



NGL Energy Partners LP (NYSE: NGL)

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MFIF

Minutemen Fixed Income Fund

Investment Thesis

We recommend an overweight position on NGL's 8.125% 2029 senior secured notes. NGL Energy Partners, is a Master Limited Partnership (MLP) headquartered in Oklahoma. NGL is a small market capitalization midstream natural gas liquids partnership at an equity value of \$613 mm. NGL differentiates itself from other MLPs by providing more services than only natural gas liquid transport. NGL provides energy logistics, refinery, water disposal and more. We believe that earnings from NGL's continued expansion in water solutions will outpace its capital expenditures. We also believe that NGL's long-term minimum volume commitment contracts with a diversified counterparty base will allow NGL to comfortably cover interest payments. Finally, we believe that market pressures will force NGL to refinance their 2029 notes, which is consistent with their historical strategies. We recommend a hold to call in February 2026 on NGL's 2029 senior secured notes due to an estimated aggressive tightening of ~30-35 bps, resulting in a total return of ~12% over 1.3 years and a total annualized return of ~9.4% to investors.

Figure 1: Capitalization Table

NGL Capitalization Table (\$mm)										
	6/30/24	6/30/24								Debt / EBITDA
	Face	Price	Market	Interest Rate	Cash Interest	Maturity	YTW	OAS	FY23A	FY24E
Cash & Cash Equivalents	\$5									
First Lien										
ABL due 2029	169	-	169	S + 285	13	2/02/29			169	169
Term Loan B due 2031	700	97.33	681	S + 375	61	2/02/31			681	681
Total First Lien Debt	\$869		\$850		\$75				1.42x	1.55x
Net First Lien Debt	864		845						1.42x	1.57x
Senior Secured										
Notes due 2029	900	101.7	915	8.13%	73	2/15/29	7.61%	352 bps	900	900
Notes due 2032	1,300	101.8	1,323	8.38%	109	2/15/32	7.56%	347 bps	1,300	1,300
Total Debt	\$3,069		\$3,084		\$257				5.05x	5.59x
Total Net Debt	3,064		3,079						5.02x	5.58x
Earnings										
FY23A EBITDA	\$610									
FY24E EBITDA	\$549									

Figure 2: Annual Debt Distribution

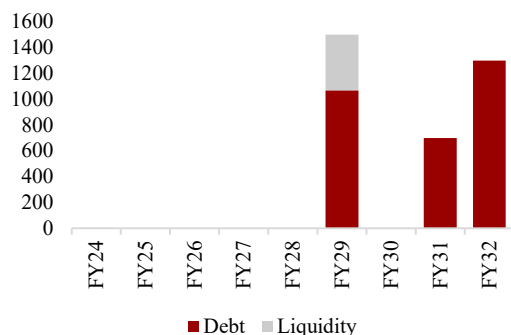


Figure 3: Liquidity Analysis

Liquidity	
ABL Commitment	\$600
(-) ABL Borrowings	169
ABL Availability	\$431
(+) Cash	5
Total Liquidity	\$436

Source: Company Filings, Bloomberg

Security Data

Bond Maturity: 2/15/2029

Rating: B1/B+

Rank: Senior Secured

Price: 101.71

Yield-to-worst: 7.61%

Call Date: 2/15/2026

Coupon: 8.125%

OAS: 352.2 bps

CUSIP: 62922LAC28

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Industry Overview

The U.S. propane, oil, and gas extraction and transport industries are set to grow at a market CAGR of ~4.5% YoY through FY29. The industry tends to see some cyclicalities with higher sales during the months of November to March due to heating demand. The midstream energy industry primarily consists of master limited partnership businesses. The U.S. revenue code governs the eligibility of businesses to qualify as MLPs. Because these pipeline systems are instrumental to the infrastructure of the U.S. economy, businesses that earn at least 90% of their income from sources tied to transporting natural resources receive eligibility. Within an MLP, unitholders are offered a tax benefit, avoiding the double taxation that a corporation typically faces. The MLP's pretax income is directly passed to unitholders (limited partners) as distributions and taxed only at the investor level. The general structure of an MLP consists of a holding company consisting of the general partners which carry out the strategy and management of the partnership; these general partners have unlimited liability. Limited partners are equity investors that do not have voting rights. Typically, the MLP's operating company is where most assets and liabilities of the partnership sit. While sales for energy extraction tend to fluctuate with crude oil prices, the midstream energy industry is more resilient and has consistent revenues through fixed contracts and minimum volume requirements. Because of these largely consistent and reliable cash flows, midstream MLPs can build stronger relationships with creditors who allow these partnerships to operate under higher leverage. This is why midstream companies can renegotiate debt obligations more often and take on more debt than similarly sized businesses within the energy industry. Another differentiator of an MLP is that MLPs generally prioritize unitholder distributions over capital expenditures. This results in most MLPs having low cash on hand, and forces MLPs to rely heavily on revolving credit facilities activities for liquidity.

Figure 4: 1Q24 Revenue Breakdown

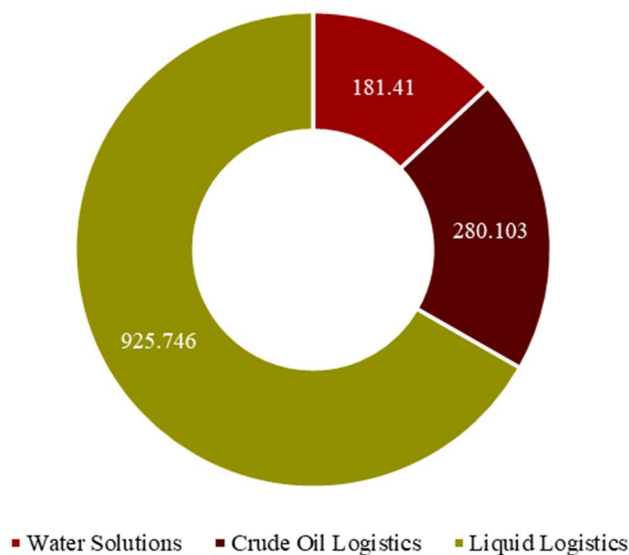
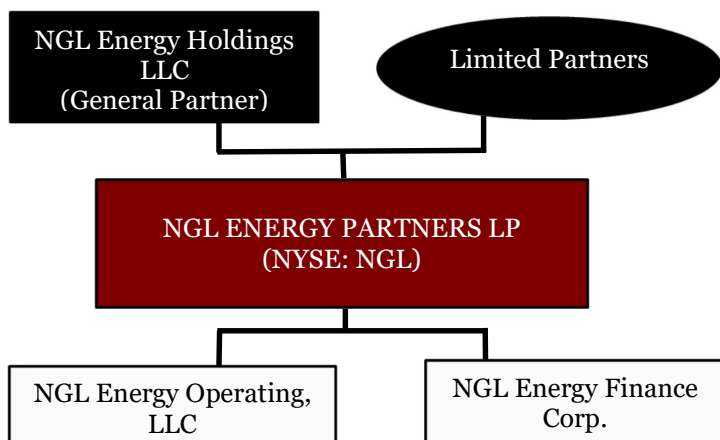


Figure 5: The Partnership Structure



Company Overview

NGL Energy Partners LP is a master limited partnership headquartered in Oklahoma. The MLP is separated into NGL Energy Holdings (HoldCo) and NGL Operating & NGL Energy Finance Corp (OpCos). NGL Energy Finance Corp is responsible for the financing obligations of the MLP, including the 2029 notes. NGL is a midstream energy MLP that has diversified solutions for energy producers. NGL operates three primary segments in the energy industry: Water solutions, crude oil logistics, and liquids logistics, contributing to \$181 mm, \$280 mm, and \$925 mm of revenue, respectively. NGL's water solutions revenue segment operates 65% in the Delaware Basin, and is the industry leader for water treatment, recycling, and disposal there. NGL's crude oil revenue segment is supported significantly by the Grand Mesa Pipeline, the segment's foundational asset. This 550-mile pipeline transports crude oil from Colorado to Oklahoma. The largest revenue segment, the Liquids Logistics segment, is made up of 45% propane and 23% butane and is operated all over the United States. All three of NGL's revenue segments produce revenue through long-term, fixed fee contracts and acreage dedications, some of which contain minimum volume commitments. As previously mentioned, MLPs have a large focus on paying a majority of cash flow to unitholders, however, over the past 8 quarters, NGL suspended distributions to common and class A, B, and C preferred unitholders to prioritize liquidity, deleveraging and refinancing efforts. As of 1Q25, NGL is completely caught up on distributions to unitholders. In terms of financials, over the last 8 quarters, NGL has seen a decrease in revenue of ~6.3% QoQ. However, over the same period, NGL's gross profit margin increased from ~9.7% to ~15.4%. Over the last few quarters, NGL has continued its slow exit of energy transport, through the sale of stagnant assets, to fuel its water solutions expansion.

Source: Company Filings, Bloomberg

Interest Rates Overview

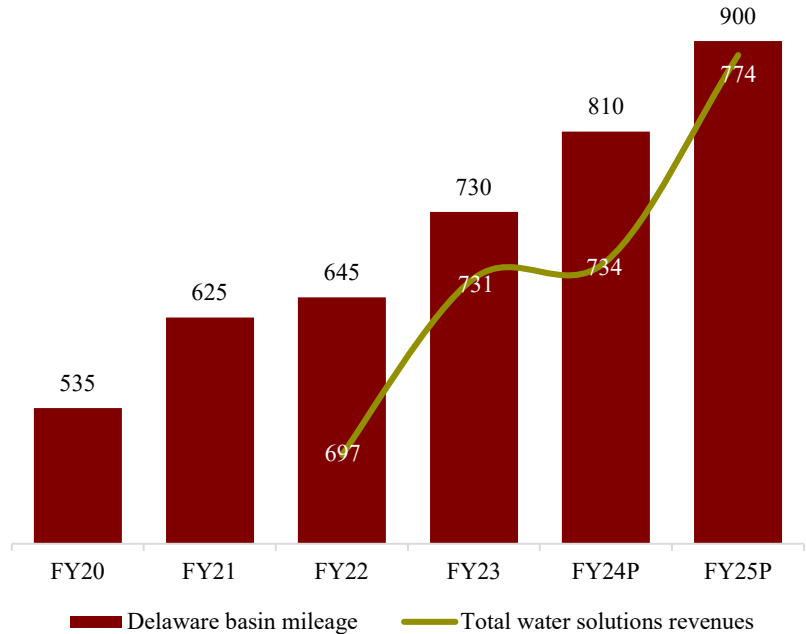
After a slow hiking cycle following the end of the COVID-19 pandemic, over the past 2 years, the United States Federal Reserve maintained the Fed funds rate at 5.25-5.5%. As the figure for core PCE lowered closer to the inflation target rate of 2%, starting on September 18, 2024, the Fed began cutting rates with an initial 50 bp rate cut. Although an intense cutting cycle seemed relatively priced in a few months ago, investors now argue if the economy is resilient enough to sustain a higher rate environment at 3-4%. Currently, a Fed funds rate of ~3.3% is priced in from December 2025 until June 2026. Since the Fed's decisions have lagging effects, and because we are still seeing core inflation continuing to come down, we believe that a policy rate of ~3% by February 2026 would be most sustainable for the economy, resulting in a much lower rate environment at the end of our investment horizon.

Investment Rationale and Catalysts

NGL's return on prior investments in pipeline mileage will outpace high current and future capital expenditures.

NGL guidance expects capital expenditures to increase by ~\$18.4% YoY from \$150 mm in FY23 to \$210 mm in FY25. High capital expenditures are atypical for midstream MLP companies, as most MLPs redistribute the majority of excess cash flows to unitholders. Many investors see this spending as a near-term downside for NGL, especially with declining revenue, because of the negative impact on free cash flow to creditors. NGL has announced that ~60% of total capital expenditures in the next FY will fund the expansion of NGL's Lea County Express Pipeline System (LEX II). The expansion is expected to take the existing capacity from 200,000 to 500,000 barrels per day, to be completed by the end of 1H25. This expansion will increase NGL's presence in the Delaware Basin from 750 to 790 miles and allow NGL to take more of a market lead in water solutions within the basin. This segment has managed to keep operating expenses at \$0.24 per barrel, compared to the industry average of \$0.30. The low cost is primarily due to lower chemical expenses, lower generator rental expenses, and utilities expenses compared to competitors. The produced water to oil ratio by volume in the Delaware Basin is ~4.5:1, leaving producers looking for affordable disposal solutions. NGL's water solutions segment also has a gross margin of ~99% and made up ~80% of EBITDA in 1Q24. In FY21, NGL added 90 miles (~17%) of pipeline to their infrastructure in the Delaware Basin, and the effects were felt during FY23 with a 5% YoY boost to water solutions revenue. In FY22, NGL added only 20 miles (~3%) of pipeline, which led to relatively stagnant increases in water solutions revenue MoM in 2H23 and 1H24. In FY23, NGL added 85 miles (~13%) of pipeline. Although NGL will have aggressive capital expenditures, we believe that the lagging effects of the pipeline introduced in FY23, paired with sooner-than-expected growth from the LEX II expansion, will fuel top-line growth for water solutions. Over the last 8 quarters, NGL has continued its slow exit from the oil and gas transport industry with total PPE reducing from \$2,455 mm in 1Q22 to \$2,125 mm in 1Q24, including the capital expenditures for the water solutions business. This strategic shift allows NGL to focus more on its water solutions segment, where it maintains a competitive edge due to lower costs and strong margins. We believe that as the market realizes NGL's lagging growth, its 2029 notes will tighten by ~20 bps by February 2026.

Figure 6: Water Pipeline Mileage Vs. Water Revenues (\$mm)



NGL's long-term minimum volume commitment contracts will allow NGL to comfortably cover quarterly interest payments due to minimal counterparty risk. It is important to note that ~86% of NGL's top line figure comes from the transport and logistics of butane, propane, and crude oil. The revenue for these segments along with the water solutions segment are underpinned by minimum volume commitments (MVCs). MVCs are a minimum amount of product that is contractually agreed upon to be transported through NGL's pipeline, therefore resulting in a fixed fee for customers. Many high-yield MLP competitors in midstream earn a significant portion of their income from few entities, often including affiliate extraction and production partners. NGL, however, has diversification of customers among investment grade production companies who often require both energy and water transport services. Within crude oil, publicly announced in January 2024, NGL closed the open season on the Grand Mesa pipeline and achieved a new five-year MVC with the same recurring counterparty, expiring in YE28. On the water side, even prior to development, NGL was able to preemptively lock in 40% of capacity MVC contracts to underpin the LEX II expansion in New Mexico. Based on NGL's capacity, operational metrics, and publicly announced MVC contract details, we estimate that ~70% of operating income can be attributed to MVCs with investment grade customers. From 2Q24 until the 2029 notes' next call date in 4Q25, NGL's quarterly interest payment is set to be a consistent

Source: Company Filings, Bloomberg

\$63.4 mm. We expect MVCs to account for ~\$363 mm of total operating income from 2Q24 to 4Q25 of \$443 mm in total interest obligations, for ~82% of guaranteed interest coverage. As for the remaining 18%, under a bearish scenario with a significant decline in revenue, we still project that NGL's non-MVC-related operating income and free cash flow will both stay well above the remaining \$11.5 mm required to meet quarterly interest payments. Even in an unexpected, distressed scenario, NGL has \$431 mm in undrawn liquidity on its asset-backed credit facility (ABL) due in 2029 which completely covers the difference over the seven remaining interest payments until the first call date. We that the market realizing NGL's healthy and consistent cash flows will result in a tightening of ~10 bps by February 2026.

Figure 7: Non-MVC EBIT (\$mm)

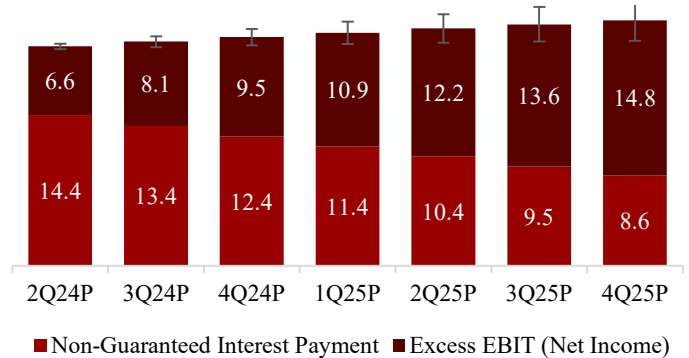
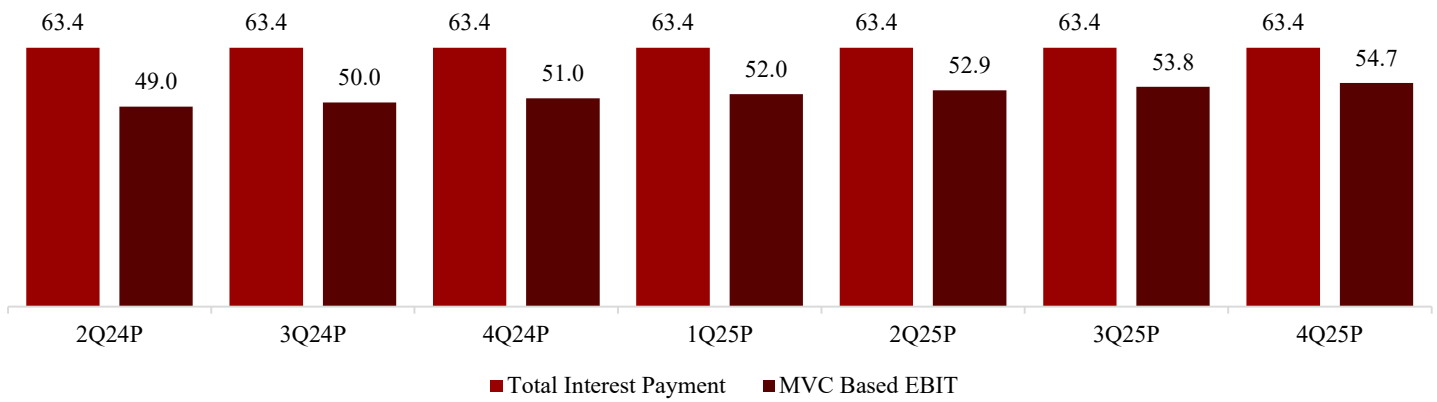


Figure 8: Guaranteed Interest Coverage (\$mm)



NGL will greatly benefit from securing a lower coupon rate on their senior secured notes in NGL's 4Q25 (February 2026). We believe that NGL will call their 2029 notes at a price of ~\$102.54 at the next call date. Historically, over the last 10 years NGL has maintained a leverage ratio of ~5.0x while consistently seeing an increase of ~3% YoY on long-term debt. Since FY14, NGL has refinanced or issued new debt to extend maturity five different times. Most recently, in February 2024, NGL completed a significant \$2.9 bn refinancing, which involved extending the maturity of existing notes and credit facilities. This included replacing notes due in 2025 and 2026 with ~6.8% coupon rates with new ones maturing in 2029 and 2032 at an ~8.2% rate. NGL was able to secure a much later maturity date at the cost of rates that are ~140 bps higher. From February to April, the 2029 notes saw a tightening of ~90 bps, following the announcement of MVC contracts for the Grand Mesa pipeline and with the LEX II expansion. However, due to volatile energy prices in summer 2024, spreads on debt for midstream MLPs saw a widening due to investor uncertainty. We believe that this was a market overreaction, especially considering the fixed income nature of midstream MLPs, leaving NGL with the most room for tightening out of comparable companies. As investors start to price in the effects of NGL's water disposal expansion in the Delaware Basin, we believe NGL will be able to refinance for a lower coupon rate on its 2029 notes. NGL is actively searching for ways to reduce its current interest rates that it was locked into as of the January refinancing. As recently as August 5th, as mentioned in its 1Q24 earnings call, NGL secured a reprice on its term loan B. With rates falling, NGL was able to amend the SOFR margin from 450 bps to 375 bps. This brought NGL's annual interest payment down \$5.25 mm. We believe that as investors realize NGL's lower risk, and in a lower rate environment, NGL will be pressured to refinance their 2029 notes to secure a coupon rate of ~6.8% as well as extend maturity to after 2032. This would effectively reduce NGL's total interest burden and give it a longer runway for deleveraging. In a scenario where central interest rates do not reach a point close to 3-3.3%, we still recommend a sell by February 2026, as most of NGL's growth will be priced in from a total tightening of ~30-35 bps.

Figure 9: NGL Savings from Refinance (\$mm)

		Tightening				
		0 bps	25 bps	30 bps	35 bps	60 bps
Fed Policy Rate	3.500%	12.01	6.07	4.55	3.63	0.00
	3.375%	15.05	9.11	7.59	6.67	0.82
	3.250%	18.09	12.15	10.63	9.72	3.87
	3.125%	21.14	15.20	13.68	12.76	6.91
	3.000%	24.18	18.24	16.72	15.80	9.95
YoY Return		8.9%	9.3%	9.4%	9.5%	10.0%

Source: Company Filings, Bloomberg

Risks to Thesis

- Delays or cost overruns for NGL's Lea County Express Pipeline (LEX II) expansion may result in free cash flow delays
- Even with stable cash flows, any significant downturn in crude oil prices or reduced demand for propane and butane would negatively affect NGL's revenue
- Any suspension of distributions to unitholders may cause dissatisfaction among investors, potentially leading to strained liquidity and limited deleveraging

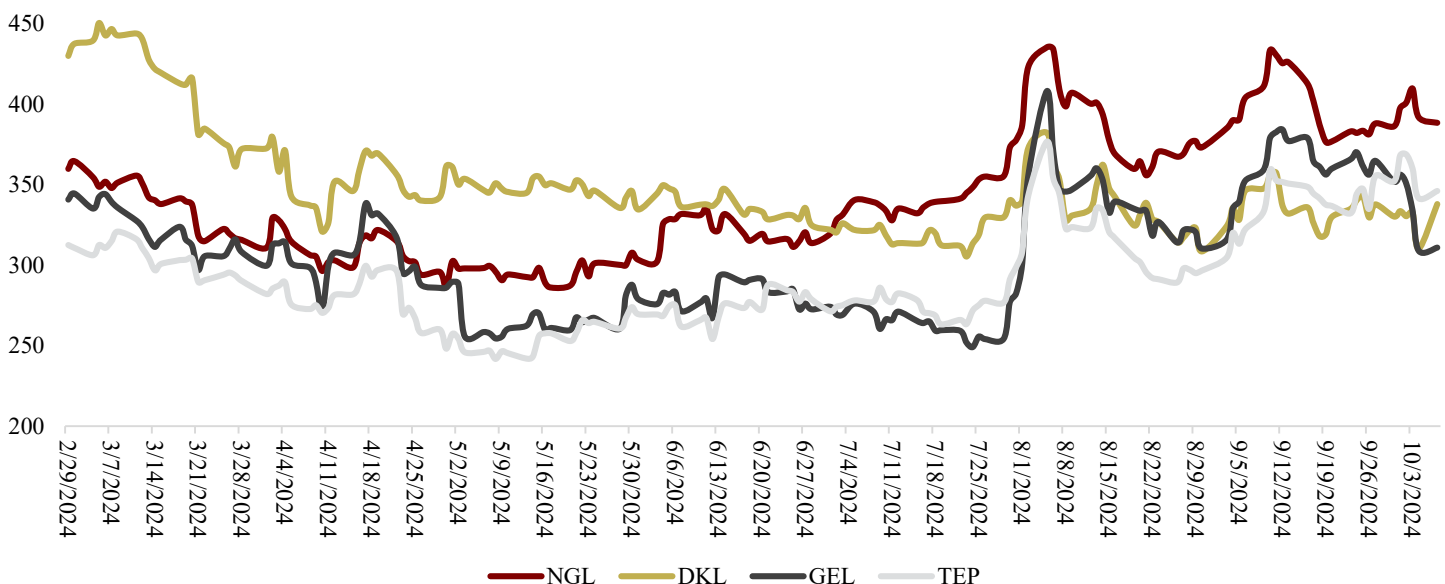
Relative Valuation

As previously mentioned, high leverage and low cash on hand is very common among midstream MLPs. This is why we believe that a leverage of 5.1x should not be as much of a concern for investors. Because high leverage is so common, yield is difficult to capture among these MLPs. DKL and GEL are both midstream MLPs with the GP LP structure. NGL holds a competitive advantage over MLPs like DKL and GEP because of its counterparty diversification. NGL does not produce revenue from affiliated counterparties, and instead has diversified third-party customers. DKL earns about half of its revenue from affiliate sources, while GEP earns close to 70% from affiliates. This effectively shields NGL further from short term energy pricing volatility as compared to its competitors and offers NGL's MVSs more credibility. TEP is a midstream energy corporation which made the switch from MLP to corporation in 2018. Among these comparable companies, NGL has the highest spread per turn of leverage at 69.6 bps per turn. This is because NGL has the highest yield by far of 7.61%. Lastly, NGL's 2029 notes are the only security listed with senior secured collateral. We believe that looking at the metrics, NGL should currently trade more in line, if not tighter than these comparable companies, to a spread of ~280 bps, effectively a ~87 bp tightening.

Figure 10: Comparable Company Analysis

Comps (\$mm)	NGL	DKL	GEL	TEP
Market Cap	563.2	2,009.8	1,644.7	3,356.2
Debt	3,083.8	1,579.0	3,551.6	3,453.8
Cash	5.3	5.1	13.7	9.4
Net Debt	3,078.6	1,573.9	3,537.9	3,444.4
Enterprise Value	4,036.7	3,583.7	6,390.6	6,800.6
Adj. EBITDA (LTM)	610.1	360.4	598.1	490.2
Debt/EBITDA (LTM)	5.1x	4.4x	5.9x	7.0x
Interest Expense (LTM)	280.1	151.1	532.6	161.4
EBITDA/Interest (LTM)	2.2x	2.4x	1.1x	3.0x
FCF (LTM)	223.9	225.9	(98.6)	393.4
FCF/Debt (LTM)	7%	14%	-3%	11%
Individual Securities				
Rating	B+	BB-	B	B+
Coupon	8.125%	8.625%	8.250%	7.375%
Maturity	2/15/29	3/15/29	1/15/29	2/15/29
Price	101.71	104.73	103.46	100.29
YTW	7.61%	7.05%	7.04%	7.27%
OAS	352.2 bps	286.0 bps	289.7 bps	318.8 bps
Next Call Date	2/15/26	3/15/26	1/15/26	2/15/26
Call Price	104.06	104.31	104.13	103.69
Collateral	Sr Sec	Sr Unsec	Sr Unsec	Sr Unsec
Spread/Turn of Leverage	69.7 bps	65.3 bps	48.8 bps	45.2 bps

Figure 11: LTM OAS Analysis (bps)



Source: Company Filings, Bloomberg

Summary Model

Financial Statement Model for NGL Energy Partners LP

Fiscal Year EOP Date	FY22A 3/31/2023	FY23A 3/31/2024	2Q23A 9/31/2023	3Q23A 12/31/2023	4Q23A 3/31/2024	1Q24A 6/30/2024	2Q24E 9/30/2024	3Q24E 12/31/2024	4Q24E 3/31/2025	1Q25E 6/30/2025	FY24E 3/31/2025	FY25E 3/31/2026
Income Statement												
Revenue												
Water Solutions	697	731	197	179	173	181	182	184	186	189	734	774
P/P		4.8%		-9.0%	-3.7%	5.0%	0.6%	0.8%	1.3%	1.2%	0.4%	5.4%
Crude Oil Logistics	2,465	1,656	490	425	277	280	260	242	225	210	1,008	754
P/P		-32.8%		-13.2%	-34.9%	1.2%	-7.0%	-7.0%	-7.0%	-7.0%	-39.1%	-25.2%
Liquid Logistics	5,533	4,570	1,154	1,265	1,225	926	907	889	871	854	3,593	3,314
P/P		-17.4%		9.6%	-3.2%	-24.4%	-2.0%	-2.0%	-2.0%	-2.0%	-21.4%	-7.8%
Total Revenues	8,695	6,957	1,841	1,870	1,674	1,387	1,350	1,315	1,283	1,252	5,336	4,842
P/P		-20.0%		1.6%	-10.5%	-17.1%	-2.7%	-2.6%	-2.5%	-2.4%	-23.3%	-9.2%
Cost of Sales	7,650	5,967	1,578	1,606	1,403	1,173	1,138	1,106	1,075	1,046	4,493	4,029
as % of revenue	88.0%	85.8%	85.7%	85.9%	83.8%	84.6%	84.3%	84.1%	83.8%	83.6%	84.2%	83.2%
Total operating expenses	756	812	177	162	309	139	142	138	135	131	554	508
as % of revenue	8.7%	11.7%	9.6%	8.7%	18.5%	10.0%	10.5%	10.5%	10.5%	10.5%	10.4%	10.5%
EBIT	289	178	86	102	(38)	75	70	71	73	74	289	305
(+) Depreciation & amortization	291	283	70	70	70	65	66	65	64	63	259	249
EBITDA	580	460	156	172	32	140	136	136	137	137	549	554
(+) Other Adjustments	81	150	37	37	37	19	19	19	19	19	77	78
Adj. EBITDA	661	610	193	209	69	159	155	155	156	157	625	632
Interest Expense	275	270	59	57	95	70	63	63	63	63	260	253

Balance Sheet Summary

Cash and Cash Equivalents	5.4	38.9	2.7	0.7	38.9	5.3	4.8	4.9	5.3	4.9	5.3	4.7
Accounts Receivable	1,046	816	1,173	1,015	816	754	734	715	697	680	697	636
Total Current Assets	1,292	1,179	1,564	1,341	1,179	990	979	956	935	914	935	860
PP&E, net	2,223	2,097	2,166	2,137	2,097	2,125	2,107	2,108	2,108	2,108	2,108	2,101
Total Assets	5,456	5,020	5,628	5,362	5,020	4,840	4,799	4,757	4,717	4,675	4,717	4,555
Total Debt	2,858	2,844	2,782	2,684	2,844	3,018	3,018	3,018	3,018	3,018	3,018	3,018
Total Liabilities	4,689	4,572	4,813	4,502	4,572	4,626	4,611	4,589	4,569	4,550	4,569	4,499

Cash Flow Summary

Net Income (loss)	52	(143)	28	46	(237)	10	7	8	10	11	35	52
Cash Flow from Operations	445	376	76	93	152	(18)	75	94	94	95	246	385
Capex	(148)	(152)	(45)	(39)	(32)	(60)	(47)	(66)	(64)	(63)	(237)	(242)
Cash Flow from Investing	64	(84)	(55)	7	(34)	28	(47)	(66)	(64)	(63)	(149)	(242)
Borrowings on ABL	2,007	1,652	437	446	241	389	378	378	378	378	1,512	1,512
Payments on ABL	(1,985)	(1,790)	(461)	(547)	(296)	(220)	(378)	(378)	(378)	(378)	(1,512)	(1,512)
Distributions	-	(178)	-	-	(178)	(218)	(30)	(28)	(30)	(33)	(306)	(143)
Cash Flow from Financing	(508)	(259)	(26)	(102)	(80)	(44)	(29)	(28)	(30)	(33)	(130)	(143)
Net Change in Cash	2	33	(5)	(2)	38	(34)	(0)	0	0	(0)	(34)	(1)

FCF Reconciliation

(+) NOPAT	281	175	85	101	(83)	138	70	71	73	74	352	305
(+) D&A	291	283	70	70	70	65	66	65	64	63	259	249
(-) Capex	148	152	45	39	32	60	47	66	64	63	237	242
(-) Change in Working Capital	(175)	19	60	(4)	(51)	(76)	(3)	(1)	(1)	(1)	(81)	(4)
Free Cash Flow to Firm	599	286	50	135	6	219	92	71	73	76	456	316

Operating Metrics

Gross Margin	12.0%	14.2%	14.3%	14.1%	16.2%	15.4%	15.7%	15.9%	16.2%	16.4%	15.8%	16.8%
Operating Margin	3.3%	2.6%	4.7%	5.5%	-2.3%	5.4%	5.2%	5.4%	5.7%	5.9%	5.4%	6.3%
Adj. EBITDA Margin	7.6%	8.8%	10.5%	11.2%	4.2%	11.5%	11.5%	11.8%	12.2%	12.5%	11.7%	13.0%
FCF Margin	6.9%	4.1%	2.7%	7.2%	0.3%	15.8%	6.8%	5.4%	5.7%	6.1%	8.5%	6.5%

Credit Metrics

Debt/Adj. EBITDA	4.3x	4.7x	4.3x	2.7x	4.0x	4.8x	5.1x	5.6x	4.8x	4.8x	4.8x	4.8x
Net Debt/Adj. EBITDA	4.3x	4.6x	4.3x	2.6x	3.0x	4.8x	5.1x	5.6x	4.8x	4.8x	4.8x	4.8x
Adj. EBITDA/Interest	2.4x	2.3x	3.3x	3.7x	0.7x	2.3x	2.4x	2.4x	2.5x	2.5x	2.4x	2.5x
FCF/Interest	2.2x	1.1x	0.9x	2.4x	0.1x	3.1x	1.4x	1.1x	1.2x	1.2x	1.8x	1.2x

Source: Company Filings, Bloomberg