23.5 STRATEGIES

TWENTY THREE POINT FIVE

INSIGHTS

MARKET PERSPECTIVE

Midstream & LNG Infrastructure:

Selective Build with Corridor-Driven Durability

What operators and investors need to know navigating the infrastructure cycle

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THE BOTTOM LINE UP FRONT

> 23.5 View
>
> Midstream is not in a commodity cycle — it is in an infrastructure cycle. The sector is in a selective-build phase for gas/LNG and NGL export corridors, while mature crude and refined-products logistics increasingly resembles recontracting and optimization. In this regime, the edge is not chasing throughput — it is owning the right corridors, underwriting contract durability, and compounding per-share value through disciplined capital allocation and operator-grade execution.

This brief synthesizes the structural forces shaping midstream and LNG infrastructure today, the corridor constraints that create winners and losers, and the operator-level decisions that matter most in a selective-build environment. For boards and investors, the question is not whether volumes rise next quarter — it is whether management teams are building durable fee-based cash flows with a margin of safety through the cycle.

FOUR FORCES DEFINING THE REGIME

1. Gas/LNG demand pull is underwriting the next wave of build
   - LNG feedgas demand and Gulf Coast power growth are the primary incremental pulls; the winners are positioned on corridors with credible long-term offtake and deliverability constraints.
   - The value is increasingly in deliverability and reliability: compression, storage, and connectivity that converts upstream growth into contracted cash flow.
   - Timing risk matters: commissioning, ramp curves, and construction execution can move the cash-flow start date by quarters — and the equity multiple with it.

2. Basin constraints and basis volatility remain the system stress gauge
   - Permian associated gas and NGL growth regularly tests processing and takeaway; basis volatility is the market signal for where value is being taxed — and where corridor owners earn it back.

- Optionality is the moat: multiple outlets, storage, and compression flexibility convert the same basin tape into very different realized economics.
- As capacity loosens, producers re-negotiate; as it tightens, midstream re-prices. Commercial governance and recontracting discipline are core operator competencies.

3. Contract structure and recontracting quality are now the differentiators
   - Downside-protected frameworks (take-or-pay, MVCs with real credit support) are the foundation; volume-only narratives without protection are not a margin of safety.
   - Escalators and indexation matter: inflation pass-through, fee step-ups, and commodity exposure determine whether 'fee-based' cash flow is truly durable.
   - Counterparty concentration and credit migration are underappreciated risks; best teams treat credit and collateral as operational KPIs, not legal paperwork.

4. Capital allocation and balance-sheet posture separate compounders from drift
   - Self-funding capex, conservative leverage, and disciplined return thresholds create optionality to invest through downturns and act when distressed opportunities appear.
   - M&A is a tool, not a strategy: bolt-ons that deepen corridor advantage and increase connectivity can compound; empire building without integration logic destroys value.
   - Permitting, regulatory friction, and safety performance are not soft issues — they are throughput and schedule risk. Reliability is a cash moat in midstream too.

REGIONAL / CORRIDOR SNAPSHOT: WHERE VALUE IS MADE

Corridor / Node	Constraint Position & Outlook
Permian → Gulf Coast (associated gas + NGLs)	Egress remains the recurring gating variable; corridor owners with multiple outlets, storage, and compression optionality are structurally advantaged.
Haynesville / Gulf Coast gas (LNG feedgas)	Demand-pull supports contractable expansions; underwriting hinges on ramp timing, counterparty credit, and downstream commissioning execution.
Mont Belvieu + docks (NGL fractionation & exports)	Scale + connectivity drive the flywheel. Advantage is system-level: fractionation capacity, storage, and export reliability.
Crude oil logistics + Gulf Coast storage	More harvest/reset. Value shifts to optimization, recontracting discipline, and defensible connectivity rather than greenfield builds.
Refined products terminals / pipelines (midstream-adjacent)	Mix shift (gasoline down, distillate/jet up) rewards systems tied to diesel/jet and export clearing; terminal networks win on placement and reliability.

WHAT SEPARATES WINNERS IN THIS REGIME

In a selective-build infrastructure cycle, survival and compounding are not the product of calling the macro. They are the product of four durable attributes:

- 1. Corridor connectivity as a moat. Multi-node optionality, export adjacency, and scarce rights-of-way create switching costs that protect cash flows through the cycle.

- 2. Contract durability. Take-or-pay/MVC coverage, renewal pipeline quality, and disciplined recontracting determine whether EBITDA is truly resilient.
- 3. Balance sheet resilience. Conservative leverage and liquidity runway convert volatility into opportunity — and protect against permitting, schedule, or counterparty shocks.
- 4. Execution density. Reliability, uptime, and project delivery turn the same basin tape into very different realized outcomes; operator discipline is the differentiator.

SECTOR POSITIONING: WHO COMPOUNDS, WHO STRUGGLES

Midstream companies are not like-for-like. Kit mix, footprint, contract book, and capital structure differ materially — and those differences dominate outcomes. Positioning should be assessed corridor-by-corridor.

HIGHEST RESILIENCE: The advantaged corridor platform

Integrated systems with scale in NGLs and/or gas transmission linked to LNG demand-pull, paired with conservative leverage and disciplined capital allocation, can compound through the cycle and invest counter-cyclically.

MIXED POSITION: Strong nodes, uneven portfolio

Platforms with advantaged corridors but higher recontracting exposure, commodity-linked pockets, or concentrated project timing can outperform — but only with transparent stewardship and proof-based execution.

MOST CHALLENGED: High-beta exposure without a clear corridor moat

Leverage drift, scattered assets vulnerable to bypass, or contract roll-offs without a renewal strategy increase beta. In this tier, margin of safety is liquidity plus contract durability, not narrative.

Signals worth noting (FY2025 filings and Q4 2025 calls):

- **Enterprise (EPD): system-scale integration across NGLs, petrochem connectivity, and exports reinforces a compounding model built on reliability and disciplined capital allocation.**
- **Energy Transfer (ET): scale and optionality are real; investor confidence hinges on consistent execution, transparent return thresholds, and de-risking permitting / regulatory friction.**
- **Kinder Morgan (KMI): gas transmission positioning benefits from LNG and power demand; the key is proving durable growth while maintaining conservative leverage and disciplined capital deployment.**
- **MPLX: anchored cash flows plus selective growth in fractionation, processing, and export adjacency; governance is about balancing payout durability with targeted corridor investments.**
- **ONEOK (OKE) / Targa (TRGP): NGL and G&P exposure offers upside tied to basin growth; the market rewards those who pair volume capture with contract durability and capex discipline.**

THE OPERATOR'S PLAYBOOK: 6 / 18 / 36 MONTHS

Horizon	Priorities
6 Months (Stabilize)	Hardwire reliability and commercial governance. Treat contract performance and counterparty credit as operational KPIs. Tighten maintenance planning, outage response, and working capital discipline.
18 Months (Reshape)	Gate growth capex behind downside-protected contracts. Recontract proactively (duration, escalators, MVC levels). Debottleneck corridors where you have a right to win; rationalize assets with durable bypass risk.
36 Months (Compound)	Build corridor stacks (basin → transmission → storage/compression → export adjacency) where structural advantage is defensible. Pursue

Horizon	Priorities
	disciplined M&A only with clear integration logic and balance-sheet optionality.

WHAT BOARDS SHOULD BE TRACKING MONTHLY

The KPI architecture for a corridor-driven midstream tape should be deliberately simple. If the board cannot see the contract book health and the system stress gauges, it cannot govern capital allocation.

1) **Safety and integrity. Process safety, pipeline integrity, and incident rates — leading indicators of downtime risk and license to operate.**

2) **Reliability. Utilization vs plan, unplanned downtime, and maintenance schedule adherence — the fastest ROI lever in infrastructure businesses.**

3) **Contract book health. Take-or-pay / MVC coverage, renewal pipeline, roll-off schedule, and counterparty credit support — the cash-flow foundation.**

4) **Cash and capital. Distribution coverage, sustaining capex realism, project spend vs plan, liquidity headroom, and leverage vs target.**

5) **System economics. Basis and nodal spreads at key hubs, utilization at bottleneck assets, and recontracting outcomes — the market's stress gauges.**

SIGNPOSTS: WHAT CHANGES THE REGIME?

The following indicators, tracked consistently, will signal a shift in regime before earnings do:

- A step-change in LNG ramp timing (FIDs, commissioning, feedgas) that pulls forward corridor utilization — or delays that create stranded capacity risk.
- Permian basis volatility moderating sustainably (takeaway catching up) — or renewed extreme volatility signaling constraint stress and upside for corridor owners.
- Recontracting outcomes: duration and rate resets that confirm pricing power (or concessions that reveal excess capacity).
- Export stack utilization and downtime: reliability at docks, fractionators, and key pipelines that determines whether systems clear efficiently.
- A cluster of integrity incidents and extended outages indicating reliability regression across the system — often a precursor to cost creep and contract friction.
- Capital allocation drifting toward peak-cycle behavior: growth capex without downside protection, or payouts defended with leverage rather than cash coverage.

23.5 STRATEGIES PERSPECTIVE

Midstream businesses do not need more macro noise. They need clarity on corridor position, contract durability, and capital allocation discipline — paired with operator-grade execution that turns systems into compounding cash engines. 23.5 Strategies works with operators, owners, and investors navigating exactly this environment — not as consultants delivering decks, but as operator-strategists who understand where value is trapped, where it is permanently impaired, and how to build repeatable advantage.

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