Industry Top Trends Update

Midstream Energy

Strong supply and demand dynamics

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What's changed?

Commodity prices. Strong demand and the supply shock related to the crisis in the Ukraine supports midstream credit quality.

Creditworthiness. Strong prices and volumes are benefiting profitability and cash flows. Most companies are using free cash flow to repay debt and reward shareholders.

Focus on energy security. The Ukrainian crisis highlights the critical importance of traditional energy infrastructure and the need for additional liquified natural gas facilities to bridge the supply gap. This will likely slow the transition to renewables.

What to look out for?

Price volatility, supply disruption. Commodity price volatility will continue as Europe tries to wean itself off Russian natural gas and crude oil barrels are redirected to Asia and elsewhere. The world is short of both commodities, which could move prices higher. An explosion at Freeport LNG, which accounts for about 17% of U.S. exports, caused U.S. natural gas prices to decline after operations were suspended and the facility remains offline. The uncertainty around the direction of prices could be a headwind for the industry, with lower prices dampening profitability and higher prices slowing global economic growth.

Capital markets. Rising interest rates are making refinancing more expensive. Most midstream companies are using free cash flow to fund growth and have limited need to access debt markets. However, speculative-grade companies with upcoming maturities could have a more difficult time refinancing.

Pace of spending, capital allocation. Critical North American infrastructure to transport natural gas both domestically and for export markets will likely boost spending. Companies remain disciplined with capital allocation decisions and continue to be mindful of balance sheets. We are focused on any divergence from current financial policies during the strong commodity cycle.

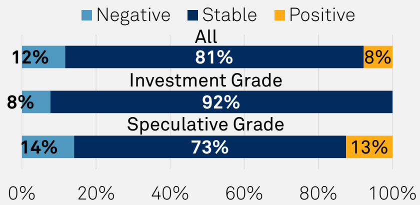
What if there's a recession?

Price/volume declines. A recession would result in lower prices and volumes but would need to be severe and prolonged for it to impact our view of the sector. Prices are unlikely to drop to levels that would curtail production and volumes for an extended period given global supply constraints.

Rating resiliency. Midstream companies have built up a significant financial cushion in their credit profiles over the last few years, which we believe will insulate them if there is a recession.

Financial policy. We'd expect a renewed focus on protecting the balance sheet and a deemphasis of shareholder rewards such as dividends increases and share buybacks.

Outlook Distribution

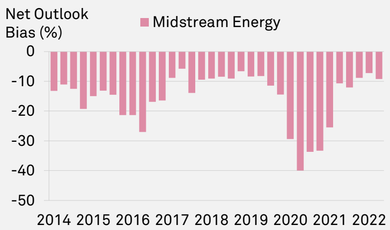


Ratings Statistics (YTD)*

	IG	SG	All
Ratings	40	65	105
Downgrades	0	3	3
Upgrades	2	16	18

Ratings data as of end-June 2022. * Year-to-date

Ratings Outlook Net Bias



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- Credit FAQ: Our Latest Views On Energy Transfer L.P., June 6, 2022
- ESG Materiality Map: Midstream Energy, May 18, 2022
- Issuer Ranking: North American Midstream Companies, Strongest To Weakest, April 11, 2022