



## Cheap and cheerful

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By: **Andy Thomson**

It's the time of year for various types of festive frippery: musical jingles, tinsel and baubles, mince pies and mulled wine, and a good old-fashioned jostle at the local shopping mall as the rush to buy gifts intensifies. But there are also serious and weighty matters that still need attending to before 2014 bids us farewell: one of these, as you will no doubt appreciate, is Infrastructure Investor's annual awards poll. If you have not already done so, make sure you register your selections [HERE](#).

Among the awards contenders, those operating in the US midstream space have strong claims to recognition. On the back of the shale gas boom, we saw the need for new infrastructure writ large. Just one example of many: Partners Group's acquisition of a majority stake in Fermaca, a leading player in the transportation of natural gas from the US to Mexico. Furthermore, some fund managers with a midstream specialisation – such as Energy Capital Partners and EnCap Flatrock Midstream – were able to wrap up extremely quick and successful fundraisings.

But, just as seasonal party-goers are getting into full swing, could this particular party be coming to an end? With the price of oil having already fallen from \$100 a barrel to \$60 - amid a prediction from Morgan Stanley that it will be closer to \$40 by the second quarter of next year – will operators of midstream infrastructure face knock-on effects that will give them a painful New Year hangover?

The message from the ratings agencies is mixed but in some ways troubling. For example, earlier this week Standard & Poor's downgraded three US gathering and midstream energy companies – Targa Resources Partners, DCP Midstream and its master limited partnership (MLP) DCP Midstream Partners – due to falling crude oil and natural gas liquid (NGL) market prices, which it believes will mean weaker credit protection over the next 12 to 24 months.

S&P acknowledged that midstream companies are “generally less vulnerable to commodity price fluctuations” but noted also that gathering and processing companies often have direct exposure to commodity prices from ‘keep-whole’ or ‘percent-of-proceeds’ contracts – and also that hedging against such exposure is often either absent completely or only covers a period of a year or two.

Equally worrying was Moody's exposure of the prevalence of bonds issued by midstream energy companies with poor covenant quality. It seems this is especially characteristic of MLPs, whose bond covenant packages offered investors the fourth-weakest protection among 67 non-financial sectors studies by Moody's. Compounding this unwelcome news was a warning from Deutsche Bank that the oil price has already fallen sufficiently far that some energy companies might restructure or default on their debt.

But before the festive mood gets too sober, let us not forget that investors rarely let seemingly adverse market conditions blind them to an opportunity. In announcing a \$250 million first close for his debut private equity fund this week, legal veteran Joel Moser appeared to view the falling oil price as investment facilitator rather than party pooper.

In an email to Infrastructure Investor asking for clarification, he told us: “...While the markets rush to mark down unconventional and alternative energy, the question must be asked whether what we are seeing is a short-term market correction that suggests a buying opportunity for certain assets if the asking price is discounted to reflect the current situation.”

So there you have it: entirely in keeping with the season, investors are being presented with a buying opportunity. Amid some apparently unsettling developments, that's got to be worth raising a glass to.