

INCOME OPPORTUNITIES

Midstream Income Opportunities: Dividends Resilient Throughout Recent Quarters

June 3, 2021

As the financial implications of COVID worsened in early 2020, midstream yields increased to peak levels due to overall weak equity performance, and multiple midstream corporations and MLPs cut their dividends by 50% or more, though cuts were biased to smaller names in the space ([read more](#)). Since then, dividends have remained mostly stable each quarter, which allowed yields to moderate to more sustainable levels as equity prices continued to improve (see our most recent [dividend recap note](#)). Currently, the yield for the [Alerian Midstream Energy Index](#) (AMNA)—Alerian’s broadest midstream index—is 6.1%, which is only slightly below the five-year average yield of 6.6%. The [Alerian MLP Index](#) (AMZ)—a narrower universe of energy infrastructure MLPs—has a current yield of 7.7%, compared to the five-year average yield of 8.8%. While both indexes are trailing their five-year average yield, they continue to offer higher yields relative to other income-oriented sectors including bonds, utilities, and REITs.

With lower capital expenditures compared to prior years, midstream companies are beginning to generate more free cash flow, which provides financial flexibility to maintain or grow dividends. During the past few quarters, several constituents have placed an emphasis on positive free cash flow (FCF) after dividends. For example, [Kinder Morgan](#) (KMI), has [generated](#) positive free cash flow after dividends since 2016 and has significantly reduced annual capex spend. Another large constituent, [Williams](#) (WMB) also reported positive FCF after dividends in 2020 and [expects](#) to do so again in 2021. Higher free cash flow gives companies more options to either pay off debt or pay for dividends/repurchases. Although [repurchases](#) are becoming more popular, dividends are still the primary method of returning capital to shareholders within the midstream space.

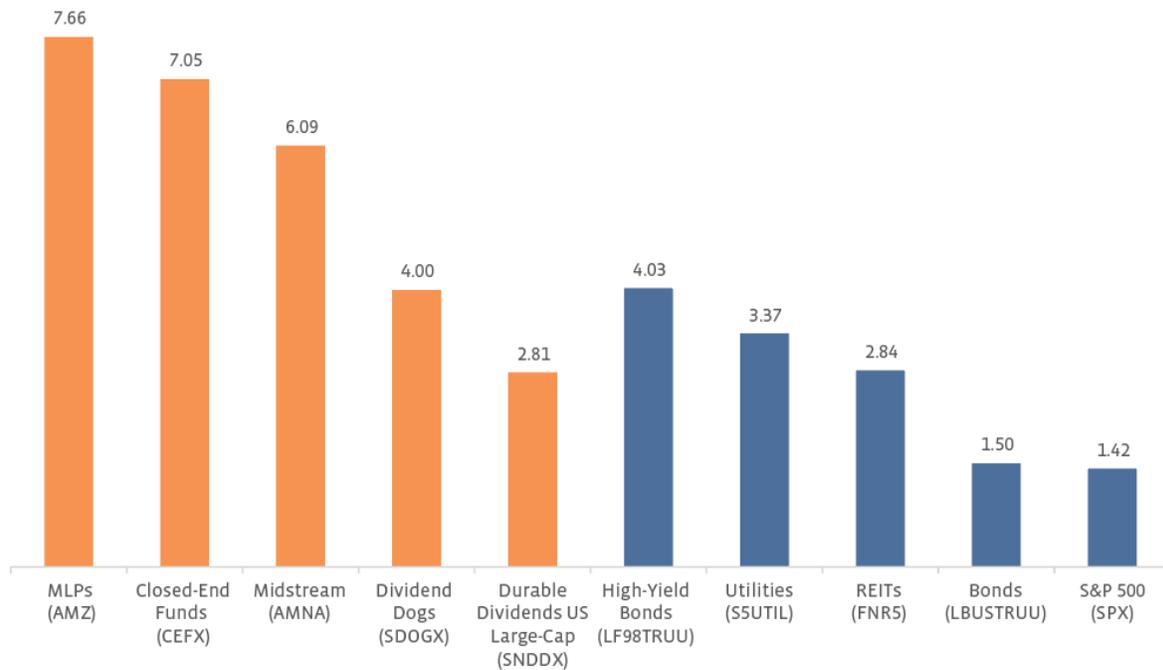
Q/Q Dividend Growth for Top 20 Dividend-Paying Constituents of AMNA (by index weight)

Index Weighting (as of 6/2/2021)

| Ticker | Name | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | AMNA | AMZI | AMEI | AEDW |
|--------------|---------------------------------|------|------|------|------|------|------|------|------|------|-------|-------|-------|------|
| KMI | Kinder Morgan Inc | 25% | 0% | 0% | 0% | 5% | 0% | 0% | 0% | 3% | 10.4% | - | 5.6% | 8.7% |
| TRP CN | TC Energy Corporation | 0% | 0% | 0% | 8% | 0% | 0% | 0% | 7% | 0% | 10.0% | - | 7.5% | 9.6% |
| ENB CN | Enbridge Inc | 0% | 0% | 0% | 10% | 0% | 0% | 0% | 3% | 0% | 9.6% | - | 9.5% | 9.4% |
| WMB | The Williams Companies Inc | 0% | 0% | 0% | 5% | 0% | 0% | 0% | 2% | 0% | 9.6% | - | 5.1% | 7.4% |
| EPD | Enterprise Product Partners LP | 1% | 1% | 1% | 1% | 0% | 0% | 0% | 1% | 0% | 9.3% | 9.5% | 8.6% | 9.5% |
| ET | Energy Transfer LP | 0% | 0% | 0% | 0% | 0% | 0% | -50% | 0% | 0% | 7.0% | 11.4% | 5.9% | 6.9% |
| OKE | ONEOK Inc | 1% | 3% | 3% | 2% | 0% | 0% | 0% | 0% | 0% | 6.9% | - | 4.8% | 5.7% |
| PPL CN | Pembina Pipeline Corporation | 4% | 2% | 0% | 5% | 0% | 0% | 0% | 0% | 0% | 5.0% | - | 4.6% | 3.9% |
| MMP | Magellan Midstream Partners | 3% | 1% | 1% | 1% | 0% | 0% | 0% | 0% | 0% | 3.3% | 10.3% | 2.9% | 3.4% |
| MPLX | MPLX LP | 2% | 2% | 1% | 1% | 0% | 0% | 0% | 0% | 0% | 3.3% | 10.0% | 2.9% | 9.9% |
| TRGP | Targa Resources Corp | 0% | 0% | 0% | 0% | -89% | 0% | 0% | 0% | 0% | 2.6% | - | 5.2% | 0.4% |
| IPL CN | Inter Pipeline Ltd. | 0% | 0% | 0% | 0% | -72% | 0% | 0% | 0% | 0% | 2.1% | - | 5.1% | 0.6% |
| KEY CN | Keyera Corp. | 0% | 2% | 4% | 0% | 0% | 0% | 0% | 0% | 0% | 1.7% | - | 4.6% | 1.4% |
| PAA | Plains All American Pipeline LP | 20% | 0% | 0% | 0% | -50% | 0% | 0% | 0% | 0% | 1.5% | 10.6% | - | 2.1% |
| WES | Western Midstream Partners LP | 1% | 1% | 0% | 0% | -50% | 0% | 0% | 0% | 1% | 1.2% | 9.6% | 1.1% | 1.9% |
| ETRN | Equitrans Midstream Corp | 10% | 0% | 0% | 0% | -67% | 0% | 0% | 0% | 0% | 1.0% | - | 2.9% | 1.0% |
| AM | Antero Midstream Corp | 84% | 2% | 0% | 0% | 0% | 0% | 0% | 0% | -27% | 0.9% | - | 2.5% | 2.2% |
| PSXP | Phillips 66 Partners LP | 1% | 1% | 1% | 1% | 0% | 0% | 0% | 0% | 0% | 0.9% | 6.9% | 0.8% | 3.3% |
| GEI CN | Gibson Energy Inc | 0% | 0% | 0% | 3% | 0% | 0% | 0% | 3% | 0% | 0.8% | - | 2.3% | 0.6% |
| DCP | DCP Midstream LP | 0% | 0% | 0% | 0% | -50% | 0% | 0% | 0% | 0% | 0.7% | 5.6% | - | 1.3% |
| Total | | | | | | | | | | | 73.9% | 82.1% | 89.3% | |

1Q21 dividends refers to dividends paid in 2021 as a result of operational performance in 1Q21. Inter Pipeline (IPL CN), Keyera (KEY CN), and Pembina Pipeline (PPL CN) pay monthly dividends.

Alerian/S-Network Indexes Showcase Attractive Income Opportunities Beyond Bonds, REITs, and Utilities



AMZ and AMNA yields are calculated by Alerian. All other yields are Bloomberg data. Source: Alerian, S-Network Global Indexes, Bloomberg as of May 28, 2021

Current Yields vs. History

Midstream/MLP indexes continue to offer healthy yields near historical averages.

Midstream & MLPs

| Index Name | Ticker | YTD Total Return | Yield | | |
|---|--------|------------------|---------|----------------|-----------------|
| | | | Current | 5-Year Average | 10-Year Average |
| Alerian Midstream Energy Index | AMNA | 36.39% | 6.09% | 6.56% | N/A |
| Alerian MLP Index | AMZ | 40.56% | 7.66% | 8.77% | 7.60% |
| Alerian MLP Infrastructure Index | AMZI | 40.33% | 7.74% | 8.72% | 7.48% |
| Alerian Midstream Energy Dividend Index | AEDW | 36.78% | 7.20% | 7.57% | N/A |
| Alerian Midstream Energy Select Index | AMEI | 36.63% | 5.87% | 6.35% | 5.37% |

Source: Alerian as of May 28, 2021

Among the Sector Dividend Dogs, yields are not too far from historical averages. EDOGX is the only index in the suite to offer a current yield above the 5-year average.

Sector Dividend Dogs

| Index Name | Ticker | YTD Total Return | Yield | |
|--|--------|------------------|---------|----------------|
| | | | Current | 5-Year Average |
| S-Network Sector Dividend Dogs Index | SDOGX | 23.55% | 4.00% | 4.32% |
| S-Network International Sector Dividend Dogs Index | IDOGX | 12.66% | 4.98% | 5.18% |
| S-Network Emerging Sector Dividend Dogs Index | EDOGX | 9.97% | 5.45% | 4.91% |
| S-Network REIT Dividend Dogs Index | RDOGX | 16.55% | 4.56% | N/A |

Source: S-Network Global Indexes, Bloomberg as of May 28, 2021

Multiple screens for dividend durability, including evaluating cash flows, EBITDA, and debt-to-equity ratios, help ensure reliable income from the durable dividend indexes.

Durable Dividends

| Index Name | Ticker | YTD Total Return | Yield | |
|---|--------|------------------|---------|----------------|
| | | | Current | 5-Year Average |
| S-Network Durable Dividends US Large-Cap Index | SNDDX | 19.45% | 2.81% | 3.67% |
| S-Network Durable Dividends US Mid-Cap Index | SNDDMX | 21.26% | 2.37% | 3.38% |
| S-Network Durable Dividends Developed International Index | SNDDIX | 17.19% | 3.98% | 4.60% |

Source: S-Network Global Indexes, Bloomberg as of May 28, 2021

Though current yields are below historical averages, closed-end funds continue to represent an attractive option for enhancing the yield of an income-oriented portfolio.

Closed-End Funds

| Index Name | Ticker | YTD Total Return | Current | Tax-Equivalent ¹ | Yield | |
|--|--------|------------------|---------|-----------------------------|----------------|-----------------|
| | | | | | 5-Year Average | 10-Year Average |
| S-Network Composite Closed-End Fund Index | CEFX | 11.33% | 7.05% | N/A | 8.11% | 8.44% |
| S-Network Municipal Bond Closed-End Fund Index | CEFMX | 5.78% | 4.36% | 6.92% | 5.01% | N/A |
| S-Network Option Income Closed-End Fund Index | CEFOIX | 13.98% | 6.40% | N/A | 8.45% | N/A |

¹ Calculated using a 37% federal tax rate.

Source: S-Network Global Indexes, Bloomberg as of May 28, 2021

Related Research:

- [1Q21 MLP/Midstream Dividend Recap: Stability Intact](#)
- [Weather, Improving Macro Drive Strong 1Q21 for Midstream](#)
- [Midstream/MLPs: 2020 Cost Discipline Has Benefits into 2021](#)
- [Insights at a Glance: Midstream/MLP Buyback Update](#)
- [Biden's Tax Proposal and Tax-Efficient Income Opportunities](#)

Underlying Index

Midstream/MLPs

[Alerian Midstream Energy Index \(AMNA\)](#)

[Alerian MLP Index \(AMZ\)](#)

[Alerian Midstream Energy Dividend Index \(AEDW\)](#)

[Alerian MLP Infrastructure Index \(AMZI\)](#)

[Alerian Midstream Energy Select Index \(AMEI\)](#)

Sector Dividend Dogs

[S-Network Sector Dividend Dogs Index \(SDOGX\)](#)

[S-Network International Sector Dividend Dogs Index \(IDOGX\)](#)

[S-Network Emerging Sector Dividend Dogs Index \(EDOGX\)](#)

[S-Network REIT Dividend Dogs Index \(RDOGX\)](#)

Closed-End Funds

[S-Network Composite Closed-End Fund Index \(CEFX\)](#)

[S-Network Municipal Bond Closed-End Fund Index \(CEFMX\)](#)

Associated Product

ETRACS Alerian Midstream Energy Index ETN (AMNA)

JP Morgan Alerian MLP Index ETN (AMJ), ETRACS Alerian MLP Index ETN Series B (AMUB), ETRACS Quarterly Pay 1.5X Levered Alerian MLP Index ETN (MLPR)

ETRACS Alerian Midstream Energy High Dividend Index ETN (AMND), Alerian Midstream Energy Dividend UCITS ETF (MMLP)

Alerian MLP ETF (AMLPE), ETRACS Alerian MLP Infrastructure Index ETN Series B (MLPB)

Alerian Energy Infrastructure ETF (ENFR)

ALPS Sector Dividend Dogs ETF (SDOG)

ALPS International Sector Dividend Dogs ETF (IDOG)

ALPS Emerging Sector Dividend Dogs ETF (EDOG)

ALPS REIT Dividend Dogs ETF (RDOG)

Invesco CEF Income Composite ETF (PCEF), ETRACS 1.5X Leveraged Closed-End Fund ETN (CEFD)

VanEck Vectors CEF Municipal Income ETF (XMPT)

About Alerian and S-Network Global Indexes

Alerian is a leading independent index provider focused on building innovative, index-based investment strategies. The firm acquired S-Network Global Indexes in 2020, expanding their index offerings and services to partners. Combined, the firm serves the global investment community through indexing, benchmarking and calculation services. Built on a foundation of data rigor and specialty research, Alerian and S-Network Global Indexes offer a comprehensive family of energy, income, and thematic indexes. Today, the firms cumulatively have over \$23 billion in total assets tracking its indexes and over 200 customers world-wide.

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