

NEWS AUGUST 2019

Global discoveries up 35%, with deepwater leading the way

Global discoveries of conventional oil and gas continue to show promising growth, with new finds totalling 6.7bn boe in 1H2019, according to the mid – year assessment of upstream data by Rystad Energy.

The 1,123mn boe average monthly discovered volumes years – to – date reflect an approximate 35% uplift compared to the 827mn boe seen in 2018, reports the energy research company. So far, , 2019 has been a year of gas discoveries, which hold a majority 63% share compared to liquids, a phenomenon not seen since 2016.

‘Offshore discoveries in Russia, Guyana, Cyprus, South Africa and Malaysia are propelling what is already a very successful year for international E&P companies. With deepwater finds contributing half of the discovered volumes, it can be inferred that high – risk frontier plays in the deepwater are back on the map for explorers,’ says Rohit Patel, Senior Analyst at Rystad Energy.

Majors and integrated national oil companies, with their high – risk appetite and successes in frontier regions, have dominated conventional exploration performance, accounting for more than an 80% share of 2019 discovered volumes. Rystad Energy analysis has identified 56 global conventional discoveries so far this year, 30 of which are located offshore.

In 1H2019, Russia was the leader of the pack in terms of total discovered resources, followed by Guyana, Cyprus, South Africa and Malaysia.

In Russia, Gazprom announced two big gas discoveries in the Kara Sea off the north – western part of West Siberia’s Yamal Peninsula – Dinkov and Nyarmeykoye. Together, these discoveries hold nearly 1.5bn boe of recoverable gas resources. Dinkov, the larger of the two fields, holds 1.1bn boe of resources, making it the largest discovery so far this year.

In Guyana, ExxonMobil’s spate of oil discoveries continue in the Stabroek block, with three major discoveries reported in 2019 – Tilapia, Yellowtial (oil) and Haimara (gas – condensate). These three fields could collectively hold almost 800mn boe of recoverable reserves. ExxonMobil’s success rate in the 15 wells drilled so far on the stabroek block stands at an impressive 86%. First oil from the block is expected in mid – 2020.

ExxonMobil also made headlines in the Mediterranean Sea, notching up its maiden success with the giant Glaucus gas discovery off Cyprus. The discovery is estimated to hold 700mn boe in recoverable resources and is the second major find in Cypriot waters after Eni’s Calypso gas discovery, which has a similar resource size. ExxonMobil is lining up an appraisal campaign on this discovery in 2020. Eni and Partner Total are also planning to begin a five – well drilling programme off Cyprus later this year.

In South Africa, Total’s Brulpadda wildcat, completed in February in block 11B/12B, made a large gas – condensate discovery in the deepwater Lower Cretaceous Post – rift Paddavissie Fairway. Total and partners in the block have reported that the discovery could hold 1bn barrels or more. Results from PVT (pressure, volume and temperature) analysis and technical validation are still being assessed in an effort to confirm the resources size. Rystad Energy currently estimates the discovery resource at between 500 – 600mn boe. Four additional prospects – Luiperd, Platanna, Woudboom and Blassop – have been de – risked within the fairway and a multi – well drilling campaign targeting oil in the eastern side of the fairway is expected to commence on the block in early 2020. The campaign might be carried out in stages as the operational window in the area is limited to

December to March. The Luiperd prospect, with a pre – drill resource estimate of more than 500mn boe, might be spud next.

Thailand's national energy company PTTEP unveiled a major offshore gas discovery with the Lang Lebah – 1RDR2 exploration well in the SK410B licence in Malaysian waters. Rystad Energy estimates the discovery could hold between 2-2.5tn cf of gas. The discovery is believed to be the largest find ever made by PTTEP as operator and is in alignment with the company's strategy to expand its footprint in region.

That much of the investment action in the bulk liquids storage terminal sector over the past year has focused on the US Gulf should come as no surprise. Continued increases in US oil and gas production as a result of the exploitation to tight reserves, at a time of steady domestic demand, has released significant volumes of product for export – primarily crude oil but also natural gas (in the form of LNG), LPG and, more recently, ethane and ethylene.

It is not just the Gulf Coast that is enjoying a renaissance; surplus product is also now flowing more easily to the east coast of the US and the west coast of the US and the west coast of Canada, supporting the construction of export – oriented liquids terminals.

Perhaps more surprisingly, the other main focus of activity in the terminal sector this part year has been in northern Europe. Although Europe is saddled with a refining sector that is largely ageing and currently facing declining demand, and also staring at a rapidly approaching deadline on the use of hydrocarbon fuels as a result of the EU's 'Energy Union' plan. A number of major refining and petrochemical projects have been announced recently. These have given confidence to terminal operators that investment today – in the right locations – will pay off in the medium term.

In northern Europe, in contrast to North America, recent terminal development has concentrated on providing the capacity necessary to handle rising volumes of feedstock imports, including comparatively low – cost butane and ethane coming from the US, as well as meeting the needs of downstream users in the chemical sector and among other industrial users.

US Investment hub

The hub of much current investment in new storage capacity in the US is found in Texas – particularly around the Houston Ship Channel. Contanda is planning to open its new Jacintoport terminal, adjacent to existing steel terminal, by the end of this year. It will offer up to 3mn barrels (475,000 cm) of storage for hydrocarbons and petrochemicals, with a deepwater dock, two barge docks, and road and rail connections. Contanda is also planning another new development nearby, the Houston Green Bayou terminal, again for petroleum products and petrochemicals, with likely completion in 2021.

Seabrook Logistics, a 50-50 joint venture between Magellan Midstream Partners and LBC Tank Terminals, commissioned its 380,000 cm terminal in Seabrook in mid – 2018 and is already planning a 110,000 cm expansion. The facility handles crude oil and condensate exports. Magellan says there is the potential to expand total tankage to 870,000 cm and to add to dock capacity.

Also on the Houston Ship Channel, Enterprise Products Partners and Navigator Holdings, parent of the Navigator Gas LPG tanker operation, are expecting their new ethylene export terminal to come onstream by the end of this year. The facility, located alongside Enterprise's existing Morgan's Point terminal, will have refrigerated storage for 30,000 tonnes of ethylene and is designed to handle up to 1mn t/y.

Enterprise Products Partners is also behind one of two plans to build offshore facilities to load crude oil directly onto very large crude carriers (VLCCs) for exports. The lack of deepwater berths along the US Gulf Coast was always an issue when the US was a major importer of crude oil and now that it is a significant exporter it has the same problem. Enterprise has been able to load VLCCs at its Texas City terminal, but capacity is limited; a dedicated offshore facility is expected to be welcomed by traders and oil majors.

The other project, involving a consortium led by pipeline operator Enbridge, envisages a two single point moorings fed from an onshore tank terminal barrels. An application was lodged with the US Maritime Administration in February 2019.

Elsewhere in the US Gulf, Tallgrass Energy is participating with other public and private interests in a new crude oil terminal in Louisiana. The Plaquemines liquids terminal has permits for up to 20mn barrels (3.2mn cm) of storage capacity and will be fed by pipeline from the Cushing hub in Oklahoma. It is due to be in service by the middle of 2020 and handle tankers of up to Panamax size. Tallgrass says there is the potential to add an offshore mooring to allow VLCCs to load.

Meanwhile, Phillips 66 has added 2.2mn barrels of tank storage at its Beaumont crude oil terminal over the part year, taking total capacity to 14.6mn barrels. A further 2.2mn barrels is expected in service early next year. Howard Energy Partners finalised a major expansion of its Port Arthur terminal in June this year, adding 12 storage tanks that took total liquids capacity up to 1.3mn barrels and four butane bullets (cylindrical tanks) with an aggregate capacity of 360,000 gallons. The work also included new rail connections and docks.

The western corner of Texas is also receiving its fair share of interest. In Corpus Christi, NuStar Energy is to add 600,000 barrels of crude oil capacity under a long – term deal with Trafigura, taking total capacity up to 3mn barrels. And having acquired Gravity Midstream earlier this year, Pin Oak is planning to build 2mn barrels of new tankage at the Corpus Christi site. It has already added pipeline connections to allow it to make use of a public dock that can handle Suezmax tankers.

In Canada, Altagas and Royal Vopak commissioned the new Ridley Island Propane Export Terminal (RIPET) in May 2019. The facility, located in Prince, Rupert, British Columbia, is the first LPG export terminal in Canada, but will certainly not be the last as another is currently under construction and more are being discussed.

European hesitancy

In northern Europe there is a little more hesitancy, which is understandable. But two significant new projects are underway that will cater to changing products flows in the Petroleum and Petrochemical sectors.

In September 2018, MOL Chemical Tankers and SEA – Invest, a France – based company specialising in dry bulk and liquids terminals, formed a 49:51 venture, SEA – MOL, to build a new chemicals terminals on the Delwaide dock in Antwerp. The €400mn project will be built in phases and is expected to ultimately comprise 500,000 cm of storage capacity for chemicals and base oils, with initial commissioning starting in Mid – 2021.

The SEA – MOL terminal will, the company states, ‘support the long – term view of the Antwerp Port Authority in the development of the chemical cluster and all the industries and activities that are linked to its’. Its value to that chemical cluster will, though, not be simply in terms of the storage capacity it will offer, but in its integration of activities and provision of a range of value – adding

services, including product blending and filtration, drumming and tank containers storage, designed to enable users to simplify their supply chains.

The other new terminal is already under construction on the Maasvlakte 1 area in Rotterdam, where HES International has received support from the port authority in constructing a 1.3mn cm storage facility for petroleum products and biofuels. The HES Hartel terminal will consist of 54 tanks and is due for commercial start – up in 3Q2021. The port of Rotterdam has already done its bit for the project, with the construction of new quay walls and a jetty.

The new tank terminal will be the first in the Netherlands to be built to the latest PGS 29 regulations for tank storage, meaning that the terminal will meet very high safety and environmental standards. On top of legal health and safety requirements, HES International decided to invest in an automated system to fight a tank bund fire, a project to provide shoreside electricity for barges, and monitoring equipment to detect the release of odorous substances at a early stage.

There are a number of other recent and current projects in northern Europe. HES International is about to take six shop – built tanks into its Botlek tank terminal in Rotterdam, taking overall capacity from 490,000 cm to 510,000 cm. Koole Terminals recently added 33 stainless steel tanks at its Pernis site in Rotterdam, while ATLHA Terminals is building a 75,000 cm Greenfield terminal in Duisburg Germany, and is seeking permission to increase capacity at its NWB ethanol terminal in Amsterdam by some 50%.

Regional differences

The most obvious difference between development activity in northern Europe and North America is that the former largely comprise projects that enhance handling opportunities for chemicals or for finished fuels and biofuels and their blendstocks, whereas North American projects focus on raw materials and feedstocks. To some extent, that makes the current US environment akin to that of an emerging market, with operators having to put in place, virtually from scratch, an integrated network of gathering, transmission, holding and export infrastructure.

This brief survey of terminal construction activity in North America has not even touched on some of those issues, notably the massive effort to build storage facilities in Alberta, Canada, to massive effort to build storage facilities in Alberta, Canada, to consolidate crude oil volumes for onward transmission by rail or pipeline, nor the many new pipelines being laid across the continent, often by those very same companies that are now adding to export capacity.

In the long, run, that situation cannot hold. The EU's Energy Union plan aims to phase out the use of hydrocarbon –based fuel by the middle of this century and China, the motor of a large proportion of the demand for US exports, also appears to be taking its carbon reduction commitments seriously. At the very least, those trends will likely reshape the pricing environment for raw hydrocarbons and potentially cut off the market for North American product.

But that future is still some way off. Today's investors still have plenty of opportunity to see a return on their money.

Total divests UK North Sea assets to Petrogas

Total has signed a \$635mn agreement to divest 10 of its UK non – core assets to Petrogas NEO UK, the exploration and production arm of the Oman – based conglomerate MB Holding. Petrogas has partnered with Norway – based private equity investor HitecVision.

Formerly owned by Maersk Oil, the assets are located in the eastern North Sea and comprise Dumbarton (100%), Ballock (100%), Lochranza (100%), Drumtochty (100%), Flyndre (65.94%), Affleck (66.67%), Cawdor (60.6%), Golden Eagle (31.56%), Scott (5.16%) and Telford (2.36%).

The assets are expected to produce 25,000 boe/d this year and are reported to hold over 30mn boe in remaining reserves.

Commenting on the news, Ross Cassidy, a Senior Research Analyst on Wood Mackenzie's North Sea Team, said: 'The key asset in the package is the CNOOC – operated Golden Eagle field, which accounts for over half of this year's expected production and most of the remaining value. The field is expected to produce to 2030. Several of the fields are due to cease production by 2025 and have near – term decommissioning liability. The new operator will no doubt aim to extend the life of these fields with fresh investment.'

He added: 'The rationalisation of Total's UK portfolio was expected following its takeover of Maersk in 2017, and is part to Total's Corporate strategy to lower the production costs of its global portfolio. However, even with this sale, Total remains one of the UK's top producers in 2019, with production underpinned by Elgin – Franklin, Iagan – Tormore and Culzean.'

The deal is the latest example of the majors divesting non – core UK assets to private equity – backed companies and independents expanding their presence in the UK upstream sector.

The Dominican Republic recently launched its first licensing round, putting 14 blocks up for bid across its on – and offshore Cibao, Enriguillo, Azua, and San Pedro basins. Blocks will be awarded based on work commitments for the first exploration phase. Operators will have between eight to 10 years to explore and must drill one well.

Eni (70% operator) and its partner Vitol (30%) have been awarded rights to block WB03, located in the medium deep waters of the Tano Basin, Offshore Ghana. The joint venture will include the Ghana National Petroleum Corporation (GNPC) and local registered company that will be named once the contract has been finalised and approved by the Ghana authorities. The award follows Ghana's first international competitive bid round, in which five blocks were put on offer in water depths ranging from 100-4,400 metres.

Total and its partners have approved the launch of the third phase of development of the Dunga field, located in the Mangystau region of western Kazakhstan. Phase of the project will see a number of new wells added to the existing infrastructure and upgrading of the processing plant to increase its capacity by 10% to 20,000 b/d of oil by 2022. This will add production of more than 70mn barrels of reserves. The Dunga oil field is operated by Total (60%), alongside Oman Oil Company (20%) and Partex (20%)

Eni has started the early production phase from the Mizton field in Area 1, located in the Campeche Bay, offshore Mexico. This is the first step in the development of Area 1, estimate to hold some 2.1bn boe in place (90% oil) in the Amoca, Mizton and Tecoalli fields. Eni acquired Area 1 in a competitive bid round in September 2015. Full field production will start in early 2021, utilising a floating production, vessel and reaching a plateau of 100,000 boe/d. The development plan also includes two additional platform on the Amoca field and one on the Tecoalli field. Eni is the first international company to start offshore production in Mexico after the government's energy reform.

The treasakk subsea field in the Norwegian Sea has produced first oil. Tied back to the Asgard a floating production vessel, the field has estimated recoverable resources of 76mn barrels of oil.

Once fully onstream Trestakk will produce around 22,000 b/d of oil. Peak production will be around 44,000 b/d. Field life is put at 12 year. Project partners are Equinor (Operator; 59.1%), ExxonMobil (33%) and Var Energi (7.9%)

Green light for abadi LNG

The Indonesian government is understood to have approved a revised plan of development for the Abadi LNG project. Japan's Inpex (operator 65%) and Shell (35%) propose to develop Abadi via an offshore production facility and a 9.5mn t/y onshore LNG plant, at an estimate cost of \$20bn.

According to Wood Mackenzie Research Director Andrew Harwood, the revised plan of development 'details amendments to the Masela production sharing contract (PSC) to improve the commercial viability of the project, including a 20 year extension, a further seven years to compensate previous delays, and enhanced fiscal terms.'

Inpex aims to make a final investment decision (FID) within three years. First gas is expected in 2028.

Harwood continues: 'Post Jokowi's election win, the government has shown greater flexibility on fiscal terms. In addition to the PSC extension, the government has agreed to an enhanced contractor profit split, investment credit and indirect tax exemptions which will provide for a post – tax contractor profit share of 50%.'

'For Indonesia, making progress on Abadi is critical. Domestic LNG demand is expected to rise to 13mn t/y by 2030 as gas demand grows and production declines. Abadi is also crucial to the next phase of growth for Inpex, post – Ichthys. At peak, we estimate Abadi to contribute 180,000 boe /d (based on working interest) towards Inpex's ambitious long – term production target of 1mn boe/d,'

In contrast, Abadi looks more modest in Shell's industry – leading LNG portfolio. Despite rumours surfacing in May that the major was seeking to exit, Harwood thinks a divestment 'is unlikely until the project gets closer to investment sanction.'

Total starts up La Mede Biorefinery

Total has started production at the La Mede biorefinery complex in south – eastern France, with the first batches of biofuel coming off the line. The converted former oil refinery now encompasses a biorefinery with a capacity of 500,000 t/y of AdBlue, an additive that reduces nitrogen oxide (NO₂) emissions from trucks; a logistics and storage hub with a capacity of 1.3mn cm/y; and a training centre offering real facilities and able to host 2,500 learners a year.

Launch in 2015, the project represents a capital expenditure of €275mn.

La Mede will produce both biodiesel and biojet fuel for the aviation industry. Designed to process all type of oil, its biofuels will be made 60-70% from first generation sources claimed to be 100% sustainable vegetable oils (rapeseed, palm, sunflower, etc) and 30-40% from treated waste (animal fats, cooking oil, residues, etc), to promote a circular economy.

As part of an agreement with the French government in May 2018, Total has pledged to process no more than 300,000 t/y of palm oil – less than 50% of the total volume of raw materials needed – and at least 50,000 tonnes of French – grown rapeseed, creating another market for domestic agriculture.

All the oils processed will be certified sustainable to European Union Standards.

Qatar Petroleum and Chevron Phillips Chemical sign agreement for US mega – petrochemical plant

Qatar Petroleum (49%) and Chevron Phillips Chemical Company (51%) have unveiled plans to develop a new world – scale petrochemical project in the US Gulf Coast region.

With an estimated cost of around \$8bn, the US Gulf Coast II petrochemical project (USGC II) will include a 2mn t/y ethylene cracker, reportedly the largest cracker in the world, and two 1mn t/y capacities high – density polyethylene units. Located in the US Gulf Coast region, the complex will have direct access to significant quantities of ethane produce by US shale basins, including the prolific Permian Basin.

The two companies have a long history of joint ventures, recently announcing a similarly – sized project to be built in Qatar. However, this is the first project to be located in the US.

The proposed US project is part of a trend of Middle Eastern oil companies looking to diversify across regions and expand their footprint in the growing chemicals industry.

This year, 2019, marks a year of change in the oil and gas industry as the world prepares for a period likely to be defined by political instability, trade wars and increased environmental regulation. In a macroeconomic climate underpinned by uncertainty, the resilience and predictability of returns continue to make midstream energy infrastructure an attractive investment sector.

A number of infrastructure – focused private equity firms like Prostar Capital have invested in oil storage terminals over the last few years. Headlines deals have included Goldman Sachs and MIRA's investment in dry and liquid bulk terminal operator HES International, and First State Investment's acquisition of Vopak's terminals in Algeciras, Amsterdam and Hamburg. Prostar also recently announced the acquisition of an oil storage terminal facility, to be renamed GTI Statia, strategically located on a Dutch island in the Caribbean. GTI Statia will be the third terminal investment by Prostar's first fund, following earlier investment in the United Arab Emirates (GTI Fujairah and Fujairah Oil Terminal).

Despite significant volatility in the underlying price of oil, these deals are expected to yield consistent returns throughout an entire market, cycle, reflecting midstream infrastructure's ability to mitigate commodity price – linked performance. For this reason, increased capital is being deployed into the sector. In 2015, there were only six midstream brownfield deals involving infrastructure funds, according to Inframation data. By 2018, Inframational tracked 26 deals totalling approximately \$22bn. With the US expected to be the world's biggest oil producer by the end of 2019, this production boom has necessitated a correspondingly massive build – out of transport and storage infrastructure.

Key sector drivers

The key fundamentals behind a terminal investment are driven by physical attributes – most notably capacity, operational performance, location and off – take facilities. The most highly sought – after terminals have common characteristics, in that they need to be in close proximity to major shipping and trading routes, exist in a price – discovery centre for commodities trading, and be located near a large number of players in the area, along with access to typically local refining concentration as well as efficient and transparent financial markets.

The most successful global storage hubs (ie Singapore, Amsterdam / Rotterdam / Antwerp (ARA), US Gulf Coast and Fujairah) have emerged based on a combination of market and local drivers. ARA, one of the most important crude and refined products storage hubs in the world, has risen to prominence through receiving and sending shipments from its strategic location on the Northern

Atlantic coast, and then moving supplies to other European countries via the Rhine and other routes. Terminals that are located along major trade routes or the ones that house storage that supports specific local demand generally operate in less competitive environments.

Capacity in desirable locations is sought after by producers, as the majority of the storage is for the purpose of either importing and exporting or industrial storage are often longer in length than those for a terminal that operates in a more competitive environment used primarily for contango storage. The trade flows associated with specific geographies therefore form an integral aspect to any terminal investment thesis – independent of the underlying commodity price.

Energy sector challenges

While we see increased financial interest, there remain a few uncertainties inherent within the overall energy sector that investors need to keep in mind. New technology and the growth in artificial intelligence (AI), greater legislative emissions controls and export sanctions are currently creating a shifting supply and demand picture for the oil and gas markets. Politically, Brexit has caused instability in the market surrounding customs issues with freight movement in and out of the UK. In addition, the ongoing trade war between the US and China has negatively impacted the demand for oil products and chemicals by clouding the outlook for global growth. Adverse climate conditions such as low water levels in certain geographies and hurricanes in other are also having serious logistical ramifications across the industry.

Growing economies have historically driven supply and demand for oil products worldwide. However, there has been concern that an oversupply in the markets has led to excess capacity. This was a common occurrence throughout parts of the ARA and Fujairah, particularly prevalent between 2016-2018, which had a downward impact on rates; a trend that has now reversed with strong demand for capacity. It is, therefore, a challenge for financial investors to avoid capacity expansion in the absence of customer demand. Several risks in addition to widespread capacity expansions at existing sites includes the potential for market backwardation, as well as overall reduction for oil product demand due to regulations.

As part of the oil product supply chain, tank terminals are largely influenced by logistical factors such as product demand and supply, imbalances and trade flow. In a market defined by backwardation, cargo owners with flexible contracts at lower rates by either moving terminals or giving back their tanks at the same facility.

IMO 2020 is another common theme currently clouding the terminal storage industry. From 1 January 2020, ships will have to use marine fuels with a sulphur content of no more than 0.5% relative to today's 3.5% limit. The new regulations will be the catalyst for change to bunker fuel specifications, which will reduce demand for high sulphur fuel oil storage in bunker terminals and increase the need to segregate low and high sulphur oils.

Even though all of these risks are worth tracking, most of them have the greatest and most immediate impact on the broader energy sector, rather than directly on midstream infrastructure. Well – positioned midstream energy infrastructure assets have tended to be immune to shorter – term volatility, and growing global economics and rising energy demand over the long term can be expected to revert oil supply and demand back to the norm. Terminals with long – term contracts have historically mitigated short – to medium – term pricing fluctuations well, and will continue to do so with future volatility.

A lot of the demand for storage space at the more competitive terminals is supported as the market largely returns to contango over the short – term, but the majority of demand is driven by oil and

supply chain bottlenecks. Typically speaking, investors should be looking for terminals where producers are seeking to house product for distribution and industrial / off – site storage rather than strategic storage, as the revenue streams are more reliable, resulting in greater conviction in an investment over a longer period.

Adapting to increased competition

Despite the potential headwinds outlined above, there continues to be a net positive outlook and growing demand for energy storage. Given the stability and predictability of midstream infrastructure cash flows, we've seen an influx of capital in this segment of the energy sector.

With additional players looking to access these stable cash flows, EBITDA (earnings before interest, tax, depreciation and amortisation) multiples have been pushed into the high teens, leading to a need for increased selectivity when choosing infrastructure assets.

The increasing competition in the global oil storage market is prompting existing terminal holders to expand oil storage infrastructure and terminal networks to gain market share and scalability. We have observed some private equity firms hiring management teams from the storage industry to both develop and operate projects, effectively acknowledging the need to bring in outside experts. Prostar, in contrast, has focused on building its own in – house expertise, including selective use of industry specialist operating partners to augment the expertise as required. Storage operators are also using long – term rental or throughput – based contracts to provide insulation from short – term pricing volatility and demand sways. Customer diversity throughout the terminals is also lowering concentration and the associated revenue risks.

Various industry players and financial investors are undertaking strategic collaborations including joint ventures, acquisitions, mergers and partnerships in order to establish a stronger market position. Investors are becoming increasingly creative to meet return requirements. Typically, private equity firms have been attracted to terminals given predictable and steady cash flows over a longer period of time, which can be combined with more traditional private equity – style opportunities for operational improvement and significant expansion potential. Each of these factors can contribute to an exit multiple above entry.

One positive contributor to the current deal flow is coming from the divestment of non – core assets from master limited partnership (MLPs). Prostar's recently announced GTI Statia deal where we will acquire the terminal from NuStar Energy exemplifies this trend. MLP structures typically only worked when businesses were supported through periods of significant growth. With performance closely correlated to commodity prices, the MLP model came under pressure when oil prices crashed in 2014 and capital markets tightened.

There is particular interest from financial sponsors directed towards more competitive assets that are highly integrated into customers' supply chains offering value – added services such as blending, trucking shipping and bunkering. These terminals continue to thrive operationally, offering attractive returns and often mitigating general systematic headwinds in the event of a downturn in the oil and gas markets.

From an investor's perspective, it is imperative to have the flexibility of operations within the terminals that allows operators to services customer requirements based on dynamic market demands. Diversity amongst stored product specifications and the ability to conduct product blending is an integral aspect to hedge against product specific risks.

Ever – changing landscape

Storage markets have always been changing as a result of regulation, expansion and fluctuations in market dynamics. While there are a number of key risks present within the energy sector, few of them end up having an impact on the outlook for midstream energy infrastructure assets. We anticipate a steady pace of financial sponsors investing in storage terminals and more largely midstream infrastructure, whether individually, in a joint venture or as a part of a consortium.

As institutional investors continue to seek exposure to stable businesses with attractive returns over the long term, experienced managers will have the expertise to select oil terminal investments that provide diversification and a relatively low risk profile.