


Midstream Oil & Gas:

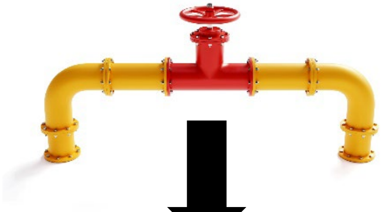
Industrials, Utilities, and Infrastructure Bankers Walk Into a Bar…

How to Make a Midstream Oil & Gas Baby

This is another **crash-course video** covering a lot of different topics.

So, yeah, it will be long, but it will also be faster than reading endless articles and AI slop online. Also, I'm giving you **time stamps** so you can jump around.

How to Make a Midstream Oil & Gas Baby



Capacity & CapEx

Pricing & Volume

Valuation

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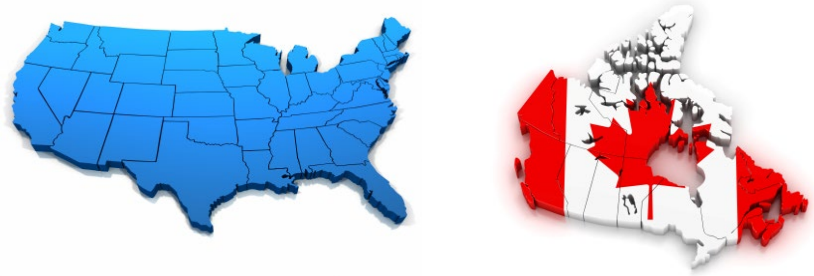

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How to Make a Midstream Oil & Gas Baby

For the Excel files and resources, go to:

https://breakingintowallstreet.com/kb/oil-gas-modeling/midstream-oil-and-gas/

(This is a **summary** from our full Oil & Gas Modeling course.)

Plan for This Tutorial

- **Part 1:** Midstream Overview **2:56**
- **Part 2:** The Industrials and Utilities Parts: Forecasts **6:50**
- **Part 3:** The Infrastructure Part: Valuation **13:48**
- **Part 4:** "Maritime Midstream" Companies **19:03**

Oil & Gas Modeling 101

- **Upstream (Exploration & Production or E&P):** Very CapEx-intensive companies; highly sensitive to commodity prices and a lot of specialized lingo, metrics, and methodologies

- **Midstream (Storage & Transportation or S&T):** Industrials/utilities companies with high margins, predictable revenue and cash flows, and less sensitivity to commodity prices

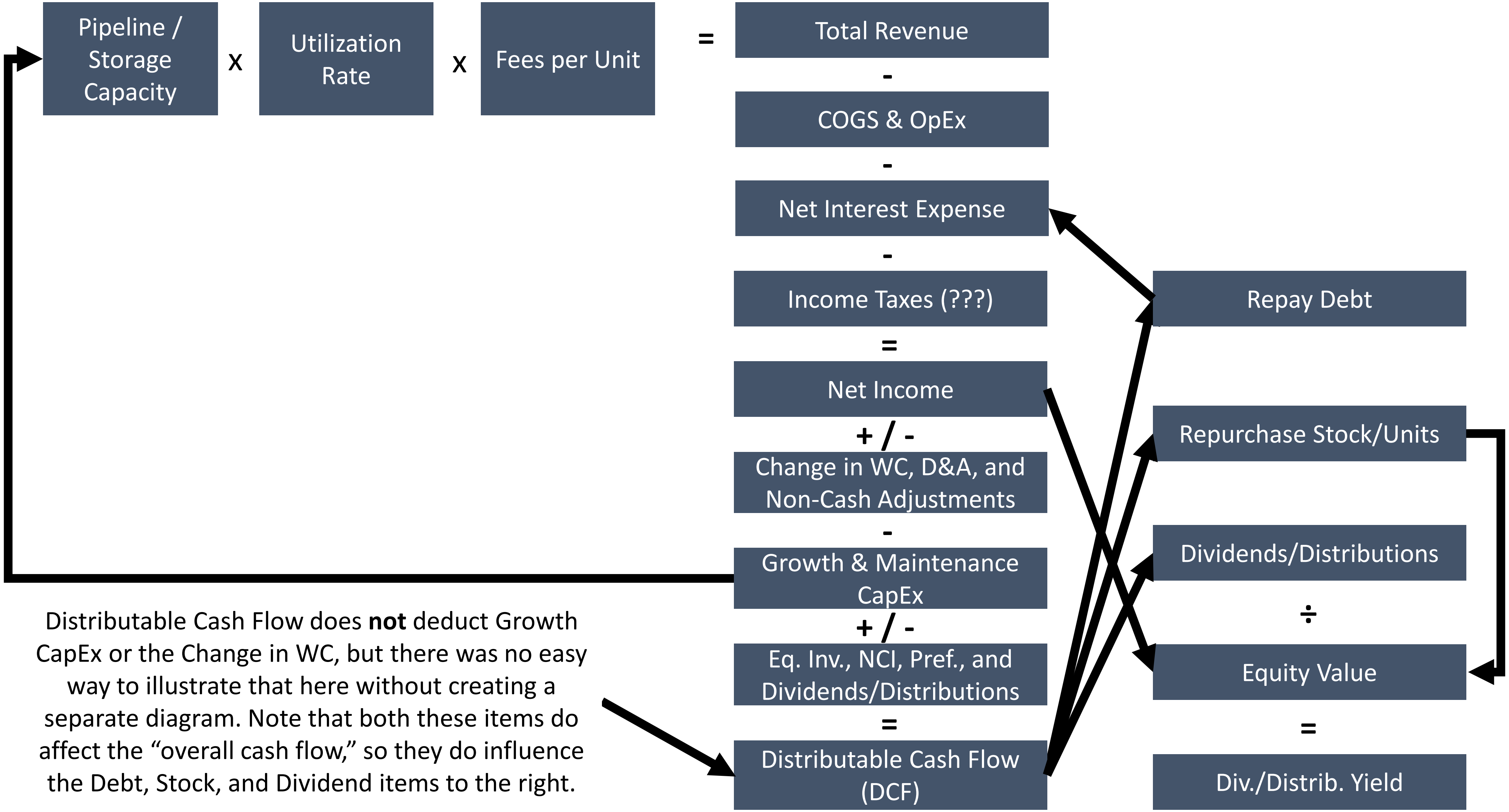
- **Downstream (Refining & Marketing or R&M):** Low-margin industrials companies with less predictable revenue and cash flows, and moderate sensitivity to commodity prices

Oil & Gas Modeling 101



	Upstream	Midstream	Downstream
Revenue:	Split into Proved Developed and "Undeveloped" Reserves and forecast decline rates, commodity prices, and new wells drilled	Capacity * Utilization Rate * Fees per Unit	Capacity * Utilization Rate * Price per Ton of Fuel
COGS & OpEx:	Mostly per-production ($ / Mcfe or $ / BOE) metrics that increase modestly over time	Mostly per-capacity metrics ($ / Mcfe or $ / BOE) that increase modestly over time	Per-production metrics that trend heavily with oil/gas prices; huge fluctuations
CapEx:	Primarily Growth CapEx from new wells drilled (D&C CapEx); some Maintenance	Primarily Maintenance CapEx for existing capacity; some Growth to expand pipelines/storage	Primarily Maintenance CapEx; very difficult to build new refineries, but expansions are possible
Production & Reserves:	Critical; 1P vs. 2P vs. 3P categories and conversion into Mcfe or BOE always required	Not important / relevant (unless the company also has Upstream operations)	Not important / relevant (unless the company also has Upstream operations)
Commodity Price Sensitivity:	Highly sensitive to commodity prices; scenarios required in all models	Not sensitive; there is an *indirect* effect because volumes tend to increase at higher prices	Moderately sensitive because prices affect refining margins; scenarios useful
Valuation Metrics & Multiples:	TEV / EBITDAX, TEV / Proved Reserves, TEV / Daily Production, and the NAV Model	TEV / EBITDA, Equity Value / Distributable Cash Flow, Distribution Yield, DCF Model, and the DDM/DDA Model	TEV / EBITDA, P / E, and the DCF Model; SOTP valuation may be more relevant
Legal / Tax / Accounting:	Almost always C-Corporations; Successful Efforts vs. Full Cost Accounting	Many U.S. Midstream firms are structured as MLPs (no corporate-level taxes), but they have become less common over time	Most are standard C-Corporations; MLPs exist but are typically for multi-segment companies

Part 1: Midstream Overview (Pipelines)



Distributable Cash Flow does **not** deduct Growth CapEx or the Change in WC, but there was no easy way to illustrate that here without creating a separate diagram. Note that both these items do affect the "overall cash flow," so they do influence the Debt, Stock, and Dividend items to the right.

Part 1: Midstream Overview (Pipelines)

- **"Master Limited Partnership" (MLP) Structure:** Common in the U.S. but less so recently due to a lower corporate tax rate

- **Idea:** An MLP is a "pass-through entity" that pays 0 or minimal corporate-level income taxes; "unitholders" receive "distributions" and are taxed at their personal rates

- **Complexity:** MLPs have "General Partners" with ~2% ownership who operate the business and "Limited Partners" (unitholders) who are passive investors; distributions may vary and are not necessarily 2% / 98%!

Part 2: Midstream Forecasts

- **Financial Statement / Cash Flow Forecasts:** Biggest issue is that **the data** is often disclosed in a confusing way

- **STEP 1:** Forecast Capacity, Utilization, and Revenue, focusing on modest growth expectations (~3 – 5% in most cases)

- **STEP 2:** Forecast Maintenance/Growth CapEx and OpEx; most OpEx is linked to Capacity or Revenue

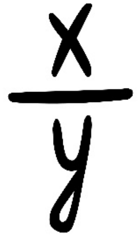
- **STEP 3:** Forecast Debt and Equity issuances based on Cash vs. Min Cash; Dividends/Distributions are normally percentages of Net Income (*very* simplified treatment here for both)

Part 2: Midstream Forecasts

- **STEP 4:** Calculate the key metrics and ratios, such as Distributable Cash Flow, Distribution Yield, ROE, etc.

- **C-Corp Differences:** DCF would be a lower number due to Cash Taxes and would have fewer deductions; lower Yields

- **CHECKS:** Ensure that the margins and CapEx / Revenue stay in consistent ranges



- **CHECKS:** Generally, want to see *deleveraging* over time and a **Distribution Coverage Ratio (DCR)** in a consistent range

Part 3: Midstream Valuation

- **Infrastructure / Project Finance:** All about **cash flows and distributions**, and so are most Midstream companies

- **Methodologies:** Public comps, precedent transactions, Unlevered DCF, and Dividend Discount Model or DDA

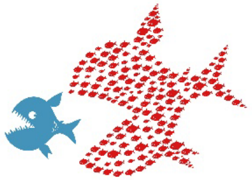
- **Public Comps Sample Screen:** U.S.-based Midstream MLPs with LTM EBITDA between $500 million and $5 billion

- **Metrics and Multiples:** TEV / EBITDA, Equity Value / Distributable Cash Flow, and the Distribution Yield

Part 3: Midstream Valuation

- **Adjustments:** Many companies report Distributable Cash Flow inconsistently, so you may need to create your own version and "overwrite" company-reported figures

- **Precedent Transactions:** Similar metrics, but *projected versions* are more important than usual here because it's a "yield-based industry" with predictable cash flows



- **DCF and DDM/DDA:** Should extend directly from your 3-statement model or cash-flow forecasts and pull in the Revenue, Expenses, and CapEx from them

Part 3: Midstream Valuation

- **Discounted Cash Flow:** The standard Unlevered DCF still works; be careful with the distinctions between UFCF, LFCF, FCF, and "Distributable Cash Flow" (all different!)

- **Dividend Discount Model (DDM):** Also works, but called a "Discounted Distribution Analysis" (DDA) for MLPs

- **Which One's "Better"?** Depends – the DCF is better for quick/consistent results, but the DDM may better reflect major capital structure or Dividend changes

Part 3: Midstream Valuation

	Unlevered DCF	Dividend Discount Model
Cash Flow Basis:	Unlevered FCF, (ignores Net Interest, Pref. Dividends, and Distributions)	Dividends/Distributions, which trend more closely with Net Income or Levered FCF
Taxes:	Must be **recalculated** to ignore Net Interest; must also recalculate Deferred Taxes	Can come directly from the full 3-statement model; no recalculations required
Change in Working Capital:	Always factors into UFCF directly	No *direct* impact on Distributable Cash Flow or Distributions, but there may be an indirect effect
CapEx:	Both Growth and Maintenance CapEx are always deducted	Only Maintenance CapEx is a *direct deduction*, but Growth CapEx indirectly affects future #s
Discount Rate:	WACC	Cost of Equity
Terminal Value:	TEV / EBITDA Terminal Multiple or a long-term UFCF growth rate	P / E Terminal Multiple or a long-term Net Income or Distributable Cash Flow growth rate
Implied Values:	Tend to be narrower and more predictable	More sensitive to capital structure and Dividend assumptions

Part 4: “Maritime Midstream” Companies

- **Rest of the World:** There are few independent pipeline companies; “Midstream” normally means **maritime/shipping** (e.g., oil tankers)

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- **Forecast Units:** Focus on **vessels**, the vessel count, and **per-vessel metrics**

- **Pricing and Volume:** Much harder to forecast; scenarios and toggles handle extreme fluctuations

- **CapEx:** Tends to be much “lumpier” (e.g., purchase 5 new oil tankers in Year 1 but 0 in Year 2)

Part 4: "Maritime Midstream" Companies

- **Corporate Tax Rate:** Interestingly, often low or ~0 for these companies due to tax havens (Cyprus, Malta, Monaco…)

- **Valuation:** Can still use EBITDA multiples and a standard Unlevered DCF, but Dividends, Distributable Cash Flow, etc., are much more questionable

- **Why:** Cash flows are far less predictable, so Dividends mean less; it's a lot of guesswork

- **Bare Minimum:** Assume *lower* multiples and a *higher* Discount Rate to account for the added risk

Recap and Summary

- **Part 1:** Midstream Overview

- **Part 2:** The Industrials and Utilities Parts: Forecasts

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