Midstream Compares Favourably to Broader Energy and the European Majors

North American Energy Infrastructure Offers Defensiveness and Higher Income Compared to the Majors or North American Energy Infrastructure Screens Favorably for Income, Defensiveness Compared to the Majors

The Alerian Midstream Energy Dividend UCITS ETF (MMLP) tracks the Alerian Midstream Energy Dividend Index (AEDW), which is a dividend-weighted index of US and Canadian energy infrastructure companies. While AEDW includes both corporations and Master Limited Partnerships (MLPs), which enjoy tax advantages in the US, all constituents are primarily focused on midstream activities, including transporting, processing, and storing hydrocarbons. In contrast to other energy subsectors, these activities are typically performed for fees, resulting in more stable cash flows. With this as context, how does AEDW compare to other energy indexes and the European majors from an investment standpoint?

Broad energy indexes tend to be significantly weighted to the integrated majors given their larger market caps. The Stoxx Europe 600 Oil & Gas Index (SXEP) had a combined 55% weighting to Total, Shell, and BP as of August 31. Similarly, the Energy Select Sector Index (IXE), which includes the energy companies in the S&P 500, has an approximately 45% weighting to Exxon and Chevron (Source Bloomberg). Notably, MLPs are excluded from broad US equity indexes and energy indexes like the IXE, providing added diversification relative to common energy allocations. Given the significant weighting to the majors in energy indexes and the greater likelihood of generalist investors owning these companies for energy exposure, it is important to understand how midstream compares to the majors.

Both midstream and the integrated majors can be thought of as defensive energy investments but for different reasons. Midstream corporations and MLPs are defensive by nature of their fee-based business model, which limits the impact of commodity price fluctuations on cash flows. This is evidenced by the stability in 2020 and 2021 EBITDA estimates for AEDW since the start of this year as shown in the table on the next page. Modest EBITDA revisions for midstream in the wake of the collapse in oil prices contrasts starkly with the significant downward revisions for other energy indexes and the European majors. Typically, the majors tend to be defensive as a function of their size, business diversification, balance sheet strength, and up until recently, their dividend track record. Shell, BP, and Eni cut their dividends this year by 67%, 50%, and 72%[1], respectively. For investors looking to replace lost income from those stocks, an allocation to midstream could be an appealing opportunity given its attractive income profile and defensive performance. Looking at total-return performance year-to-date through early October, midstream has outperformed the broader energy indexes and the European majors. The outperformance of midstream is even more pronounced when comparing with those names with dividend cuts.

[1] Source: https://uk.reuters.com/article/uk-bp-results/bp-halves-dividend-after-record-loss-speeds-up-reinvention-idUKKCN2500L9

Midstream Compares Favourably to Broader Energy and the European Majors

	Indices						
	US and Canadian Midstream	US Energy	European Energy	European Majors			
	AEDW	IXE	SXEP	Shell	BP	Total	Eni
One-year Total Return Performance	-31.51%	-39.80%	-32.44%	-53.77%	-52.39%	-27.35%	-45.86%
Yield	11.66%	7.07%	5.74%	4.77%	7.23%	8.95%	5.25%
Correlation to Brent Oil Prices:							
3 Years	0.68	0.71	0.66	0.47	0.49	0.48	0.54
5 Years	0.68	0.71	0.66	0.51	0.42	0.50	0.54

Change in EBITDA Estimates from 31 January (pre-COVID) to 9 October:

2020 Revisions	-5.92%	-50.27%	-48.21%	-35.91%	-49.63%	-49.71%	-47.49%
2021 Revisions	-8.56%	-34.74%	-36.29%	-32.39%	-30.77%	-34.87%	-36.87%

Past performance is no guarantee of future performance
All data as of 9/10/20. Source: Bloomberg

Given the relative defensiveness of the majors and midstream, both would be expected to provide upside in an oil price recovery while offering downside protection if the macro energy environment remains challenging. However, there is a noticeable variance in the correlations with Brent oil prices shown above. Despite its stable cash flow profile and more resilient equity performance this year, midstream has demonstrated a relatively high correlation with Brent. For investors anticipating an oil price recovery, midstream may represent an interesting opportunity to gain energy exposure while enjoying attractive income as the recovery continues. It bears noting that the exposure in the SXEP to utilities and renewable-focused companies like Vestas and Siemens Gamesa may provide less leverage to an oil price recovery.

While the majors and midstream have defensiveness in common, there are some key differences in investment considerations to highlight, particularly the more attractive income and greater cash flow stability of midstream. Thus far in 2020, midstream has proven to be more defensive than its energy peers while offering greater income.

Important Information

Communications issued in the European Economic Area ("EEA")
The content in this document is issued by HANetf Management Limited ("HML") acting in its capacity as management company of HANetf ICAV. HML is authorised and regulated by the Central Bank of Ireland. HML is registered in Ireland with registration number 621172.

Communications issued in the UK
The content in this document is issued by HANetf Limited ("HANetf"), an appointed representative of Mirabella Advisers LLP, which is authorised and regulated by the Financial Conduct Authority (FCA FRN 606792). HANetf is registered in England and Wales with registration number 10697042.

This communication has been prepared for professional investors, but the Exchange Traded Funds ("ETFs") set out in this communication may be available in some jurisdictions to any investors. Please check with your broker or intermediary that the relevant ETF is available in your jurisdiction and suitable for your investment profile.

Past performance is not a reliable indicator of future performance. The price of the ETFs may vary and they do not offer a fixed income.

This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. Therefore, readers are cautioned not to place undue reliance on these forward-looking statements.

The content of this document does not constitute an investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in an exchange traded product is dependent on the performance of the underlying asset class, less costs, but it is not expected to track that performance exactly. The ETFs involve numerous risks including among others, general market risks relating to underlying adverse price movements in an Index or underlying asset class and currency, liquidity, operational, legal and regulatory risks.

The information contained on this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of securities in the United States or any province or territory thereof, where HANetf ICAV or their ETFs are authorised or registered for distribution and where no prospectus of HANetf ICAV has been filed with any securities commission or regulatory authority. No document or information on this document should be taken, transmitted or distributed (directly or indirectly) into the United States. HANetf ICAV, nor any securities issued by it, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes.

HANetf ICAV is an open-ended Irish collective asset management vehicle issuing under the terms in the Prospectus and relevant Supplement approved by the Central Bank of Ireland ("CBI") ("Prospectus") is the issuer of the ETFs. Investors should read the current version of the Prospectus before investing and should refer to the section of the Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the ETFs. Any decision to invest should be based on the information contained in the Prospectus.

The Prospectus can all be downloaded from www.hanetf.com.
The decision and amount to invest in any ETF should take into consideration your specific circumstances after seeking independent investment, tax and legal advice.