Transcript of
NGL Energy Partners LP
NGL Energy Partners 1Q27 Earnings Call
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Participants

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

Analysts

Derrick Whitfield - Texas Capital
Gregg Brody - Bank of America

Presentation

Operator

Greetings. Welcome to the NGL Energy Partners 1Q 2027 Earnings Call. At this time, all participants are in a listen-only mode. 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. You may begin.

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Good afternoon. And thank you to everyone for joining us on the call today. Our comments today will include plans, forecasts, and estimates that are forward-looking statements under the U.S. 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 presentation materials and our other public disclosure materials.

We are pleased to report a strong start to fiscal 2027 and continued execution on our multi-year strategy of de-leveraging the balance sheet through high-return water growth projects. This positions the partnership to continue to address the Class D preferreds later this fiscal year. During the first quarter, we hit record-produced water volumes, physically disposing of approximately 3.32 million barrels per day during the first quarter, growing 19.6% from the first quarter of fiscal 2026.

The record water volumes also generated record Water Solutions adjusted EBITDA for a single quarter. We are seeing the growth capital spend and the 500,000 barrels per day of producer commitments signed in fiscal 2026 flowing through our fiscal 2027 financials. These results validate the highly accretive investments we made throughout fiscal 2026 and further demonstrate the strength of the long-term customer commitments supporting our business.

We believe fiscal 2028 could mirror this fiscal year as we continue to execute on additional growth capital projects in the first half of fiscal 2027. During the quarter, we executed the LEX II Extension project, expanding the current long-haul LEX Pipeline System to 81 miles with a capability to transport approximately 560,000 barrels per day of produced water from Eddy and Lea counties in New Mexico to Andrews County in Texas.

The LEX II Extension is underwritten by a newly executed long-term volume commitment contract that includes increased volume commitments and an additional four-township committed area in Eddy County. The LEX II Extension is expected to be in service by the end of this calendar year. This contract, along with additional volume commitments recently executed, brings our total produced water volume commitments to approximately 1.77 million barrels a day roughly 53% of our total volumes. Permitted injection capacity increased by approximately 200,000 barrels during the first quarter of fiscal 2027. This brings our total permitted capacity up to 5.62 million barrels per day. With the additional growth projects planned for this fiscal year, we will be adding to this capacity.

We continue to improve the credit profile of our customer base, with over 90% of our produced water delivered from investment-grade counterparties and over 85% of our trailing 12 adjusted EBITDA generated from our Water Solutions segment. We reduced leverage in the first quarter, even with our growth capital spend heavily weighted to the first half of this fiscal year. We expect the delevering trend to continue the remainder of the fiscal year while we manage our growth capital spend and liquidity.

With our outperformance this quarter and the confidence we have in our customers' execution, we are raising the fiscal 2027 adjusted EBITDA guidance by $10 million from $715 million to $725 million to the new guidance range of $725 to $735 .

Turning to our quarterly results, our consolidated adjusted EBITDA from continuing operations for the quarter came in at $186.2 million versus $143.9 million in the prior first quarter, nearly 30% higher than the prior first quarter. This increase was primarily driven by the performance of our Water Solutions business segment. Water Solutions adjusted EBITDA was $179.9 million in the first quarter versus $142.9 million in the prior first quarter, a 26% increase.

For the quarter, Water Solutions generated 91% of the EBITDA for the partnership. Physical water disposal volumes were 3.32 million barrels per day in the first quarter versus 2.77 million barrels per day in the prior year first quarter, a 19.6% increase. Total volumes we were paid to dispose, that includes deficiency volumes, were 3.43 million barrels per day in the first quarter versus 3.06 million barrels per day in the prior year first quarter.

So total volumes we were paid to dispose of were up approximately 12% first quarter of fiscal '27 over the first quarter of fiscal 2026. The increase in EBITDA is primarily driven by higher disposal volumes from contracted producer customers and skim oil revenue due to significantly higher skim oil volumes. The skim oil volumes are driven by an increase in physical water volumes disposed. We also saw a slight increase to the skim oil percentage, and we benefited from higher crude prices during the quarter on the unhedged skim oil barrels.

Operating expenses for the quarter on a per-barrel basis were lower by $0.01 when compared to the same quarter the previous year. For the first quarter, our operating expenses in the Water Solutions segment was $0.21 per barrel. The increase in volume will continue to dilute the fixed cost component of our cost structure over time.

We have continuous conversations with the producers to monitor activity levels and the potential impacts the macro backdrop could have on our Water Solutions segment. Even with the macro volatility, we continue to have a high level of interest in takeaway and disposal capacity and have signed over 200,000 barrels per day in volume commitments this quarter alone. Crude Oil Logistics adjusted EBITDA was $8.6 million in the first quarter of fiscal '27 versus $9.6 million in the prior year's first quarter.

During the quarter, volumes on the Grand Mesa Pipeline averaged approximately 74,000 barrels per day, compared to 55,000 barrels per day for the first quarter of 2026. Liquids Logistics adjusted EBITDA was $10.3 million the first quarter versus $2.9 million in the prior first quarter. The largest driver for the increase year-over-year was additional contracted activity through our few remaining butane terminals.

This is adjusted for the previously announced asset sales that closed in the prior year quarter. The primary EBITDA contributor of the Liquids Logistics segment going forward will be our butane blending business. And recall that a majority of that EBITDA from this segment occurs in the back half of the fiscal year.

With that, I would now like to turn the call over to our CEO, Mike Krimbill.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Thanks, Brad. Well, obviously, this was a very strong quarter, and if it continues, we anticipate further increases in EBITDA guidance. Operationally, we're experiencing 10% annual growth in our Water Solutions business while margins remain steady. We are focused on performing reliably and consistently for our customers, especially during peak flow-back periods. Growth CapEx this fiscal year will exceed $200 million.

A significant portion of the EBITDA generated will not be recognized until fiscal 2028. Majority of the capital will be spent in our first two quarters. So we will see long-term debt relatively flat until the back half of the year, while leverage decreases each quarter. I would like to talk about the Class Ds here in particular.

With respect to these Class Ds outstanding, we have several hundreds of millions of dollars of investment opportunities that are expected to generate a rate of return in excess of the cost of the Class D preferred. Therefore, reducing the Class Ds is not our highest and best use of cash. The holders of this security have an option to put them to us no sooner than January 1 of 2028. And we must prepare for that possibility. Thus, we expect to redeem about 50% of the remaining Class D preferreds this fiscal year and leave the balance outstanding. If they are put to us, they will be easily financed. If they're not put to us, then we can take advantage of these attractive opportunities or further reduce leverage.

I think the key here is it is not necessary to eliminate all the Class D preferreds before reinstating the common unit distribution. Looking forward to the next couple of years, we are positioning NGL to potentially build another large-diameter water pipeline, pursue M&A opportunities, and reinstate the common unit distribution. So with that, let's break for questions.

Operator

Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions]. The first question comes from Derrick Whitfield with Texas Capital. Please proceed.

Q: Good afternoon, all. Congrats on a very strong brand.

Brad Cooper – Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Thanks, Derrick.

Q: With regard to your growth outlook, for Water Solutions, how do you guys view the opportunity set as you see it today for additional growth investments in the Delaware? Sounds like the second half of this year might be somewhat constrained, but as you look a little further out, it seems like there's a lot of opportunity that you're assessing today.

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Doug, you want to take that one?

Doug White - Executive Vice President, NGL Water Solutions, LLC

Sure, Brad. Thanks, Derrick, for the question. As we presented, we grew by 200,000 barrels a day of new capacity for new deals this last quarter. That capacities, we accelerated that development for those deals because there was a big demand for the water, even in our existing contracts. We're going to develop another 300,000 barrels a day the balance of this year, for a total of 500,000 barrels a day. That is contracted capacity, which is a lot. So the growth we're showing this first quarter, we continue to see additional growth through the balance of the year.

So then you look and say, well, there's a little bit of a constraint on the back end of the year. Really, it's the large development, 500,000 barrels a day. It's a pretty big growth number. We expect that capacity to fill up. We are working on fiscal 2028 deals as we speak. So really, it's just that timing. It's a timing opportunity here for us. As we continue to develop, we continue to develop faster. Bringing on 16, 18 wells this year, plus all the surface and the pipeline expansions. We're not constrained really by anything in that matter. Really more than anything, it's just execution, and looking to the new deals that are currently in process that will land, we think prior to fiscal 2028, but most likely be in spend and EBITDA in that next fiscal year.

Q: Terrific. No, that makes complete sense. And then as my follow-up, could you maybe speak to the opportunities that you guys are seeing for beneficial reuse and mineral extraction? And I'm thinking about that on the back of TPL's water sourcing deal for Chevron and Select's mineral extraction announcements they announced this year and a little bit later last year as well. Are you guys looking, seeing those kinds of opportunities in the marketplace today?

Doug White - Executive Vice President, NGL Water Solutions, LLC

Yes. I'll take that, Brad. Yes, we are. It's interesting, the past year there was a lot of talk about it. Now this calendar year, I really think all of us, including our peers, are either in talks, establishing MOUs or moving forward in contracts around both beneficial reuse or mineral extraction. I would say mineral extraction is ahead on the timeline because everyone's been working on lithium and iodine for several years now. We are engaged in those talks, and we expect at some point in the future, we'll be able to talk about those as they firm up.

And on the beneficial reuse side, once again, the same idea. Everyone is in talks with multiple either hyperscalers or data centers that, because of the pushback they've received or are receiving on their developments on groundwater, it's becoming really a self-fulfilling prophecy that produced water is the answer in West Texas around getting these projects off the ground. And there are dozens and dozens of these projects out there. We would expect the same as the critical minerals. We're going to make some announcements, as time goes on, around being able to supply that water.

And then we can't forget our TPDES permit through TCEQ. We're kind of growing weary of talking about it, but October will be three years since we applied for it. Our efforts, I think, are going to pay off. We expect and have received updates that this month we will receive our permit, and it's going to be a very good permit, and it's going to be a permit that we believe will be economic, which is the first step. If we have an economic permit with things that really run up the tab on the expenses, and then you have a gap to fill there, that's where we've been for the last 18 months, I'd say. We think we'll get a good one, and I think others will as well. So we have some very exciting projects scoped around that permit, that we can't talk about this time. There's still a lot of competitive advantage out there of being first movers. But as time goes on with that as well, I think we'll be able to talk a lot more about it, but we're pretty excited about it.

Q: Great. And one last for Brad, if I could. Just on the balance sheet, you guys have made meaningful progress and strengthened your balance sheet over the last couple of years. If we look further out on the curve, when might you be, or when you might first kind of be in a position to reinstate your dividend? Because that's a pretty meaningful landmark development when it occurs, and I know that there's a lot of investors who have an interest in that development.

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

Sure. Well, Derrick, we've been hesitant to talk about it till we could really see the light at the end of the tunnel. If we get rid of about half of these D's this fiscal year, then I think a distribution reinstatement comes back on the table. So then it'll just be more perhaps a leverage question, how much capital do we have to spend for these big EBITDA opportunities that would be better on the short term spend building something than paying out a distribution. But I think what's significant is this is the first call we've talked about it, and we see it possibly happening in 2027.

Q: Terrific. Again, hats off to you guys on progress on all parts of your business and the balance sheet. Thanks for your time.

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Thanks, Derrick.

Operator

The next question comes from Gregg Brody with Bank of America. Please proceed.

Q: Good afternoon, guys, and thanks for the update. You listed M&A in those three pillars between building another pipeline and dividends. Can you talk a little bit about the environment out there, and is that something that's likely given all the organic growth opportunities you have?

Michael Krimbill - Chief Executive Officer, NGL Energy Partners LP

In the water space, just like others, consolidation makes sense, but there just aren't a lot of competitors. So we are preparing ourselves for that opportunity. We are not in discussions with anyone, but clearly in M&A, and one reason we haven't been involved is we didn't have a lot of extra cash to do an all-cash deal. Doing a deal with equity, we were not excited, and I don't think our shareholders, unitholders wanted us to give away $10 equity. So I think as our equity price increases, then it's more accretive, using an old term, to get back in the M&A game.

Q: Got it. And then, you highlighted getting down to about half the Ds. You think you can bring that into your capital structure. You're just assuming you can get to the leverage number so you can potentially raise more secure debt, or are you thinking about potentially the unsecured bond market at some point?

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

No, I think it'd just be incremental debt, and/or asset sales could clean up that half of the Ds that Mike spoke to. Kind of the same strategy we've been deploying here the last couple of years. Line of sight to being four times levered at the end of this fiscal year, we would be in position to do something if the market was there for us to chip away at the Ds some more.

Q: Got it. Just remind us, the four times leverage, you're excluding the preferred from that, correct?

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Yes, correct. That's just through the debt. That's correct.

Q: Great. [Indiscernible] for you. I saw you sold about $12 million of assets this quarter. In what business was that in? Was that part of NGL Logistics or Oil Logistics?

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

I just think that's some line fill that got monetized when a crude contract rolled off. It wasn't a hard physical asset in the liquids business or anything like that, just a timing of line fill. We sold and received the cash this quarter.

Q: Great. Thanks for the time, guys.

Operator

We have reached the end of the question-and-answer session. I will now turn the call over to Brad Cooper for closing remarks.

Brad Cooper - Executive Vice President and Chief Financial Officer, NGL Energy Partners LP

Yes. Thanks everyone for your interest in NGL today. And we look forward to catching up with you in early November during our second quarter call for 2027. Thank you.

Operator

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.