ELCO
Management Company, LLC

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MLP SMAP September 2017 Update

While oil prices climbing back above $50/bbl should be a psychological positive, there continues to be a disconnect between commodity prices and fundamental performance. This disconnect needs to be exploited, in our opinion, as we believe MLPs will continue to show that their earnings and cash flow are not only growing but are protected from commodity price volatility. In fact, MLPs saw little to no deterioration in cash flows when oil broke $30/bbl in early 2016. In addition, the commencement of petrochemical demand pull projects and the increase in LNG/refined products exports all bode well for incremental hydrocarbon volumes which should benefit MLPS.

With that said, we are seeing the early signs of an evolution in MLP business models. More and more midstream companies are becoming more focused on returns and are reducing their distribution growth projections to focus on increasing coverage, reducing leverage to the point that they will be able to self-fund their own projects instead of relying on the capital markets. During the Barclays Energy Conference, both Kinder Morgan and Williams even expressed a willingness to buy back stock in lieu of aggressive dividend increases or chasing thin project economics. We believe that as these companies increase their focus on returns vs just dividend growth, the stock price will eventually follow.

In conclusion, we quote from our current monthly publication which covers all of the energy sectors. "Average dividend yields of about 7.5% and its wide spread compared to the 10-year treasury, make the midstream space compelling for income and total return investors. For example, the average electric utility now yields only 2% and are trading at historically high valuations. We believe it is just a matter of time before the market starts to appreciate the high level of cash flow transparency in their contracts, and with many of the companies yielding high single digits, we are being paid to wait".

If you have any questions, please feel free to contact us directly.

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