January 2, 2018

EQT Midstream Partners LP(NYSE:EQM)

Eric Bjorklund

Sector: Oil & Natural Gas

Industry: Energy

Current Price: $61.52

Target Price: $66.62-$73.14

EQT Midstream Partners (NYSE:EQM) deals with the gathering and transmission of Natural Gas in the Appalachian Basin through ownership of over 950 miles of interstate pipeline, as well as approximately 1,800 miles of gathering lines. Acquisition and operation of midstream assets in the region have them set as one of the largest players on the Marcellus and Utica Shale formations. EQT Corporation, the largest natural gas producer in the USA, sponsors them.

BUY

Current Price: $61.52

Target Price: $66.62-$73.14

Market Cap: 5.05B

Beta: .948

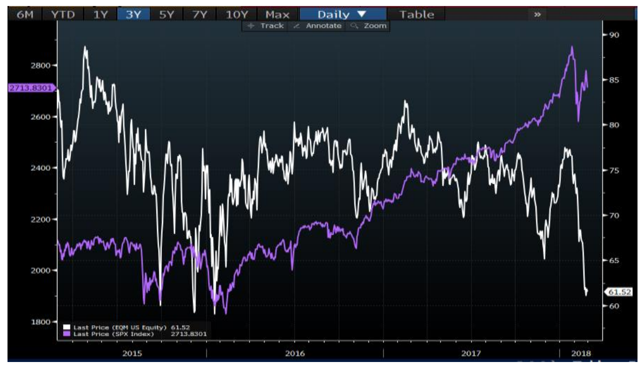
Other key Metrics/Ratios

1.6x Debt/EBITDA

15%-20% Annual Distribution Growth

1.34x Coverage Ratio (past 12 months)

Rev. Growth of 12% in past year



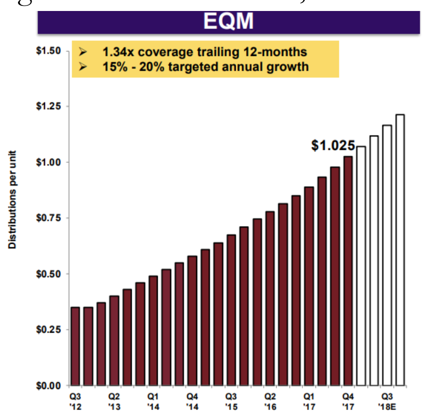
Thesis: Due to having a large amount of assets in the Appalachian Basin, and being in the process of becoming the third largest US based natural gas midstream company, EQM is an attractive buy. With the upcoming merger with RMP as well as the drop down of EQT assets, EQM looks to grow their operations at a high rate while taking advantage of the World's trend towards the use of clean burning Natural Gas. The completion of the MVC pipeline will allow EQM to tap into growing Southeastern natural gas markets.

Catalysts:

- Short Term(within the year): Merger with Rice Midstream Partners as well as acquisition of EQT transmission assets, recovery from 6.09% merger announcement price dip
- Mid Term(1-2 years): Completion of pipeline projects, specifically MVC, Hammerhead, and Equitrans expansion
- Long Term(3+): World shifting towards American natural gas with the majority coming from the Appalachian Basin

Earnings Performance

EQT Midstream Partners LP has consistently grown operating revenues since its creation, including a 13% growth this past year. 91% of their revenues were from firm reservation fees. On the transmission and storage segment of the business, revenues were up 12% in the past year. This increase is due primarily to the new capacity of the Ohio Valley Connector Pipeline, which went online at the end of 2016. New pipelines and infrastructure translate to higher revenues from contracts. Discussed in its own section is the growth in pipeline infrastructure that EQM has in the near future. Other considerations to increase in Net Income and Revenue are the adoption of lower tax rates and increased third party production.



EQM's cash distribution on a quarterly basis is steadily increasing at a rate of approx. 20%. Cash distributions paid per limited partner unit were $3.655 in 2017. In 2017, a 1.34x coverage ratio was maintained and a debt to EBITDA of 1.6x. EQM has maintained a strong balance sheet over the past year, and will continue to do so while investing heavily into growth and development of pipeline connectors, compressors and storage facilities.

EQM's price recently dropped from $76.11 to $62.94 due to an announcement of a merger with Rice Midstream Partners (NYSE:RMP) and its involvement in a spinoff company from EQT Corp. Historically mergers tend to frighten the market, but in a section below I will explain why this price dip is something to take advantage of. EQM is a competitive force in the Appalachian Basin, and stands to increase third party contracts. Cash flows remain steady due to the contract structure of their business, with benefits from an increase in the price of natural gas.

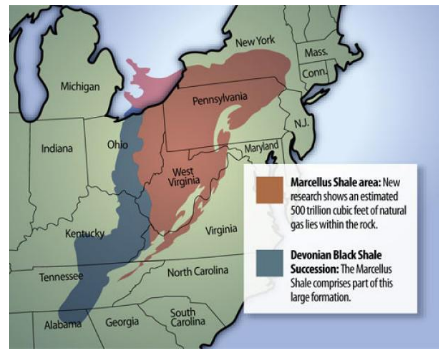
	Name	Est P/E Current Yr	Market Cap	Enterprise Value	Distribution Yield	Distribution Growth YoY	EV/EBITDA TTM	P/E TTM
	Median	11.88	3.44B	4.17B	5.82%	24.3517	11.14	12.00
100)	EQT MIDSTREAM PARTNE...	12.36	5.15B	6.32B	6.52%	20.0627	9.32	12.11
101)	ANTERO MIDSTREAM PAR...	14.90	4.92B	6.11B	5.55%	28.6408	12.69	18.60
102)	RICE MIDSTREAM PARTNE...	11.41	1.96B	2.23B	6.09%	19.9783	9.92	11.48
103)	NOBLE MIDSTREAM PART...	9.41	1.91B	2.13B	4.01%	318.0245	12.37	11.89

Midstream Partners and Their Benefits

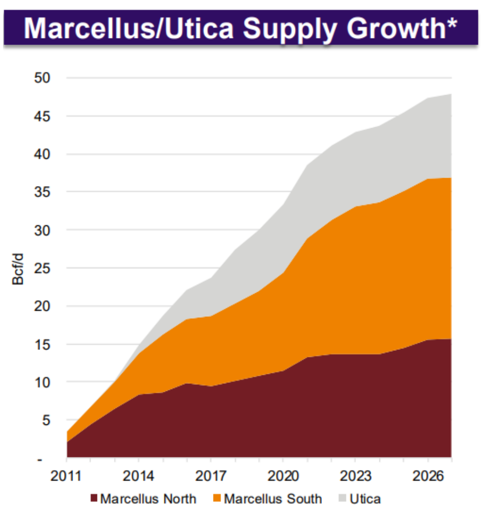
EQT Midstream Partners LP belongs to a part of the natural gas industry that deals mainly with the transmission of the commodity. The other two are Upstream- dealing with the drilling and gathering of natural gas, and Downstream- dealing with the refinement and marketing of the gas.

Midstream partners own assets mainly consisting of natural gas storage, pipelines, and compressor stations. Midstream companies usually have sponsors in big gathering corporations, in EQM's case; it is EPT Corporation, the largest natural gas gatherer in the U.S. This usually does not prohibit them from attaining business from third parties, which allows them to hedge against an issue with the sponsor so it does not affect their company. These companies mainly deal in firm contracts for a period of about 10 years. 91% of EQM's contracts are firm. This means gatherers have the right to use, but not the obligation, a certain amount of the pipeline's capacity. This strong use of firm contracts ensures cash flows to be steady and guaranteed for long periods. The other type of contract is an interruptible contract, which is more of a pay to play gas transmission agreement. These make up the other 9% of EQM's contracts. Midstream partners are not as tied to the price of natural gas as their upstream partners, but they can stand to benefit if the price goes up due to more production. The upstream assets will have more working capital as well as incentive to produce from wells, and thus developing a need for midstream infrastructure. As you can see from the graph, EQM has not spiked drastically with the reduction in cost of natural gas due to the long-term firm contracts it has with gatherers. There is still a small correlation because many Midstream companies have a segment of their company dedicated to gathering of natural gas. In EQM's case, their revenues are 54.5% drawn from gathering and 45.5% from the transmission of gas. This provides a healthy hedge against commodity prices dropping.

Appalachian Basin

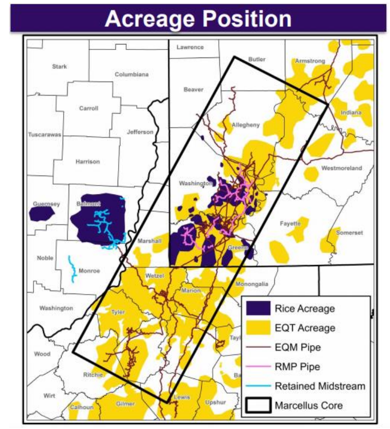


The Appalachian Basin is a geographic area consisting mainly of New York, Pennsylvania, Ohio and West Virginia. It also stretches into parts of Maryland, Kentucky and Virginia. This location has spurred America to become the world's largest producer of natural gas. The main lucrative parts of the Appalachian Basin are the relatively shallow Marcellus Shale formation, the deeper Utica Shale and the Devonian Black Shale Succession. Much of the current natural gas drilling takes place in the Marcellus shale, which is estimated to have over 500 trillion cubic feet of natural gas potential. This shale lies 10,000 feet deep, which makes it one of the easiest and cheapest shale formations in the U.S. to reach, making it a lucrative gathering site for natural gas.



Although the Marcellus shale is said to produce natural gas for the next 20 years, the deeper Utica shale provides another deposit of natural gas for existing infrastructure to tap into. This makes the region lucrative and here to stay for the long term. Many pipeline projects are underway and slated for completion in the next few years (more on EQM's involvement later) which will provide dry & liquid natural gas to high population areas on the eastern seaboard. The more pipelines, the easier it will be for drilling infrastructure and wells to be successful. Involvement on the Marcellus shale is still growing at a rapid rate, which makes it an attractive sector to invest in. Part of the reason for the natural gas boom in the area is the development of new Hydraulic Directional Drilling (HDD) and Hydraulic Fracturing (Fracking) techniques to more efficiently gather the gas. This involves drilling a vertical well directly down t the shale formation, and then turning the drill to run parallel with the ground. This enables the drill to hit fractures in the shale, which hold deposits of gas. A step further would be to frack, which involves breaking up the shale and gas formations using a high-pressure sand/water mixture, and then reclaim the mixture along with the gas. This is relatively new technology so there has been some controversy regarding the environmental responsibility, but with the exception of a few outliers, fracking is safe and noninvasive to the environment. Companies who violate the strict regulation on this drilling are subject to heavy fines.

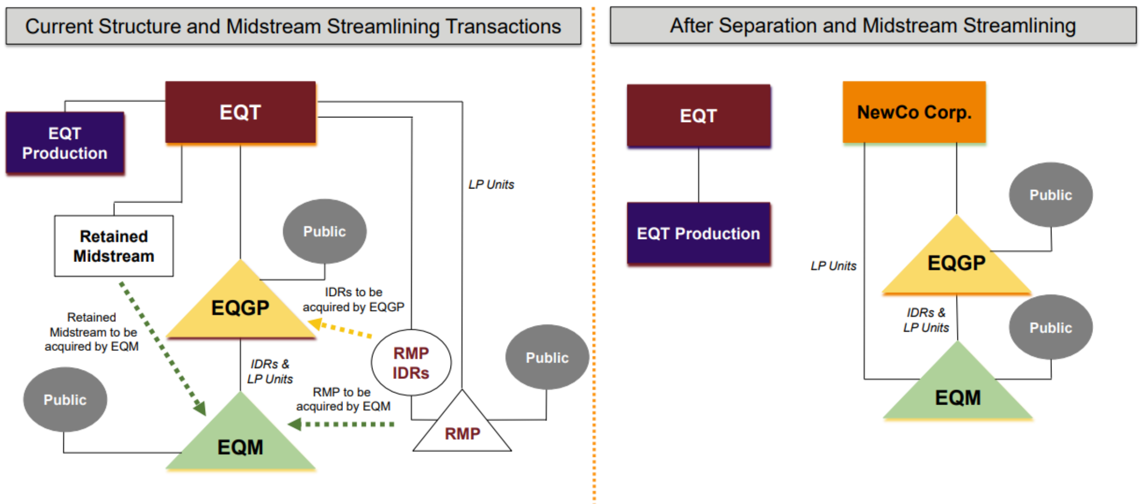
Business Model of Growth and Asset Development in the Basin



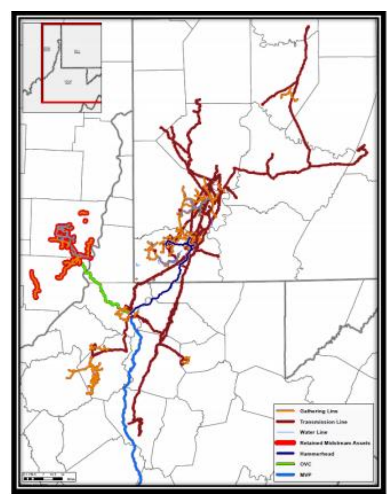
EQM is strongly involved in the growth and acquisition of gathering and transmission assets in the Appalachian Basin. They currently have 4 active pipelines consisting of the Allegheny Valley Connector (AVC), Sunrise Pipeline, Ohio Valley Connector (OVC), and the Equitrans Transmission line. They are currently in the process of developing several more pipelines that will provide a huge uptick in capacity and revenues in the coming year. One of their primary growth strategies is to establish interconnects from wells and smaller pipelines, to all of the major interstate pipelines in the basin. The OVC provides access to Midwestern markets via Ohio, and the upcoming Mountain Valley Pipeline scheduled to come online in Q3 of 2018 will provide access to the growing Southeast Markets. In expanding their asset footprint, they plan to aggregate supply from their sponsor, EQT, and other third party producers. They will use their transmission lines to access diverse sales points and shipping capability. Another large pipeline project they are undertaking is the Hammerhead Pipeline project as well as expanding the existing Equitrans Pipeline. Due to the recent acquisition of Rice Energy by EQT, EQM stands to benefit from a transfer of their midstream assets. EQT also plans to drop down their retained midstream assets, see in the map to the right. EQM stands to benefit from assets they will acquire in the new spinoff company that will come to fruition by Q3 2018 as well. This expansion falls in line with the growth strategy and dominance of the central line of the Marcellus and Utica shale EQM has strived for. The expansion of their asset network, combined with a strong sponsor in EQT as well as the capacity to take on 3rd party contracts, projects a large growth in revenues in the near future.

EQM's Involvement in EQT Corp. Spinoff NewCo

EQM is sponsored by EQT, and thus has access to the majority of the rights to transport their gas. As you can see, the two companies have some correlation, but EQM is not as volatile. IN fall of 2017, EQT Corp acquired Rice Energy. This combined two of the largest Marcellus Shale natural gas gathering companies. The two companies' asset maps are adjacent to each other, so integration was a huge synergy of the acquisition. This acquisition made EQT the largest natural gas producer in the United States. It added 483,000 core net acres to EQT's territory on the Marcellus Shale alone, as well as approx. 3000 undeveloped locations on the shale. The acquisition included all of Rice's Midstream assets (NYSE:RMP) which is where it gets interesting for EQM. Recently, EQT announced a plan to separate all of its midstream business into a separate spin off company (called NewCo until a June shareholder meeting.) EQT will focus on strictly production of natural gas, while NewCo will focus on gathering and transmission. All of the existing contracts between EQM and EQT will remain in place, as well as potential for new contracts to be developed.



The terms of this spin off include a drop down of the retained midstream assets of EQT(166,000 acres) to EQM, as well as the merger of all of Rice's midstream assets(246,000 acres) to EQM. EQT said in its most recent investor presentation that it expects its midstream cash flows to double over the next three years. The conditions are not finalized yet, but one can assume it will be an accretive transaction for both companies. Rice Energy has been known for its aggressive adoption of technology, and its infrastructure has proven to be beneficial for EQT almost immediately after the acquisition. EQM will continue to be publicly traded separately from NewCo. This spinoff will allow more third party contract potential for EQM as well as a large boost in assets along the central channel of the Marcellus Shale.



The pipeline reach of EQM will increase drastically, providing more opportunity to the south and west as shown by this pipeline map. This is a positive synergy in that the more pipeline EQM owns, the more contracts they can attain with EQT, NewCo and third party companies. This combined with the pipeline development and growth strategy outlined in the next section lays out a strong future revenue-generating venture for the midstream company. Once again, the diversification of EQM combined with firm contracts allows the company to hedge against drops in the price of natural gas, and provides a strong upside to the company. The merger may have scared off investors, which attributed to a 6% drop at the time of the announcement, but this is not a merger that would lower the value of EQM. This is one of the reasons the company is undervalued by the market presently.

Corporate Governance and Management

At the moment, EQM still falls under the EQT umbrella of management. This will change after a June shareholders meeting to decide the structure and governance of the new spinoff company. The CEO of EQT, Steven Schlotterbeck, is also the CEO of all of the partners and well as the Chairman of the board, David Porges, being the same. This is beneficial in that EQM stays in line with the growth and business of the largest American natural gas producer, and shares the same vision. All of the board of EQM have been involved in the oil and natural gas industry, and have overseen growth and expansion of similar companies. It will be interesting to see how much of the NewCo board is staffed with EQT board members, but one can assume that there will be some similarities. The current management team has in large part taken pay cuts relative to the recent decline in price, so it shows an incentive to increase the value of the company. A strong board with experience and will to drive value is a potentially lucrative asset for EQM to have.

U.S. & World Involvement in Natural Gas Industries

The natural gas industry in America is booming at the moment. The Trump administration and its "America First" mentality want to make the U.S. dominant in fossil fuels. Trump has an agenda of energy dominance and wants the world to look to America for their natural gas needs. He has said he wants America to become the "OPEC of Natural Gas." The Secretary of Energy, Rick Perry, is a strong proponent of fossil fuels, being that his home state is Texas. The U.S. has ramped up its oil exports to countries like Mexico and Canada through pipelines, and China through ships. China has stated that by 2020, they would like to reduce their coal use, and replace their 6% usage of natural gas with a 10% figure. U.S. gas is cheaper to produce than in Russia or the Middle East due to new technology, so China could be a valuable export customer. Exporting licenses are becoming easier to acquire with the new administration as well as the surplus of gas. Natural gas is clean burning, so it has become more attractive than coal or oil for heating, industrial production and even vehicle power. The U.S. has been trending towards more natural gas recently as well, so companies in this industry can stand to benefit for years to come.

Conclusion:

EQM is an attractive buy currently. Their recent acquisitions and position to acquire and develop more assets in the Appalachian Basin will prove to increase positive cash flows to the firm. Due to firm contracts, EQM is not as tied to the price of natural gas as some of its gathering peers, but can still stand to benefit from an uptick in business if the price of gas increases. They have a dominant asset footprint along the most lucrative parts of the Marcellus and Utica shale, which will continue to supply the U.S. and likely the world with natural gas for many years to come. Taking advantage of the underpricing of the equity due to a recent merger announcement is imperative, as the merger stands to drive expansion and create value for the shareholders in the short and long term. This is evident by the increase in revenues seen in the past year from new pipeline activity. The 20% annual trend of increasing shareholder distributions adds to the allure of the company. EQM is a stable company with a strong balance sheet and powerful sponsor. They have consistently increased their earnings since their incorporation. On the macro side of things, the world is trending towards clean burning natural gas instead of coal and petroleum. China can be a huge customer to American gas, as well as increasing exports to Mexico and Canada. The current administration's "Energy Dominance" policy bodes well for the entire industry, even though strict regulations tend to curb growth to some extent. The market has underpriced this company for the wrong reasons, so going long on EQM is an option that will pay off.

EQT Midstream Partners, LP (EQM)

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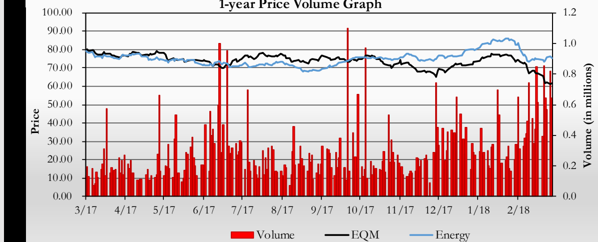
NEUTRAL

Analysis by Eric Bjorklund	Current Price:	$62.83	Intrinsic Value	$62.67	Target 1 year Return: 12.69%
3/2/2018	Divident Yield:	6.7%	Target Price	$66.62	Probability of Price Increase: 56.4%

1-year Price Volume Graph



Description

EQT Midstream Partners, LP provides natural gas gathering, transmission, and storage services in Pennsylvania, West Virginia, and Ohio.

General Information

Sector	Energy
Industry	Oil, Gas and Consumable Fuels
Last Guidance	February 12, 2018
Next earnings date	April 26, 2018

Market Assumptions

Estimated Equity Risk Premium	5.69%
Effective Tax rate	21%

Market Data

Market Capitalization	$4,957.39
Daily volume (mil)	0.15
Shares outstanding (mil)	80.58
Diluted shares outstanding (mil)	80.60
% shares held by institutions	109%
% shares held by investments Managers	53%
% shares held by hedge funds	9%
% shares held by insiders	0.20%
Short interest	1.98%
Days to cover short interest	3.94
52 week high	$80.44
52-week low	$60.59
Volatility	27.50%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2016	1.70%	-1.26%
3/31/2017	-1.05%	0.44%
6/30/2017	2.65%	3.08%
9/30/2017	-0.82%	-3.09%
12/31/2017	-0.97%	-4.71%
Mean	**0.30%**	**-1.11%**
Standard error	1.1%	5.5%

Market and Credit Scores

Recommendation (STARS) Value--4
Recommendation (STARS) Description--Buy
Quality Ranking Value--NR
Quality Ranking Description--Not Ranked
Short Score--0
Market Signal Probability of Default % (Non-Ratings)--0.564%
CreditModel Score (Non-Ratings)--bbb-

Industry and Segment Information

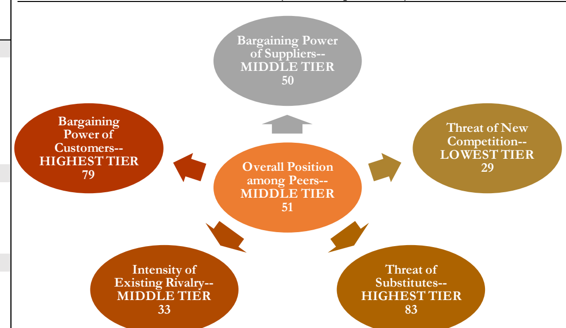
LTN Revenues by Geographic Segments	LTM Revenues by Business Segments
United States--100%	Gathering--54%
--	Transmission--46%
--	--
--	--
--	--

Peers

Antero Midstream Partners LP	--
Dominion Energy Midstream Partners, LP	--
TC PipeLines, LP	--
Phillips 66 Partners LP	--
--	--

Management	Position	Total Compensations Growth	Stock Price Growth During Tenure
Porges, David	Chairman of the Board - EQT Midstream Services,	-7.18% per annum over 5y	16.5% per annum over 5y
Schlotterbeck, Steven	President, CEO & Director of EQT Midstream Serv		
McNally, Robert	Senior VP, CFO & Director	-23.68% per annum over 1y	0.44% per annum over 1y
Ashcroft, Jeremiah	Senior VP, COO & Director of EQT Midstream Se		
Smith, Jimmi	Chief Accounting Officer of EQT Midstream Servi	19.52% per annum over 1y	0.44% per annum over 1y
Kane, Patrick	Chief Investor Relations Officer of EQT Midstre		

Porter's 5 forces (Scores are percentiles)

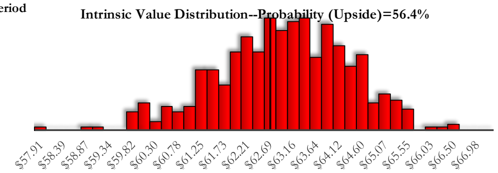


Profitability	EQM (LTM)	EQM Historical	Peers' Median (LTM)
Return on Capital (GAAP)	14.8%	7.21%	5.99%
Operating Margin	65%	62.26%	48.09%
Revenue/Capital (GAAP)	0.23	0.12	0.12
ROE (GAAP)	16.5%	72.2%	9.8%
Net margin	39.6%	30.7%	22.1%
Revenue/Book Value (GAAP)	0.42	2.35	0.44
Invested Funds	**EQM (LTM)**	**EQM Historical**	**Peers' Median (LTM)**
Cash/Capital	0.2%	5.3%	0.3%
NWC/Capital	0.4%	1.2%	0.5%
Operating Assets/Capital	99.4%	93.6%	98.3%
Goodwill/Capital	0.0%	0.0%	0.9%
Capital Structure	**EQM (LTM)**	**EQM Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.36	0.23	0.47
Cost of Debt	4.4%	3.9%	4.7%
CGFS Rating (F-score, Z-score, and default Probability)	A		
WACC	10.4%	9.0%	8.3%

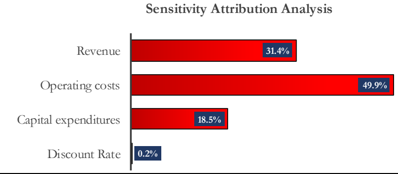
Valuation

Forecast Assumptions	Explicit Period (5 years)	Continuing Period
Revenue Growth CAGR	4%	2%
Average Operating Margin	75%	75%
Average Net Margin	41%	41%
Growth in Capital CAGR	5%	2%
Growth in Claims CAGR	0%	2%
Average Return on Capital	11%	9%
Average Return on Equity	13%	10%
Average Cost of Capital	9%	10%
Average Cost of EquityKe	10%	10%

Intrinsic Value Distribution--Probability (Upside)=56.4%



Sensitivity Attribution Analysis



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Equity Multiples from a DDM

Enter the following inputs for the two-stage DDM (If you are using FCFE, compute the pot

Current Inputs				
Current Earnings	$5.19	(in $ per share)		
Book value of equity	$2,149.00		ROE =	20.20%
Revenues =	$5,996.00			
High Growth Period				
Length of high-growth period (n) =	5	(Number of periods)		
Growth rate during period (g) =	6.00%	(in percent)	Expected ROE =	25.00%
Payout ratio during period ( ) =	65.000%	(in percent)		
Cost of Equity during period =	11.40%	(in percent)		
Stable Growth Period				
Growth rate in steady state =	2.40%	(in percent)		
Payout ratio in steady state =	65.00%	(in percent)	Expected ROE =	20%
Cost of Equity in steady state =	7.00%	(in percent)		
Output				
Value of Equity =	$73.14			
Price/Earnings Ratio =	14.09			
Price/Book Value Ratio =	0.03			
Price/Sales Ratio =	0.01			