) | (34.7) | (36.7) | (39.5) | (143.5) | (44.6) | (49.8) | (55.3) | (60.8) | (210.5) | (287.6) |
| **Distributable cash flow to LP** | **462.5** | **470.9** | **152.4** | **172.6** | **197.4** | **210.7** | **733.1** | **200.5** | **172.7** | **172.2** | **168.3** | **713.8** | **716.9** |
| Total LP Units Outstanding | 182.6 | 202.7 | 203.8 | 203.8 | 203.8 | 208.0 | 204.9 | 212.3 | 216.7 | 221.0 | 225.3 | 218.8 | 233.6 |
| Distributable cash flow per unit | 2.53 | 2.32 | 0.75 | 0.85 | 0.97 | 1.01 | 3.58 | 0.94 | 0.80 | 0.78 | 0.75 | 3.26 | 3.07 |
| **Cash Distribution per LP Unit** | **2.175** | **2.250** | **0.575** | **0.585** | **0.595** | **0.605** | **2.360** | **0.625** | **0.645** | **0.665** | **0.685** | **2.620** | **2.890** |
| Coverage ratio | 1.16 | 1.03 | 1.30 | 1.45 | 1.63 | 1.67 | 1.52 | 1.51 | 1.24 | 1.17 | 1.09 | 1.25 | 1.06 |
| Cash Distribution per LP unit - Growth % (Y/Y) | #VALUE! | 3% | 4% | 4% | 5% | 6% | 5% | 9% | 10% | 12% | 13% | 11% | 10% |
| **Distribution: LP-GP Split** | | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | | |
| Distribution per unit | 2.18 | 2.25 | 0.58 | 0.59 | 0.60 | 0.61 | 2.36 | 0.63 | 0.65 | 0.67 | 0.69 | 2.62 | 2.89 |
| LP Units | 182.6 | 202.7 | 203.8 | 203.8 | 203.8 | 208.0 | 204.9 | 212.3 | 216.7 | 221.0 | 225.3 | 218.8 | 233.6 |
| Distribution to LPs | 397.1 | 456.1 | 117.2 | 119.2 | 121.3 | 125.8 | 483.5 | 132.7 | 139.7 | 147.0 | 154.3 | 573.3 | 675.1 |
| Distribution to GPs | 96.7 | 119.7 | 32.6 | 34.7 | 36.7 | 39.5 | 143.5 | 44.6 | 49.8 | 55.3 | 60.8 | 210.5 | 287.6 |
| **Total Distribution** | **493.8** | **575.8** | **149.8** | **153.9** | **158.0** | **165.4** | **627.0** | **177.3** | **189.6** | **202.2** | **215.2** | **783.9** | **962.8** |
| GPs share in total distribution | 20% | 21% | 22% | 23% | 23% | 24% | 23% | 25% | 26% | 27% | 28% | 27% | 30% |

*Source: Company filings, Deutsche Bank*

# Plains All American Pipeline (PAA, $78.78, Hold, TP, $78)

## Natural Gas Storage & Marketing Exposure Pressure Strong Growth

## Outlook

The PAA GP is 35% owned by Occidental Petroleum (OXY), and with that relationship and significant existing assets in the Monterrey, PAA is an outstanding derivative play on any future success OXY has in growing its California volumes. Most of the assets operate on a fee-based margin and are located in growing crude oil producing area like Bakken, Peace River, Eagle Ford Shale, Monterrey, Wattenburg, Wolfberry and Granite Wash.

It has made $2.3 bn worth of acquisitions in 2011 including $1.8bn for BP's Canadian NGL operations. The acquisition provides exposure to gathering and processing business where PAA had none before, but adds to commodity exposure.

Additional concern is the storage business. The partnership is the largest capacity holder at 20mmbbl of Crude storage capacity with an additional 4MMBbl under-construction. The combination of events that will impact Cushing include Keystone XL, Seaway pipeline reversal and the basis differentials of Brent vs WTI US Mid-Continent to gulf coast oil.

## Valuation

We use a three stage dividend discount model to derive our target price. We forecast a distribution of $4.28 per unit in 2012 & $4.57 per unit in 2013 and anticipate an 8% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. We use cost of equity of 8.8% as discount rate. We have adjusted our discount rate for (i) the high GP/LP split (+0.5%), (ii) for its exposure to storage business (+0.5%). Using the above methodology we arrive at a target of $78.

## Risks

Risks specific to PAA include prolonged backwardation (has significant exposure to crude oil storage) or driving lower-than-expected demand for crude oil storage. The upside risk is a better performance than expected from its recently acquired BP Canada assets driven by liquids being exported from Canada to the U.S.

## Figure 40: Distribution Coverage ($ in millions)

| | | | | | | | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 1Q | 2Q | 3Q | 4Q | 2011 | 1Q | 2Q | 3Q | 4Q | 2012 | 2013 |
| **Distributable Cash Flow ($ Mn)** | | | | | | | | | | | | |
| **EBITDA** | 1110.0 | 348.0 | 360.0 | 415.0 | 460.0 | 1583.0 | 380.8 | 401.3 | 437.2 | 442.3 | 1661.6 | 1910.3 |
| Non cash charges | 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 (incl tax) | (9.0) | (12.0) | (11.0) | (19.0) | (13.0) | (55.0) | (10.0) | (10.0) | (15.0) | (15.0) | (50.0) | (60.0) |
| Less: Interest Expense | (248.0) | (65.0) | (62.0) | (62.0) | (63.0) | (252.0) | (64.3) | (65.6) | (66.9) | (68.2) | (264.9) | (285.8) |
| Less: Maintenance Capex | (92.0) | (24.0) | (27.0) | (25.0) | (43.0) | (119.0) | (30.0) | (38.3) | (38.3) | (38.3) | (145.0) | (150.0) |
| Less: General Partner Interest | (174.0) | (47.5) | (53.6) | (57.7) | (59.6) | (218.3) | (65.8) | (69.0) | (73.2) | (77.4) | (285.3) | (350.9) |
| **Distributable Cash Flow to LP** | **587.0** | **199.5** | **206.4** | **251.3** | **281.4** | **938.7** | **210.8** | **218.4** | **243.8** | **243.4** | **916.4** | **1,063.6** |
| **LP Unit Coverage** | | | | | | | | | | | | |
| Total LP Units Outstanding | 137.5 | 144.0 | 150.0 | 150.0 | 154.0 | 149.5 | 156.1 | 158.3 | 160.5 | 162.7 | 159.4 | 168.1 |
| Distributable Cash Flow per LP Unit | 4.27 | 1.39 | 1.38 | 1.68 | 1.83 | 6.28 | 1.35 | 1.38 | 1.52 | 1.50 | 5.75 | 6.33 |
| **Cash Distribution per LP Unit** | **$ 3.79** | **$ 0.97** | **$ 0.98** | **$ 1.00** | **$ 1.03** | **$ 3.97** | **$ 1.04** | **$ 1.06** | **$ 1.08** | **$ 1.10** | **$ 4.28** | **$ 4.57** |
| Total Unit Coverage Ratio | 1.1x | 1.4x | 1.4x | 1.7x | 1.8x | 1.6x | 1.3x | 1.3x | 1.4x | 1.4x | 1.3x | 1.4x |
| Cash Distribution per LP unit Growth (Y/Y) | 4% | 4% | 4% | 5% | 7% | 5% | 7% | 8% | 9% | 7% | 8% | 7% |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 3.79 | 0.97 | 0.98 | 1.00 | 1.03 | 3.97 | 1.04 | 1.06 | 1.08 | 1.10 | 4.28 | 4.57 |
| LP Units | 137.5 | 144.0 | 150.0 | 150.0 | 154.0 | 149.5 | 156.1 | 158.3 | 160.5 | 162.7 | 159.4 | 168.1 |
| CASH Distribution to LPs | 520.4 | 139.7 | 147.4 | 149.3 | 157.9 | 593.9 | 162.4 | 167.8 | 173.3 | 178.9 | 682.2 | 768.2 |
| Distribution to GPs | 191.6 | 53.6 | 57.7 | 59.6 | 65.8 | 236.4 | 69.0 | 73.2 | 77.4 | 81.7 | 301.0 | 366.2 |
| **Total Distribution** | **712.0** | **193.3** | **205.1** | **208.8** | **223.6** | **830.2** | **231.4** | **240.9** | **250.7** | **260.6** | **983.2** | **1,134.5** |
| LP share of distributions | 73.1% | 72.3% | 71.9% | 71.5% | 70.6% | 71.5% | 70.2% | 69.6% | 69.1% | 68.7% | 69.4% | 67.7% |

*Source: Deutsche Bank, Company Filings*

# Spectra Energy Partners (SEP, $31.24, Hold, TP, $33)

## LOWER DISTRIBUTION GROWTH, SLOWER PACE OF DROP-DOWNS

### Outlook

We are initiating coverage of SEP with a Hold rating and a $33 unit price target. Recent comments by management have indicated reduced expectations for distribution growth and there is a lesser opportunity for drop-downs in the next few years as recently acquired projects and organic capital spending are matured at the parent company, Spectra Energy (SE, $30.78, TP, $37 BUY). We favor the pipeline business that dominates SEP's cash flow generation and secures its distributions but are concerned that the related growth rate will be reduced by the presence of natural gas storage. Over time, we look for SEP to benefit from growth at the recently acquired Big Sandy Pipeline in the Marcellus and from drop-downs of assets from SE including Bobcat storage and certain pipeline interests.

SEP provides interstate natural gas transportation and storage services; derives 90% of its revenue through capacity reservation fees and has almost zero commodity exposure. It major 100% owned pipeline, East Tennessee receives gas supply from the Gulf Coast through Spectra, EP and NiSource pipelines and supports the energy demand of the southeast and mid-Atlantic regions of the US.

SEP owns a 49% interest in the 745-mile, 1.3bcf/d Gulfstream interstate natural gas transportation system, which extends from supplies gas predominantly from the Gulf of Mexico to Florida. SEP also own 50% interest in Market Hub, with the remaining 50% owned by SE, consisting of two salt cavern natural gas storage facilities. Providing services to GoM nat gas supplies, onshore Texas and Louisiana supplies, mid-continent production and imports of LNG to the Gulf Coast.

In 2011, SEP acquired the 68-mile, Big Sandy fee-based natural gas pipeline from EQT for $390m. It operates in eastern Kentucky with a capacity of 170mmcf/d and interconnects with the El Paso's Tennessee Gas Pipeline system links the Huron Shale and Appalachian Basin. This foray into the prolific Marcellus shale play for SEP is expected to provide future benefits and growth but it is likely to require higher natural gas prices for producers to drill the wells that will lead to the growth.

### Valuation

The recently reduced projections of distribution growth to an annualized rate of about $0.02 per year or 1% have impacted our otherwise favorable view of the pipeline oriented derivation of most of the SEP cash flow. SEP shows a weighted average cost of capital of 7.6%. We believe the pipeline business should trade at a yield of 6% in the current market conditions. We have adjusted the yield for the risks in Marcellus Shale growth and the limited growth of the Gulfstream pipeline. Our unfavorable view of the natural gas storage business results from a combination of supply dynamics, reduced seasonal pricing differentials and volatility.

We use three-stage DDM for valuing the partnerships. We forecast distribution of $1.95 per unit in 2012 & $2.03 in 2013 and anticipate a 4.0% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. Then we use cost of equity of 8.2% as discount rate. Our discount rate is adjusted for (i) relatively high GP/LP split (0.5%) and (ii). Also we provide a 0.5% adjustment for negative impact of Marcellus Shale growth on East Tennessee system and the limited growth of the Gulfstream pipeline (0.5%). Also unfavorable view of the natural gas storage business results from a combination of supply dynamics, reduced seasonal pricing differentials and volatility. Using the above methodology, we arrive at a $31 target price.

## Risks

Approximately 20% of SEP's cash flow is from the natural gas storage business. The reduction of summer winter spreads in natural gas prices and the decline in storage margins is its most significant risk. The upside risk is the greater drilling and higher volume in system.

Figure 41: Distribution Coverage ($ in millions)

| SEP | | | | | | | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| EBITDA excl distribution from equity interest | 117.1 | 32.9 | 22.7 | 32.9 | 32.6 | 121.1 | 33.5 | 33.5 | 33.5 | 33.5 | 134.0 | 142.6 |
| Less:Cash interest expenses | (15.7) | (1.9) | (6.2) | (0.8) | (14.1) | (23.0) | (2.0) | (9.5) | (2.0) | (9.7) | (23.3) | (24.1) |
| Less:Maintenance expenditure | (14.8) | (2.6) | (4.7) | (4.0) | (1.8) | (13.1) | (3.0) | (5.0) | (5.0) | (5.0) | (18.0) | (18.0) |
| Distribution from Gulfstream | 43.0 | 29.1 | 11.1 | 29.4 | 11.4 | 81.0 | 30.3 | 13.4 | 30.3 | 13.3 | 87.3 | 91.3 |
| Distribution from Market Hub | 45.6 | 12.2 | 12.6 | 11.8 | 9.5 | 46.0 | 13.5 | 13.5 | 13.5 | 13.5 | 54.0 | 56.9 |
| Less:Others | (0.7) | 0.0 | 0.0 | 0.2 | 0.4 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Distributable cash flow** | **174.4** | **69.7** | **35.5** | **69.5** | **38.0** | **212.5** | **72.3** | **45.9** | **70.3** | **45.6** | **234.1** | **248.8** |
| Less: GP distributions | (10.5) | (4.2) | (4.7) | (5.5) | (6.0) | (20.5) | (6.5) | (7.0) | (7.4) | (7.9) | (28.8) | (36.5) |
| **Distributable cash flow to LP** | **163.9** | **65.4** | **30.7** | **63.9** | **32.0** | **192.1** | **65.8** | **38.9** | **62.8** | **37.7** | **205.2** | **212.2** |
| Total LP Units Outstanding | 80.9 | 89.2 | 90.5 | 96.3 | 96.3 | 93.1 | 96.3 | 96.3 | 96.3 | 96.3 | 96.3 | 96.3 |
| Distributable cash flow per unit | 2.03 | 0.73 | 0.34 | 0.66 | 0.33 | 2.06 | 0.68 | 0.40 | 0.65 | 0.39 | 2.13 | 2.20 |
| **Cash Distribution per LP Unit** | **1.74** | **0.46** | **0.47** | **0.47** | **0.48** | **1.87** | **0.48** | **0.49** | **0.49** | **0.50** | **1.95** | **2.03** |
| Coverage ratio | 1.16 | 1.59 | 0.73 | 1.41 | 0.70 | 1.10 | 1.42 | 0.83 | 1.33 | 0.79 | 1.09 | 1.09 |
| Cash Distribution per LP unit - Growth % (Y/Y) | 12% | 10% | 8% | 7% | 6% | 7% | 4% | 4% | 4% | 4% | 4% | 4% |
| **Distribution: LP-GP Split** | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 1.74 | 0.46 | 0.47 | 0.47 | 0.48 | 1.87 | 0.48 | 0.49 | 0.49 | 0.50 | 1.95 | 2.03 |
| LP Units | 80.9 | 89.2 | 90.5 | 96.3 | 96.3 | 93.1 | 96.3 | 96.3 | 96.3 | 96.3 | 96.3 | 96.3 |
| Distribution to LPs | 140.8 | 41.0 | 42.1 | 45.3 | 45.7 | 174.1 | 46.2 | 46.7 | 47.2 | 47.7 | 187.8 | 195.5 |
| Distribution to GPs | 10.5 | 4.2 | 4.7 | 5.5 | 6.0 | 20.5 | 6.5 | 7.0 | 7.4 | 7.9 | 28.8 | 36.5 |
| **Total Distribution** | **151.3** | **45.3** | **46.8** | **50.8** | **51.7** | **194.5** | **52.7** | **53.7** | **54.6** | **55.6** | **216.6** | **232.0** |
| GPs share in total distribution | 7% | 9% | 10% | 11% | 12% | 11% | 12% | 13% | 14% | 14% | 13% | 16% |

*Source: Deutsche Bank, Company Filings*

# Targa Resources Partners (NGLS, $40.01, Hold, TP, $42)

## Rated Hold on Commodity Exposure to Oil/Gas Ratio

## Outlook

We are initiating coverage of NGLS with a Hold rating and $42/unit price target. The partnership derives about 60% of its operating margin from the gathering and processing businesses. With most of the processing services in PoP and keep-whole contracts, it has high leverage to the oil/gas ratio.

Targa offers an integrated midstream business. In addition to its 2bcf/d of processing capacity and 125Mbbl/d of Gross NGL production, it also has 355Mbbl/d fractionation capacity at CBF, GCF and Mont Belvieu fractionation. It has the second largest fractionation capacity (to EPD) in Mont Belvieu and Louisiana.

It is expanding its fractionation and pipeline capacity to accommodate increasing y-grade NGLs supply from Rocky Mountains, Mid-Continent, Permian Basin and South Texas. And roughly 80% of its announced capex are in the downstream business.

With no drop-down possibilities left, NGLS looks to build on through strong organic capex. It has announced $1.0bn of capex to be spent on FY12 and FY13. Looking beyond 2012, it has $860m of growth capital projects for 2013 (at attractive 5-7x EBITDA multiple) and therefore we expect the high distribution growth to continue in the near future. Based on the projects that come on-stream and oil vs gas ratio, the partnership has forecasted an attractive 10-15% EBITDA as well as DPU growth in 2012.

## Valuation

We use a three stage dividend discount model to derive our target price. We forecast a distribution of $2.51 per unit in 2012 & $2.71 in 2013 and anticipate a 6.0% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. Then we use cost of equity of 8.9% as discount rate. Our discount rate is adjusted for (i) relatively high GP/LP split (0.5%). Using the above methodology, we arrive at a $42 target price.

## Risks

NGLS is exposed to the oil vs gas ratio and frac spread/NGL prices through the percent-of-proceeds and keep-whole processing contracts. It generates roughly 55% of processing margins through these two commodity price linked contracts. Therefore, any decrease in NGL prices would adversely affect the processing margin.  The upside risk is a potential that the margin at the Mt Belvieu fractionation could exceed our estimate based on an increase in oil and gas price differential.

Figure 42: Distribution Coverage ($ in millions)

| | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| EBITDA | 346.9 | 107.9 | 130.0 | 107.3 | 132.2 | 477.4 | 121.3 | 139.5 | 133.0 | 139.2 | 533.0 | 619.8 |
| Less:Interest expenses | -85.2 | -27.5 | -27.2 | -25.7 | -30.3 | -110.7 | -30.9 | -30.9 | -31.5 | -32.1 | -125.3 | -131.9 |
| Less:Maintenance expenditure | -44.5 | -12.8 | -21.6 | -24.7 | -21.4 | -80.5 | -12.0 | -12.8 | -14.1 | -21.1 | -60.0 | -62.0 |
| Less:Others | 17.4 | 4.2 | 8.1 | 8.6 | 0.0 | 20.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Distributable cash flow** | **234.6** | **71.8** | **89.3** | **65.5** | **80.5** | **307.1** | **78.5** | **95.8** | **87.5** | **86.0** | **347.7** | **425.9** |
| Less: GP distributions | -19.7 | -7.9 | -9.0 | -10.0 | -11.1 | -38.0 | -12.3 | -13.3 | -14.6 | -15.8 | -56.0 | -75.2 |
| **Distributable cash flow to LP** | **214.9** | **63.9** | **80.3** | **55.5** | **69.4** | **269.1** | **66.2** | **82.5** | **72.9** | **70.2** | **291.7** | **350.7** |
| | | | | | | | | | | | | |
| Total LP Units Outstanding | 71.8 | 84.7 | 84.8 | 84.8 | 84.8 | 84.8 | 85.7 | 85.7 | 86.5 | 87.4 | 86.3 | 88.7 |
| Distributable cash flow per unit | 2.99 | 0.75 | 0.95 | 0.65 | 0.82 | 3.17 | 0.77 | 0.96 | 0.84 | 0.80 | 3.38 | 3.96 |
| **Cash Distribution per LP Unit** | **$ 2.13** | **$ 0.56** | **$ 0.57** | **$ 0.58** | **$ 0.60** | **$ 2.31** | **$ 0.61** | **$ 0.62** | **$ 0.63** | **$ 0.65** | **$ 2.51** | **$ 2.71** |
| Coverage ratio | 1.41 | 1.35 | 1.66 | 1.12 | 1.38 | 1.38 | 1.27 | 1.55 | 1.33 | 1.25 | 1.35 | 1.46 |
| Cash Distribution per LP unit Growth (Y/Y) | 3% | 8% | 8% | 8% | 9% | 8% | 9% | 9% | 9% | 8% | 9% | 8% |
| **Distribution to TRGP** | | | | | | | | | | | | |
| Common units held by TRGP | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 | 11.6 |
| IDR | 16.3 | 6.8 | 7.8 | 8.8 | 9.9 | 33.3 | 11.0 | 12.0 | 13.2 | 14.3 | 50.5 | 68.9 |
| 2% GP interest | 3.5 | 1.1 | 1.1 | 1.2 | 1.2 | 4.7 | 1.3 | 1.3 | 1.4 | 1.4 | 5.4 | 6.3 |
| **GP Interest** | **19.7** | **7.9** | **9.0** | **10.0** | **11.1** | **38.0** | **12.3** | **13.3** | **14.6** | **15.8** | **56.0** | **75.2** |
| Common units share | 24.7 | 6.5 | 6.6 | 6.8 | 6.9 | 26.8 | 7.1 | 7.2 | 7.4 | 7.5 | 29.2 | 31.5 |
| **Total distributions to TRGP** | **44.4** | **14.4** | **15.6** | **16.8** | **18.0** | **64.8** | **19.3** | **20.6** | **21.9** | **23.3** | **85.1** | **106.7** |
| Growth in cash distributions to TRGP (Y/Y) | 24% | 50% | 50% | 43% | 42% | 46% | 34% | 32% | 30% | 29% | 31% | 25% |
| | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 2.13 | 0.56 | 0.57 | 0.58 | 0.60 | 2.31 | 0.61 | 0.62 | 0.63 | 0.65 | 2.51 | 2.71 |
| LP Units | 71.8 | 84.7 | 84.8 | 84.8 | 84.8 | 84.8 | 85.7 | 85.7 | 86.5 | 87.4 | 86.3 | 88.7 |
| | (0.2) | - | - | - | - | (0.0) | - | - | - | - | (0.0) | (0.0) |
| Distribution to LPs | 152.8 | 47.2 | 48.3 | 49.4 | 50.5 | 195.4 | 52.0 | 53.1 | 54.7 | 56.4 | 216.2 | 239.8 |
| Distribution to GPs | 19.7 | 7.9 | 9.0 | 10.0 | 11.1 | 38.0 | 12.3 | 13.3 | 14.6 | 15.8 | 56.0 | 75.2 |
| **Total Distribution** | **172.6** | **55.1** | **57.3** | **59.4** | **61.5** | **233.4** | **64.3** | **66.4** | **69.3** | **72.1** | **272.1** | **315.0** |
| *GPs share in total distribution* | *11%* | *14%* | *16%* | *17%* | *18%* | *16%* | *19%* | *20%* | *21%* | *22%* | *21%* | *24%* |

*Source: Company filings, Deutsche Bank*

# TC PipeLines (TCP, $45.45, Hold, TP, $44)

## Solid Yield But Volume and Recontracting Risk

## Outlook

TCP is a pure-play pipeline MLP with assets that are largely in the US market and are well positioned and contractually controlled for security of earnings, cash flows and distributions. However, the relatively slow pace of drop-downs from its parent company, TransCanada Pipelines (TRP, $41.53, Hold, TP, $43) and the risk of recontracting for volumes pipeline reduce its potential growth and generate our Hold rating.

## Valuation

We use a three stage dividend discount model to derive our target price. We forecast a distribution of $3.14 per unit in 2012 & $3.22 per unit in 2013 and anticipate a 3.0% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. Then we use cost of equity of 9.1% as discount rate. Our discount rate is adjusted for (i) business risks associated with its dependence on West Canadian gas supply (1.5%). Using the above methodology, we arrive at a $44 target price.

## Risks

Reduced volumes in certain of the TCP pipelines due to the re-structuring of the gas flows of North America as the shale plays are developed are a risk for TCP. The upside risk is an accelerated pace of drop downs from its parent company-TransCanada compared to our expectations.

Figure 43: Distribution Coverage ($ in millions)

| TCP | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| Cash distribution from | | | | | | | | | | | | |
| Great Lakes | 69.2 | 16.9 | 21.4 | 18.2 | 16.6 | 73.1 | 18.5 | 19.2 | 16.5 | 17.4 | 71.6 | 71.6 |
| Northern Border | 86.1 | 25.8 | 26.5 | 20.8 | 26.4 | 99.5 | 25.8 | 26.1 | 26.4 | 26.4 | 104.6 | 104.6 |
| GTN | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bison | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Pipes' | 53.4 | 13.1 | 12.0 | 14.8 | 14.3 | 54.2 | 16.2 | 16.2 | 16.2 | 16.2 | 64.8 | 81.0 |
| Financial charges | (25.6) | (5.0) | (6.8) | (9.0) | (9.0) | (29.8) | (9.0) | (9.0) | (9.0) | (9.0) | (36.0) | (36.0) |
| SG&A | (4.4) | (1.8) | (4.8) | (1.2) | (1.2) | (9.0) | (1.2) | (1.2) | (1.2) | (1.2) | (4.8) | (4.8) |
| Others | 0.0 | 0.0 | 0.2 | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Distributable cash flow** | **178.7** | **49.0** | **48.5** | **43.9** | **47.1** | **188.0** | **50.3** | **51.3** | **48.9** | **49.8** | **200.3** | **216.5** |
| Less: GP distributions | (2.8) | (0.7) | (0.8) | (0.8) | (0.8) | (3.2) | (0.8) | (0.9) | (0.9) | (0.9) | (3.4) | (3.5) |
| **Distributable cash flow to LP** | **175.9** | **48.3** | **47.7** | **43.1** | **46.2** | **184.7** | **49.5** | **50.4** | **48.0** | **48.9** | **196.8** | **212.9** |
| Total LP Units Outstanding | 46.2 | 46.2 | 53.5 | 53.5 | 53.5 | 51.7 | 53.5 | 53.5 | 53.5 | 53.5 | 53.5 | 53.5 |
| Distributable cash flow per unit | 3.81 | 1.05 | 0.89 | 0.80 | 0.86 | 3.58 | 0.92 | 0.94 | 0.90 | 0.91 | 3.68 | 3.98 |
| **Cash Distribution per LP Unit** | **2.98** | **0.75** | **0.77** | **0.77** | **0.77** | **3.06** | **0.77** | **0.79** | **0.79** | **0.79** | **3.14** | **3.22** |
| Coverage ratio | 1.28 | 1.39 | 1.16 | 1.05 | 1.12 | 1.17 | 1.20 | 1.19 | 1.14 | 1.16 | 1.17 | 1.24 |
| Cash Distribution per LP unit - Growth % (Y/Y) | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% | 3% |
| **Distribution: LP-GP Split** | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 2.98 | 0.75 | 0.77 | 0.77 | 0.77 | 3.06 | 0.77 | 0.79 | 0.79 | 0.79 | 3.14 | 3.22 |
| LP Units | 46.2 | 46.2 | 53.5 | 53.5 | 53.5 | 51.7 | 53.5 | 53.5 | 53.5 | 53.5 | 53.5 | 53.5 |
| Distribution to LPs | 137.7 | 34.7 | 41.2 | 41.2 | 41.2 | 158.1 | 41.2 | 42.3 | 42.3 | 42.3 | 168.0 | 172.3 |
| Distribution to GPs | 2.8 | 0.7 | 0.8 | 0.8 | 0.8 | 3.2 | 0.8 | 0.9 | 0.9 | 0.9 | 3.4 | 3.5 |
| **Total Distribution** | **140.5** | **35.4** | **42.0** | **42.0** | **42.0** | **161.4** | **42.0** | **43.1** | **43.1** | **43.1** | **171.4** | **175.8** |
| GPs share in total distribution | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% | 2% |

*Source: Company filings, Deutsche Bank*

# Williams Partners (WPZ, $61.24, Hold, TP, $66)

## TOP 2011 PERFORMER WITH EXCELLENT POTENTIAL BUT FULL VALUATION

### Outlook

We are initiating coverage of WPZ with a Hold rating and $66/unit price target. WPZ has a diversified portfolio of assets including natural gas transportation; gathering; treating and processing; storage; NGL fractionation; and crude oil transportation.

WPZ is among the leading gatherers in the Marcellus with continued growth opportunities. In 4Q11, WPZ acquired the Laser Northeast Gathering System and other midstream businesses from Delphi Midstream Partners for $750m. Also, the partnership announced completion of the 300MMcf/d Springville pipeline, which connects WPZ's gathering system in northeast Pennsylvania with its Transco interstate gas pipeline.

The increased focus on the growth of WPZ that has occurred with the restructuring of its parent company, WMB, has been fairly reflected in the unit price in our opinion.

### Valuation

We use a three stage dividend discount model to derive our target price of $66 per unit. We forecast a distribution of $3.20 per unit in 2012 & $3.44 in 2013 and anticipate a 8.1% growth rate till 2016 and normalize it to a terminal growth rate of 2% over the next five years. Then we use cost of equity of 8.0% as discount rate. Our discount rate is adjusted for (i) relatively high GP/LP split (0.5%) and (ii) leverage to the growth of Marcellus Shale (-0.5%).

### Risks

Beyond the generic risks for the sector overall, we will admit to being picky relative to WPZ showing a higher level of risk in liquids prices and margins than the group averages. This factor should be reduced over time as WPZ adds $2.5-$3.0 billion in infrastructure focused on the Marcellus in the next few years. The upside risk is a higher liquids margin than expected.

## Figure 44: Distribution Coverage ($ in millions)

| WPZ | | | | | E | E | E | E | E | E | E | E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Distributable cash flow** | **2010** | **1Q** | **2Q** | **3Q** | **4Q** | **2011** | **1Q** | **2Q** | **3Q** | **4Q** | **2012** | **2013** |
| EBITDA | 1908 | 532 | 562 | 557 | 617 | 2268 | 630 | 637 | 644 | 644 | 2554 | 2783 |
| Less:Interest expenses | (360) | (105) | (104) | (102) | (112) | (423) | (114) | (116) | (119) | (121) | (470) | (506) |
| Less:Maintenance expenditure | (301) | (34) | (106) | (148) | (132) | (420) | (115) | (115) | (115) | (115) | (460) | (390) |
| Distribution from equity investments | 133 | 30 | 40 | 50 | 40 | 160 | 40 | 40 | 40 | 40 | 160 | 160 |
| Pre-partnership distributable cash flow | (223) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Less:Others | 7 | 17 | 5 | 9 | 0 | 31 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Distributable cash flow** | **1164** | **440** | **397** | **366** | **413** | **1616** | **441** | **445** | **450** | **447** | **1784** | **2047** |
| Less: GP distributions | (210) | (69) | (76) | (80) | (86) | (311) | (91) | (97) | (102) | (108) | (399) | (489) |
| **Distributable cash flow to LP** | **954** | **371** | **321** | **286** | **327** | **1305** | **350** | **349** | **348** | **339** | **1385** | **1558** |
| | | | | | | | | | | | | |
| Total LP Units Outstanding | 213.5 | 289.8 | 290.2 | 290.5 | 294.1 | 291.2 | 297.0 | 299.9 | 302.9 | 305.8 | 301.4 | 311.3 |
| Distributable cash flow per unit | 4.47 | 1.28 | 1.11 | 0.98 | 1.11 | 4.48 | 1.18 | 1.16 | 1.15 | 1.11 | 4.60 | 5.00 |
| **Cash Distribution per LP Unit** | **$ 2.72** | **$ 0.71** | **$ 0.73** | **$ 0.75** | **$ 0.76** | **$ 2.96** | **$ 0.78** | **$ 0.79** | **$ 0.81** | **$ 0.82** | **$ 3.20** | **$ 3.44** |
| Coverage ratio | 1.64 | 1.79 | 1.51 | 1.32 | 1.46 | 1.52 | 1.52 | 1.47 | 1.42 | 1.35 | 1.44 | 1.45 |
| Cash Distribution per LP unit - Growth % (Y/Y) | 7% | 8% | 9% | 9% | 9% | 9% | 9% | 8% | 8% | 8% | 8% | 8% |
| | | | | | | | | | | | | |
| **Distribution: LP-GP Split** | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| **Quarterly Distribution:** | | | | | | | | | | | | |
| Distribution per unit | 2.72 | 0.71 | 0.73 | 0.75 | 0.76 | 2.96 | 0.78 | 0.79 | 0.81 | 0.82 | 3.20 | 3.44 |
| LP Units | 213.5 | 289.8 | 290.2 | 290.5 | 294.1 | 291.2 | 297.0 | 299.9 | 302.9 | 305.8 | 301.4 | 311.3 |
| | | | | | | | | | | | | |
| Distribution to LPs | 580.8 | 206.5 | 212.6 | 217.1 | 224.3 | 860.4 | 230.9 | 237.7 | 244.6 | 251.5 | 964.5 | 1,071.0 |
| Distribution to GPs | 209.9 | 69.4 | 75.5 | 80.1 | 85.7 | 310.7 | 91.2 | 96.8 | 102.4 | 108.2 | 398.6 | 489.4 |
| **Total Distribution** | **790.8** | **275.9** | **288.1** | **297.2** | **310.0** | **1,171.1** | **322.1** | **334.5** | **347.0** | **359.7** | **1,363.1** | **1,560.3** |
| GPs share in total distribution | 27% | 25% | 26% | 27% | 28% | 27% | 28% | 29% | 30% | 30% | 29% | 31% |

*Source: Company filings, Deutsche Bank*

# Appendix 1

## Important Disclosures

### Additional information available upon request

For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr

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The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. Curt Launer

### Equity rating key

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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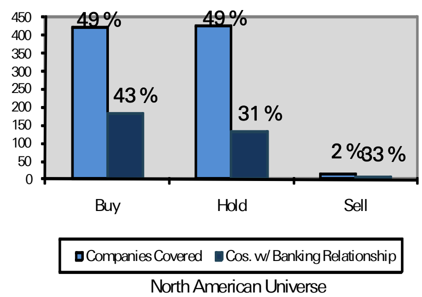
### Equity rating dispersion and banking relationships



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