Transcript of
NGL Energy Partners LP
Second Quarter 2024 Earnings Conference Call
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Participants

Brad Cooper - Chief Financial Officer, NGL Energy Partners LP
Michael Krimbill - Chief Executive Officer and Director, NGL Energy Partners LP
Douglas White - Executive Vice President, NGL Water Solutions

Analysts

Jason Mendell - RBC Capital Markets

Presentation

<u>Operator</u>

Greetings and welcome to the NGL Energy Partners 2Q 2024 earnings call. At this time, all participants are in a listen-only mode and a question-and-answer session will follow the formal presentation. [Operator Instructions] Please note this conference is being recorded.

I will now turn the conference over to your host, Brad Cooper, CFO of NGL Energy Partners. Brad, you may begin.

<u>Brad Cooper - Chief Financial Officer, NGL Energy Partners LP</u>

Thank you. Good afternoon and thank you to everyone for joining us on the call today. Our comments today will focus on the strong second quarter results, the outlook for the balance of this year, and the steps we are taking to ensure we can address our debt maturities in the near future. After the market closed today, we issued an earnings release, published our investor presentation, and filed our 10-Q. Comments today will include plans, forecasts and estimates that are forward-looking statements under the US Securities Law. These comments are subject to assumptions, risks and uncertainties that could cause actual results to differ from the forward-looking statements. Please take note of the cautionary language and risk factors provided in our SEC filings and earnings materials.

With that, let's jump into our second quarter's results. Adjusted EBITDA for the second quarter was 176.2 million compared to 142.2 million for the second quarter of fiscal 2023. The quarter was driven largely by Water Solutions continued strong performance. Water generated adjusted EBITDA of 140.4 million and processed 2.44 million barrels per day for the quarter. Through the first two quarters of the year, Water Solutions have generated $263 million of adjusted EBITDA and we are on pace for over 1 billion barrels of water disposal for the year. With this strong start to the fiscal year, we are raising the full-year guidance for Water Solutions from 485 million to

500 million plus. We have seen quite a bit of commodity price volatility this year and to mitigate against swings in oil prices, we have entered into crude oil costless collars through the end of the fiscal year to hedge our skim oil.

Moving to Liquids Logistics, butane and propane are seasonal with the majority of their adjusted EBITDA coming in the back half of the fiscal year. Our Liquids Logistics business is performing well with a strong start to the butane blending season. We are entering the heating season where propane will contribute to the segment's adjusted EBITDA in the third and fourth quarters and our refined products businesses are performing as we expected they would. Crude Logistics performance is slightly below our internal expectations, but we remain optimistic that the DJ Basin will grow over the next 12 to 24 months benefiting the Grand Mesa Pipeline.

We are reaffirming our full year consolidated adjusted EBITDA guidance of 645 million plus. We are increasing asset sales under 25 million to $100 million for the fiscal year. Depending on the timing of these asset sales, there could be EBITDA associated with these sales that would reduce our full year results. We are also hedging against a warm winter that could impact the results of our Liquids Logistics unit.

We are increasing our growth capital expenditures to $100 million versus previous guidance of $65 million due to the growth opportunities in the Delaware for our Water Solutions segment. The additional spend is for contracted volumes that generate attractive rates of return. We should see a small impact to our adjusted EBITDA in the fourth quarter and a full year impact starting in fiscal 2025 from these projects. We are planning to fund this additional growth capital with the incremental asset sales I just mentioned.

Our strategy to reduce absolute debt and leverage continues, ending the quarter with leverage of 4.14 times versus 6.11 times at the end of the second quarter in fiscal 2023. Over the last 12 months, we have reduced absolute debt by approximately $680 million. Recall, we retired the 23 notes at the beginning of the calendar year, reduced the 25 notes balance by $100 million in early April, eliminated the equipment note after our marine asset disposition and reduced our ABL balance over this timeframe by $130 million. We are executing on our strategy to de-lever the balance sheet through EBITDA and free cash flow growth.

We did not make any open market purchases of the 25 unsecured notes this quarter as the pricing for these notes has gotten tighter yielding 7.5% to 8% during the quarter. Due to the tightness in our 25 unsecured notes, we have focused on reducing our ABL balance, which is more expensive and reducing the balance gives us more optionality to address the capital structure in the near future. As discussed on our last earnings call, all free cash flow this fiscal year will go straight to the balance sheet. And as we sit here today, we anticipate paying off the 25 unsecured notes by March 31, 2024.

Our two most prompt maturities have traded quite well as we continue to improve our financial position. Our 26 secured notes over the last week have traded in the mid to high 99s. With our leverage projected to be sub-four times by March 31 of 2024, we should be well-positioned to address our debt maturities, as market windows become available early in the next calendar year.

Our liquidity remains strong as we enter peak inventory build season for our butane and propane businesses. As of September 30, we had $308 million of liquidity with 156 million borrowed on the ABL. We will see the working capital associated with the butane and propane businesses reduce the ABL balance as we exit the respective seasons.

Liquids Logistics adjusted EBITDA was 17.1 million for the quarter versus 16.5 million for the second fiscal quarter of 2023. Butane blending season started in our fiscal second quarter and is off to a strong start versus our internal expectations, as butane demand and margins have been strong. In the prior year, we were negatively impacted by the lower locational differentials as the product we contracted to purchase at the beginning of the season competed against product purchased in a discounted market. Our refined products business continues to perform well, as we have benefited from new supply and customer contracts in some of the regions we operate. The higher margins we experienced last year have normalized this year as supply issues were resolved and the supply demand balance has been restored.

As for propane, the heating season is just getting started. The first and second fiscal quarter volumes were impacted by lower demand as the warmer than normal winter from last year left higher than normal inventories for retailers driving less demand during the summer months. We are seeing nice carry in the propane market, which has allowed us to lock in strong margins through the fixed price sales in the winter months, all of which sets us up to have a profitable third and fourth quarter in our liquids business.

Crude Logistics adjusted EBITDA was 30.7 million in the second quarter versus adjusted EBITDA of 32.9 million in the second quarter of fiscal 2023. During the quarter, Grand Mesa volumes averaged 70,000 barrels per day compared to 72,000 barrels per day in the second fiscal quarter of the prior year. The lower crude oil prices in the quarter also resulted in lower contracted rates with certain producers compared to the prior year when contracted rates were higher due to higher crude oil prices. In addition, we realized lower contract differentials on certain sales contracts in the quarter compared to the same quarter in fiscal 2023. As I mentioned in my earlier comments, we remain constructive on the basin and anticipate an improvement in volumes on Grand Mesa in the near future.

Water achieved adjusted EBITDA of $140.4 million, which equates to approximately 34% growth compared to the same quarter in fiscal 2023. The team handled approximately 2.44 million barrels per day of produced water. Volume in the quarter had a 7.7% increase from the prior year.

During the quarter, we had two items that positively impacted our quarterly results. First, we sold certain saltwater disposal assets and intangible assets in the Pinedale Anticline basin. A portion of the transaction was allocated between the termination of our water disposal contract and the sale of the assets based on their relative fair value. Approximately $7.8 million of the total consideration was allocated to the termination of the water disposal contract, which was a favorable impact to adjusted EBITDA for the quarter. Second, recall from the previous quarter, we stored skim oil volumes in the Eagle Ford Basin that didn't meet pipeline specs. This issue was resolved in the second quarter and the oil was sold in the quarter and positively impacted adjusted EBITDA by approximately $4 million. Expenses for the quarter remained strong and industry leading with $0.24 per barrel for the quarter. The team continues to find ways to manage costs and optimize the system in the face of inflationary pressures.

Now, I will turn the call over to Mike.

Michael Krimbill - Chief Executive Officer and Director, NGL Energy Partners LP

Thanks Brad. As you've heard, our strategy has not changed; achieve and beat our EBITDA guidance, utilize free cash flow and non-core asset sale proceeds to reduce debt and thereby lower leverage. All good things come from less leverage. With respect to our EBITDA guidance, our water year-to-date EBITDA of 263 million, we only need to generate 237 million in second half to achieve the 500 million, so we raised water guidance to 500 plus. This is being conservative, not an indication that we expect a decline. Water volumes have started out lower, slower in October, so the third quarter water EBITDA should be between first and second quarter actuals and an anticipated increase in the fourth quarter.

For all of NGL, as Brad said, we're leaving full guidance at 645 million as we're anticipating more asset sales prior to 3/31/24, which will reduce EBITDA for the remaining months in the fiscal year that we do not own the asset. Free cash flow should not be impacted as reduced EBITDA would be offset by lower interest.

Looking at our long-term indebtedness, we have been well served in a rising interest rate market with our secured and unsecured debt paying a fixed rate of 6.8% to 7.5% depending upon the tranche. As Brad mentioned, our only floating rate debt is on the ABL of approximately 10%. So it is prudent to repay that first and then attack the 2025's. Regarding the dividend arrearages, we do not expect to pay them nor reinstate the dividend in this fiscal year.

With that, let's open the line for questions.

Operator

Thank you. The floor is now opened for question. [Operator Instructions] And there are no questions in queue at this time.

Michael Krimbill - Chief Executive Officer and Director, NGL Energy Partners LP

All right. Well, we'll see you next quarter. Thank you very much.

Operator

Do apologize actually speakers, I did have a couple of participants just joining the queue. We have --

Michael Krimbill - Chief Executive Officer and Director, NGL Energy Partners LP

If they're late, they can only ask half their question. If they're late, only half a question.

Operator

Thank you so much. I appreciate. Our first question is coming from Jason Mendell from RBC Capital Markets. Jason, your line is live. Please go ahead.

Q: Hi, thanks for taking the question. My full question is going to be if you can break out a sense for the improvement in water EBITDA over the next couple of quarters between volume and margin, but since I only have half the question, can you talk about margins?

Michael Krimbill - Chief Executive Officer and Director, NGL Energy Partners LP

You are being very gracious, so we'll answer the whole thing. Doug, if you're on, do you mind taking the question? You may have to repeat it.

Douglas White - Executive Vice President, NGL Water Solutions

Yes, Jason. Can you repeat the question?

Q: Yes. Can you give us a little bit of detail on what you see for the progress of margins in the water business over the coming quarters? Thank you.

Douglas White - Executive Vice President, NGL Water Solutions

So if you're trying to do the math, on the second quarter, while our average volume stayed closely flat to the prior quarter, our margins were very strong compared to the first quarter. So that's where we gleaned a large portion of our gain in second quarter. Part of that has to do with the OpEx coming down. We're continuing to trend down on OpEx and we're really seeing the increased fees based on demand happening, especially in the Delaware. So that's all a reflection of that is that expansion of the margin per barrel. So, as Mike mentioned, we expect that margin to continue while we may have a slower Q3 just based on timing of completions activity, we expect the margin to remain close to the same and then in Q4, as we expect a lot more completions to come along, we expect to have a very strong Q4 and have at least the same amount of margin per barrel, we would expect that in Q4 as we had in the Q2.

Q: Thank you very much. Appreciate it.

Operator

Thank you and there are no further questions in queue at this time. And at this time, I would now like to close the call and thank everybody for their participation. Today's call has ended. Thank you once again for your participation and have a wonderful day.

Michael Krimbill - Chief Executive Officer and Director, NGL Energy Partners LP

Thank you.