

March, 21, 2017

Cone Midstream Partners LP

Ticker: CNNX

JT Jennings

Sector: Energy

Industry: Oil, Gas and Consumable Fuels

Current Price: \$17.34

Target Price: \$20.98

CONE Midstream Partners LP is a master limited partnership that was formed in May of 2014 by CONSOL Energy Inc. and Noble Energy Inc. CONE operates its business through three segments: Anchor Systems, Growth Systems and Additional Systems. CONE Midstream owns, operates and develops natural gas gathering and other midstream energy assets in the Marcellus Shale in Pennsylvania and West Virginia.

BUY

Current Price: \$17.34
 Target Price: \$20.98
 Market Cap: 1.1B
 WACC: 7.78%
 ROIC: 14.92%
 Avg. Volume: 148,287



Thesis: CONE Midstream Partners is primed to become a leader in the midstream energy service industry. CONE has a long term fixed fee agreement with two best in class sponsor companies CONSOL Energy Inc. and Noble Energy Inc. CONE is positioned well as the price for oil steadily rebounds. The acquisition of CONE Gathering DevCo. has increased efficiencies in the Anchor System segment. With the improvements to operations, quality and efficiencies, CONE is a definitive buy recommendation.

Catalysts:

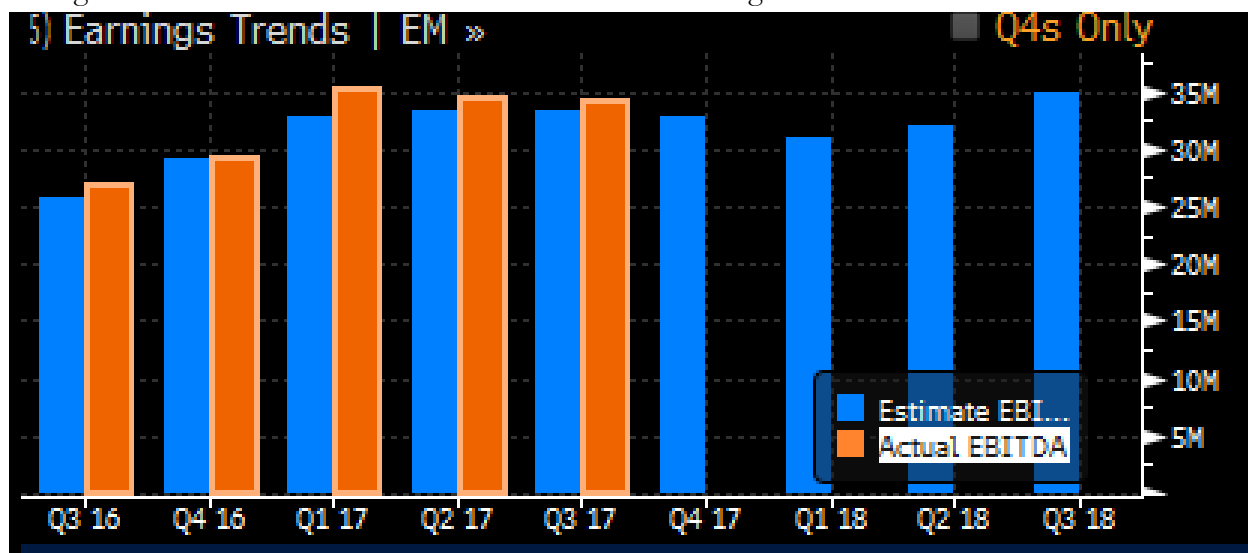
- Short Term (within the year): 3,700 potential new drilling locations.
- Mid Term (1-2 years): Trump administration, tax cuts, infrastructure spending, and deregulation.
- Long Term (3+): Stable long term partnership agreement with established successful oil companies.



Earnings Performance:

CONE Midstream released their third quarter earnings report earlier this month on November 2nd. The third quarter showed promise of their 2016 acquisition in Anchor System. Due to this acquisition, the net income rose 22% to \$29M, adjusted EBITDA grew 28% to \$34M, and distributable cash flows improved 26% to \$29M. Additionally, CONE was able to decrease their operating costs by 31% compared to quarter 3 of 2016. They were able to limit costs by turning 17 wells in line during the quarter. CONE has also transitioned to using automation and technology to limit expenses, specifically in the gas control room, which needs to be monitored 24-7. This automation and growth in technology has allowed CONE Midstream to improve their margins in both the Additional Systems and Growth Systems segments.

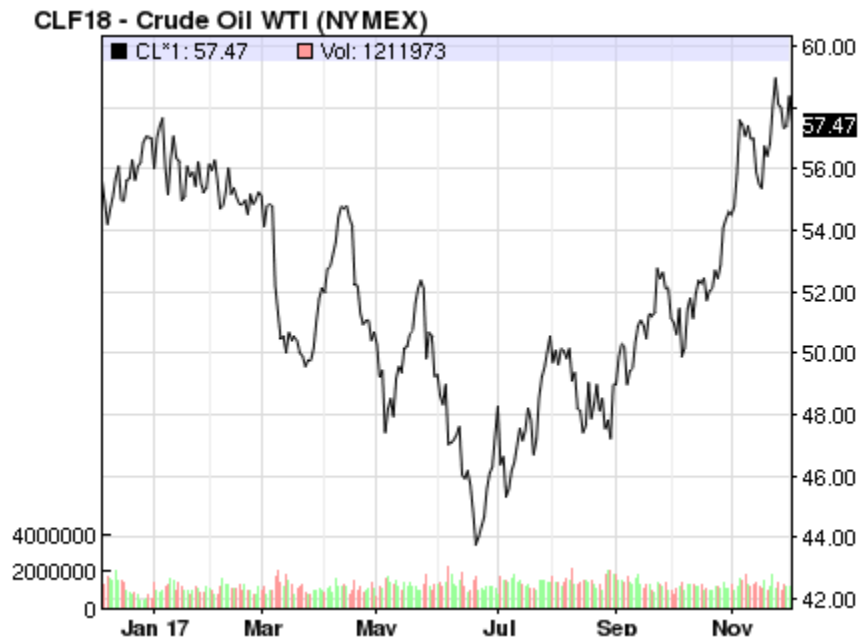
The graph below shows that the EBITDA for CONE Midstream has beaten every quarterly estimation for the past 8 quarters. This is due to the steady increase in wet and dry oil extraction production from both Noble Energy Inc. and CONSOL Energy Inc. as well as the rebounding oil prices. CONE Midstream's CEO, John T. Lewis said that, "We are confident in our current strategy to reduce operating expenses, and continue to work alongside with Noble and CONSOL to maximize revenue growth."



Industry Overview:

Currently, the oil, gas and consumable fuels industry is valued over \$3.2 Trillion. With the decrease in production in China's manufacturing sector, a rise in domestic production will likely occur. Because of the increase in domestic production, there will be a greater need for both wet and dry oil. This would position CONE Midstream Partners well, because it should increase the price in oil as well as the demand for CONE's services. The current price for oil remains around \$57 a barrel, however with the recent hurricane catastrophe and Trump's executive order to increase infrastructure spending by a trillion dollars, a sharp rise in crude oil prices seems fairly likely. The destruction to much of the U.S. gulf coast means that oil companies are more dependent upon drilling shales of mainland America. Furthermore, geographical regions in the Pennsylvania and West Virginia should see a sharp increase in demand.

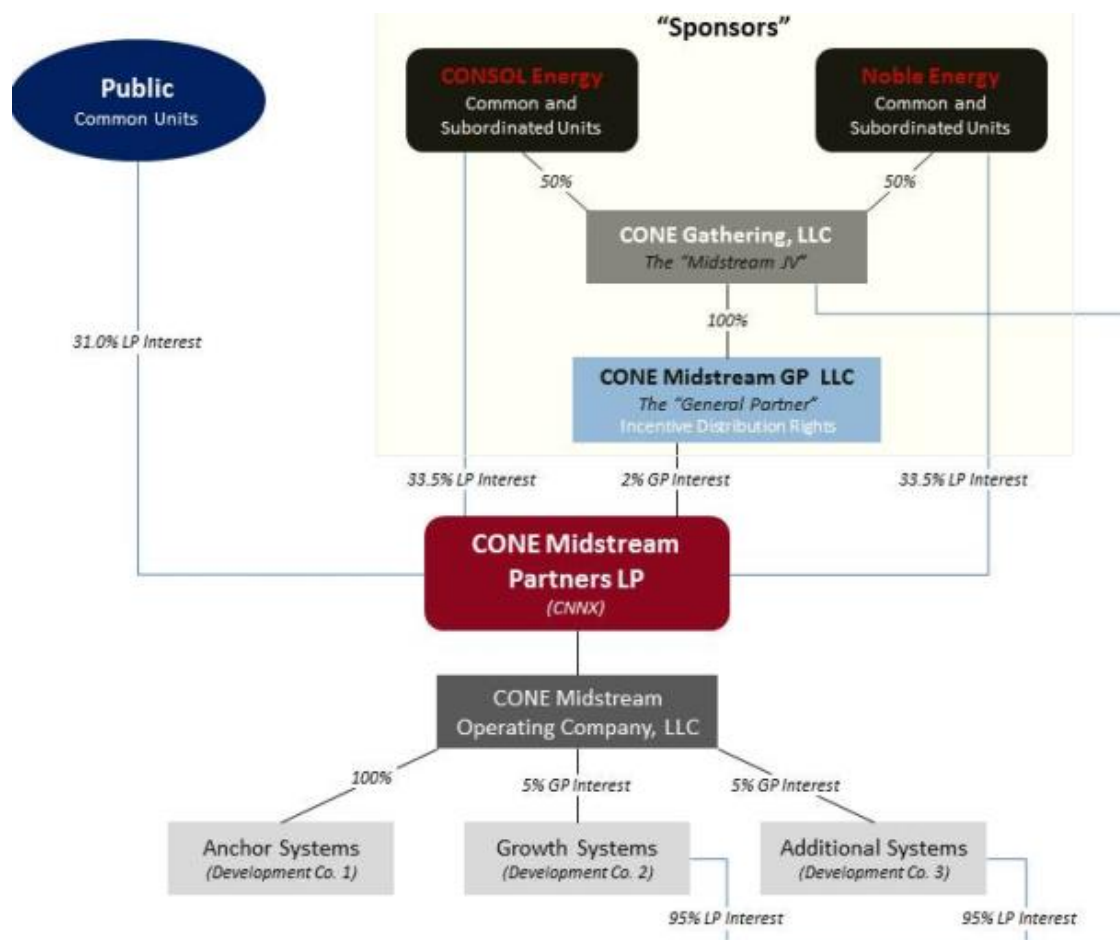
The chart shown below depicts the price for oil slowly crawling its way back up north toward \$60 a barrel. Oil has posted the biggest quarterly gain in over a year. If this trend continues as expected, CONE should be primed to stage high returns coming into the end of 2017.



Business Overview:

CONE Midstream Partners LP was created through a master's limited partnership agreement between CONSOL Energy Inc. (NYSE: CNX) and Noble Energy Inc. (NYSE: NBL) in 2014. The agreement stated that CONE would generate revenue through a 20 year long-term fixed fee agreement between the partners. Both Consol and Noble are large, independent oil and natural gas exploration companies that operate in the premier North American drilling shale, known as the Marcellus Shale. The Marcellus Shale has the highest concentration of hydrocarbon in North America, and accounts for 18% of all dry gas consumption in the United States. CONE Midstream, currently operates on roughly 500,000 net acres of the shale. Their proximity to high demand metropolitan markets in the North East, allows for easy transportation and a fast turnover ratio. CONE operates their business in three segments: Anchor Systems, Growth Systems and Additional Systems. Their daily operations consist of refining, transporting, storing and marketing the production and assets used by both Noble and CONSOL during the process of extracting oil. CONE has a four-step approach to ensure their success: 1) Capitalize on organic growth opportunities 2) Complete accretive acquisitions from CONE gathering 3) pursuing fixed-fee cash flows and 4) attracting third party volumes.

Below is a diagram that shows the breakdown of the master limited partnership segments and interest.



Segment Analysis:

CONE Midstream operates in three segments Anchor Systems, Additional Systems, and Growth Systems. CONE uses the three segments to extract, deliver and store natural gas obtained through the 254 miles of pipeline across the Marcellus Shale.

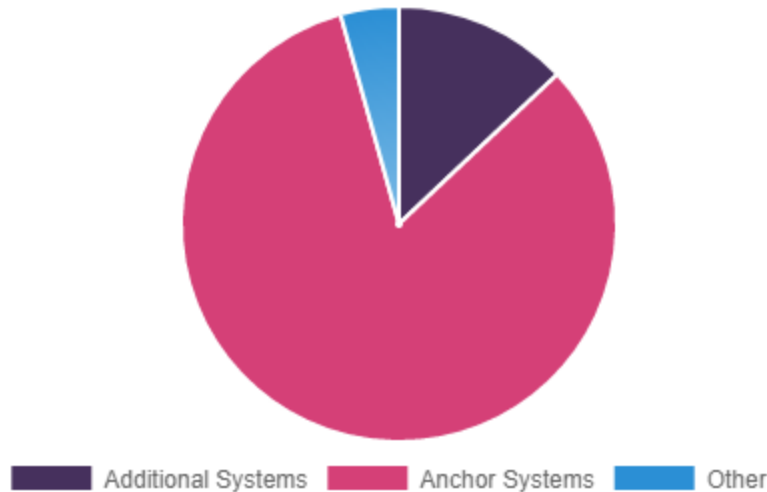
For the Fiscal Period Ending	Reclassified 12 months Dec-31-2012	Reclassified 12 months Dec-31-2013	Reclassified 12 months Dec-31-2014	12 months Dec-31-2015	12 months Dec-31-2016
Currency	USD	USD	USD	USD	USD
Revenues					
Anchor Systems	41.2	63.8	112.9	156.3	197.9
Growth Systems	1.4	1.5	9.7	13.4	10.4
Additional Systems	-	-	6.2	33.7	31.0
Other	-	0.4	1.2	-	-
Total Revenues	42.6	65.6	130.1	203.4	239.2

The Anchor System has been completely acquired from CONE Gathering DevCo. at the end of 2016 when they purchased the remaining 25% controlling interest. The Anchor Systems include midstream systems that generate the substantial majority of their current cash flows, and they expect to drive CONE Midstream's growth over the near term. Throughout 2017, they have seen an increase average throughput on these systems from their sponsors' growing production.

CONE's Growth Systems includes their, developing gathering systems that will require substantial expansion capital expenditures over the next several years, the vast majority of which will be funded by their Sponsors in proportion to their retained ownership interest.

Their Additional Systems include several gathering systems primarily located in the wet gas regions of their dedicated acreage. CONE expects that the Additional Systems will generate stable cash flows and require lower levels of expansion capital investment over the next several years.

Below is a visual representation of the three segments revenues for the year 2016.



Competitors:

CONE Midstream is currently well placed in the market, being that it's sponsor companies both Noble and CONSOL Energy have posted promising Q3 results. CONE is still a young midstream company, and yet they have solidified themselves as a credible and promising company in a short amount of time. They have a competitive advantage in their geographical location in the Marcellus Shale. There are currently 3,700 drilling locations shared between the partnership. CONE leads competitors of relative market capitalization, in return on equity of 30.29% proving that they are able to generate profit with shareholders equity. Their ROIC is far greater than their relative competitors, thus proving that CONE is more than capable of using invested capital to improve operations and generate revenue growth. Additionally, their WACC is consistent with their competitors which is not a concern when their return on invested capital is the best in class. The comparison of WACC to ROIC shows that when CONE grows, they are able to add value. Based on their current financial operations and their 20 year agreement with quality sponsors, CONE will remain a successful perennial competitor for the foreseeable future.

Name	Mkt Cap (USD)	ROE	ROIC:Y	WACC	Revenue:Y	EBITDA to Net Sales:Y
Median	3.24B	10.52%	6.02%	7.70%	1.31B	55.78%
100) CONE MIDSTREAM PARTN...	1.07B	30.29%	14.92%	7.78%	239.21M	64.08%
101) TC PIPELINES LP	3.54B	20.16%	6.35%	7.98%	357.00M	78.71%
102) BOARDWALK PIPELINE P...	3.31B	7.18%	6.02%	6.81%	1.31B	60.84%
103) DCP MIDSTREAM LP	4.96B	1.81%	4.94%	7.72%	1.50B	21.38%
104) ENBRIDGE ENERGY PART...	5.94B	12.48%	4.87%	7.70%	4.48B	20.28%
105) SUMMIT MIDSTREAM PAR...	1.42B	10.52%	1.53%	7.31%	402.36M	55.78%
106) TALLGRASS ENERGY PAR...	3.24B	18.34%	9.62%	8.19%	605.12M	57.48%
107) NGL ENERGY PARTNERS LP	1.55B	-8.10%	0.65%	6.65%	13.02B	3.78%
108) NUSTAR ENERGY LP	2.77B	5.03%	7.33%	6.93%	1.76B	32.78%

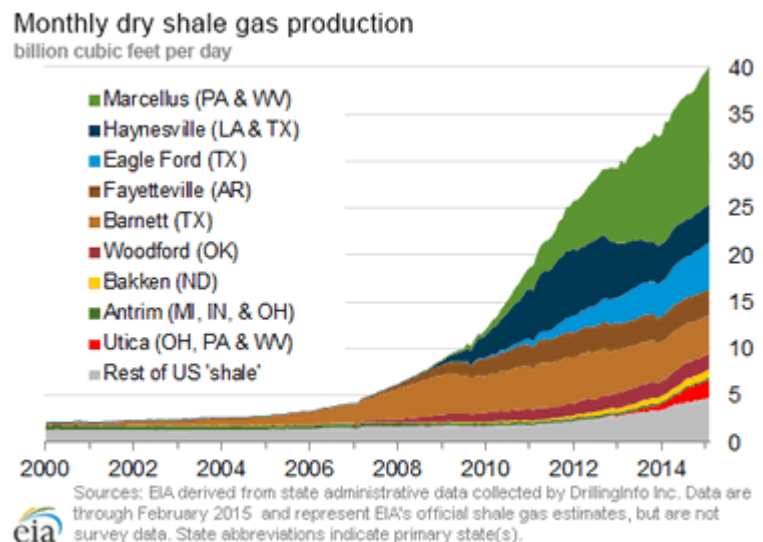
(Accounting Adjustments: Adjusted for Abnormal Items When Applicable)

10 Analyze List

CONSOL and Noble Partnership:

CONSOL Energy Inc. and Noble Energy Inc. provide CONE Midstream with the security of knowing that they have a 20 year fixed fee agreement. For a young company such as CONE, it is important to have management with experience in the industry. CONE's CEO and president John T. Lewis was once a vice president at Noble, and their CFO David M. Khani was once the Vice President and CFO of CONSOL. Both men have adopted the culture and methods of success that Noble and CONSOL has taught them, and they have instilled it into the business structure at CONE Midstream. In addition to quality management, their master limited partnership has provided CONE with an optimal geographical location in the Marcellus Shale. Currently, the partnership has 537 operational wells ready for extraction. The partnership has recently announced that they have 3,700 prospective new drilling sites across the Marcellus Shale. According to management, the partnership plans to double the amount of drilling sites in the next five years. This would greatly benefit CONE in regard to revenue growth and operating margins.

The Marcellus Shale has been known to contain fair amounts of natural gas. However, in 2015 the shale was yielding nearly 14.4 billion cubic feet of natural gas per day, and accounted for over 36% of all shale gas produced in the United States, as well as 18% of the total dry gas produced in the United States.



Debt:

CONE Midstream has shown the ability properly manage their money due to their low debt to equity ratio of 18.72%. CNNX has the ability to finance acquisitions such as the Anchor Systems in 2016 without the use of

debt. The Acquisition consisted of \$140M in cash and an issuance of 5.2M common shares. CONE currently has \$157M in total long-term debt. CNNX also has the luxury of having a \$250M revolving credit facility through their sponsors, which allows for some flexibility of new potential acquisitions or future projects. Compared to their competitors CNNX is positioned very well. Although they are smaller than most of their competitors, their debt to equity, debt to EBITDA and their financial leverage are all at or well below their competitors average. CONE's ability to limit their debt, decreases their overall risk and frees up capital that could be invested in other operations.

Name	Mkt Cap	Debt/Cap:Y	Debt/EBITDA:Y	Net Debt to EBITDA:Y	Finl Lev:Y
Median	3.24B	50.20%	5.53	4.78	2.78
100) CONE MIDSTREAM PARTN...	1.07B	18.72%	1.09	1.05	2.78
101) TC PIPELINES LP	3.54B	60.19%	6.61	6.43	2.64
102) BOARDWALK PIPELINE P...	3.31B	43.99%	4.47	4.45	1.91
103) DCP MIDSTREAM LP	4.96B	46.08%	7.03	8.03	1.98
104) ENBRIDGE ENERGY PART...	5.94B	50.20%	8.67	4.31	5.75
105) SUMMIT MIDSTREAM PAR...	1.42B	51.47%	5.53	5.42	2.93
106) TALLGRASS ENERGY PAR...	3.24B	48.89%	4.05	4.02	2.06
107) NGL ENERGY PARTNERS LP	1.55B	57.26%	6.07	10.44	3.13
108) NUSTAR ENERGY LP	2.77B	65.56%	5.33	4.78	3.39

(Accounting Adjustments: Adjusted for Abnormal Items When Applicable)

10 Analyze List

Conclusion:

Based upon catalysts and their current financial position, CONE Midstream Partners LP seems to have a reasonable growth ceiling for the next 10 years plus. They have steadily grown their revenue and improved their margins even during the tough times of oil prices. They were able to innovate their techniques as a midstream supplier without gaining any significant debt. Assuming that the oil prices rebound and the Trump administration can agree with congress to implement the tax cuts and the increase infrastructure spending, CONE will be positioned extremely well. They have successfully acquired the remaining 25% of the Anchor System, and limited their debt to equity ratio to 18.72%. CNNX and its partners share one of the greatest drilling shales in North America, that has continually shown annual growth in the amount of cubic feet of natural gas. CNNX is a definite buy recommendation.

CONE Midstream Partners LP (CNNX)

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BULLISH

Analysis by JT Jennings
12/5/2017

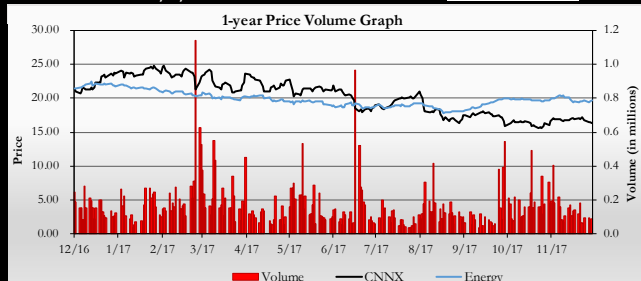
Current Price:
Divident Yield:

\$17.34
6.8%

Intrinsic Value
Target Price

\$20.10
\$20.98

Target 1 year Return: 27.74%
Probability of Price Increase: 96%

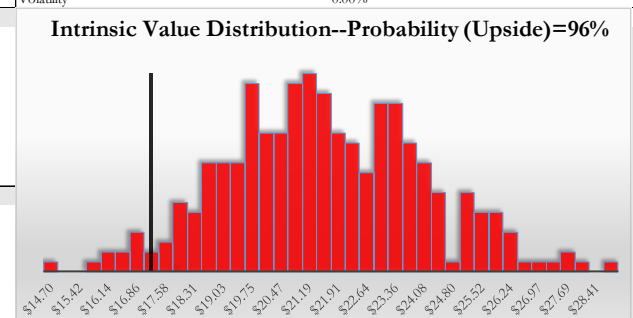


Description	
CONE Midstream Partners LP owns, operates, develops, and acquires natural gas gathering and other midstream energy assets in the Marcellus Shale in Pennsylvania and West Virginia.	
General Information	
Sector	Energy
Industry	Oil, Gas and Consumable Fuels
Last Guidance	November 3, 2015
Next earnings date	February 16, 2018
Estimated Country Risk Premium	2.74%
Effective Tax rate	40%
Effective Operating Tax rate	40%

Market Data	
Market Capitalization	\$1,102.64
Daily volume (mil)	0.11
Shares outstanding (mil)	63.59
Diluted shares outstanding (mil)	63.20
% shares held by institutions	21%
% shares held by investments Managers	18%
% shares held by hedge funds	2%
% shares held by insiders	0.23%
Short interest	0.12%
Days to cover short interest	0.49
52 week high	\$25.56
52-week low	\$15.25
Volatility	0.00%

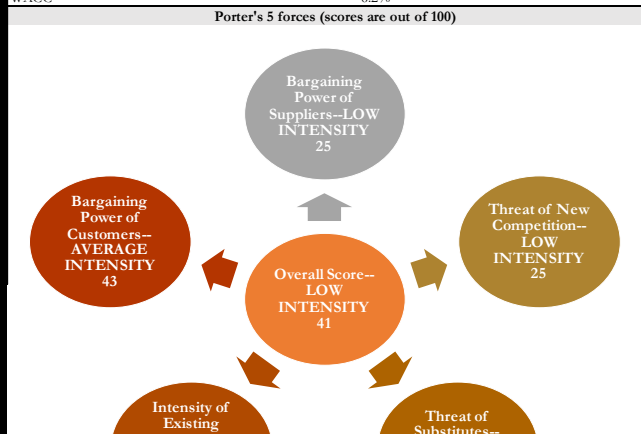
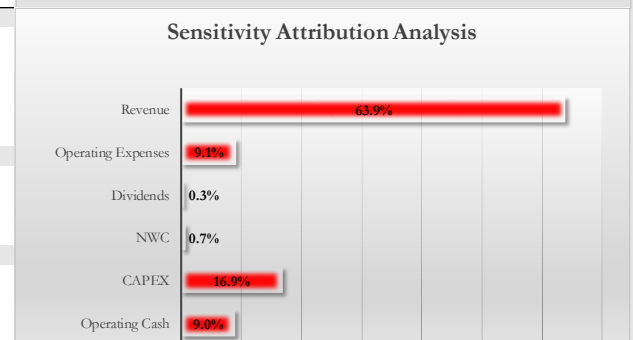
Past Earning Surprises	
Quarter ending	Revenue
9/30/2016	0.71%
12/31/2016	-19.66%
3/31/2017	-11.74%
6/30/2017	-15.49%
9/30/2017	-23.74%
Mean	-13.99%
Standard error	4.2%
Management	Position
Lewis, John	Chief Executive Officer of C
Khani, David	Chief Financial Officer of C
Fink, Joseph	Chief Operating Officer of C
Rich, Brian	Chief Accounting Officer of
Moore, Kirk	General Counsel of CONE Mids

EBITDA	
9/30/2016	52.04%
12/31/2016	13.54%
3/31/2017	15.13%
6/30/2017	11.78%
9/30/2017	11.93%
Mean	20.88%
Standard error	7.8%
Peers	
Noble Midstream Partners LP	N/M
Oasis Midstream Partners LP	N/M
Rice Midstream Partners LP	N/M
TC PipeLines, LP	N/M
Shell Midstream Partners, L.P.	N/M
Summit Midstream Partners, LP	N/M
Dominion Energy Midstream Partners, LP	N/M
Antero Midstream Partners LP	N/M
Total compensations growth	
Chief Executive Officer of C	N/M
Chief Financial Officer of C	N/M
Chief Operating Officer of C	11.81% per annum over 3y
Chief Accounting Officer of	N/M
General Counsel of CONE Mids	N/M



Profitability	
CNNX (LTM)	CNNX (5 years historical average)
Return on Capital (GAAP)	8.6%
Operating Margin	33%
Revenue/Capital (GAAP)	0.26
ROE (GAAP)	14.9%
Net margin	46.9%
Revenue/Book Value (GAAP)	0.32
Invested Funds	
CNNX (LTM)	CNNX (5 years historical average)
Cash/Capital	0.4%
NWC/Capital	0.1%
Operating Assets/Capital	99.5%
Goodwill/Capital	0.0%
Capital Structure	
CNNX (LTM)	CNNX (5 years historical average)
Total Debt/Market Capitalization	0.18
Cost of Existing Debt	4.1%
CGFS Rating (F-score, Z-score, and default Probability)	BB
WACC	6.2%

Peers' Median (LTM)	
Return on Capital (GAAP)	17.29%
Operating Margin	29.00%
Revenue/Capital (GAAP)	0.60
ROE (GAAP)	42.6%
Net margin	42.7%
Revenue/Book Value (GAAP)	1.00
Peers' Median (LTM)	
Cash/Capital	2.8%
NWC/Capital	-1.6%
Operating Assets/Capital	92.8%
Goodwill/Capital	6.0%
Peers' Median (LTM)	
Total Debt/Market Capitalization	0.46
Cost of Existing Debt	4.5%
CGFS Rating (F-score, Z-score, and default Probability)	BBB
WACC	8.3%



Revenue Growth Forecast	
Period	Revenue Growth Forecast
Base Year	-4%
9/30/2018	4%
9/30/2019	12%
9/30/2020	16%
9/30/2021	8%
9/30/2022	7%
9/30/2023	6%
9/30/2024	6%
9/30/2025	5%
9/30/2026	4%
9/30/2027	3%
Continuing Period	3%

NOPAT Margin Forecast	
Period	NOPAT Margin Forecast
Base Year	34.9%
9/30/2018	25.5%
9/30/2019	24.9%
9/30/2020	23.8%
9/30/2021	20.9%
9/30/2022	19.6%
9/30/2023	19.2%
9/30/2024	19.4%
9/30/2025	20.3%
9/30/2026	22.0%
9/30/2027	24.5%
Continuing Period	27.8%

Return on Capital Forecast	
Period	Return on Capital Forecast
Base Year	11.8%
9/30/2018	8.5%
9/30/2019	9.7%
9/30/2020	10.2%
9/30/2021	9.0%
9/30/2022	9.2%
9/30/2023	10.0%

WACC Forecast	
Period	WACC Forecast
Base Year	6.2%
9/30/2018	6.5%
9/30/2019	6.7%
9/30/2020	7.7%
9/30/2021	7.5%
9/30/2022	7.5%
9/30/2023	7.4%

Price per share Forecast	
Period	Price per share Forecast
Base Year	\$20.37
9/30/2018	\$20.89
9/30/2019	\$21.36
9/30/2020	\$21.97
9/30/2021	\$22.55
9/30/2022	\$23.10
9/30/2023	\$23.54