



# Hess Midstream LP (HESM)

Updated January 30<sup>th</sup>, 2025, by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$42	<b>5 Year CAGR Estimate:</b>	11.3%	<b>Market Cap:</b>	\$9.0 B
<b>Fair Value Price:</b>	\$41	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	2/6/25
<b>% Fair Value:</b>	102%	<b>5 Year Valuation Multiple Estimate:</b>	-0.4%	<b>Dividend Payment Date:</b>	2/14/25
<b>Dividend Yield:</b>	6.7%	<b>5 Year Price Target</b>	\$55	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Hess Midstream LP (HESM) owns and operates midstream assets primarily located in the Bakken and Three Forks Shale plays in North Dakota. It provides oil, gas and water midstream services to Hess and third-party customers in the U.S. The company was founded in 2014 and is based in Houston, Texas. It has a market capitalization of \$9.0 billion.

Hess Midstream has long-term commercial contracts, which extend through 2033. Its contracts are 100% fee-based and hence they minimize the exposure of the company to commodity prices. In addition, contracts have strict minimum-volume commitments and thus they secure the cash flows of Hess Midstream during adverse periods, such as recessions. About 85% of the revenues of Hess Midstream are protected by minimum-volume commitments.

In late January, Hess Midstream reported (1/29/25) financial results for the fourth quarter of fiscal 2024. Throughput volumes grew 15% for gas processing and gas gathering over the prior year's quarter thanks to higher production and higher gas capture. As a result, revenue grew 11% and earnings-per-share grew 24%, from \$0.55 to \$0.68. Management provided strong guidance for 2025 thanks to strong business momentum in all segments. It expects 10% growth of throughput volumes, 11% growth of adjusted EBITDA and at least 5% annual growth of distributions until 2027. It also expects to reduce leverage ratio (Net Debt to EBITDA) below 2.5x by the end of 2026.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	---	---	\$0.75	\$1.26	\$3.71	\$1.31	\$1.76	\$2.01	\$2.08	\$2.49	<b>\$3.10</b>	<b>\$4.15</b>
<b>DPS</b>	---	---	\$0.58	\$1.36	\$1.56	\$1.73	\$1.91	\$2.18	\$2.37	\$2.64	<b>\$2.80</b>	<b>\$3.66</b>
<b>Shares<sup>1</sup></b>	---	---	53.8	54.6	18.0	18.1	25.7	41.4	56.3	104.1	<b>120</b>	<b>200</b>

Ideally you would use distributable cash flow as a leading metric for a midstream oil and gas company, but Hess Midstream does not report distributable cash flow. As a result, we will focus on earnings-per-share, in line with the way that Hess Midstream reports its results. Hess Midstream began reporting results under its current form in 2017.

Hess Midstream has been consistently growing its earnings thanks to growing production of Hess and annual fee hikes linked to inflation. It has promising growth prospects ahead, primarily thanks to secular growth in gas capture. The company expects to grow its gas and oil volumes by 10% per year until 2026 and by more than 5% in 2027. It also expects to grow its EBITDA and free cash flow by more than 10% per year until 2026. Given also that leverage (Net Debt to EBITDA) is expected to fall below 2.5x by the end of 2026, management expects to raise the distribution by at least 5% per year through 2027. We expect 6% average annual growth of earnings-per-share and 5.5% annual growth of distribution over the next five years.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
<b>Avg P/E</b>	---	---	29.1	16.6	5.6	13.5	13.8	14.7	14.3	14.3	<b>13.5</b>	<b>13.3</b>
<b>Avg. Yld.</b>	---	---	2.7%	6.5%	7.6%	9.8%	7.9%	7.4%	8.0%	7.4%	<b>6.7%</b>	<b>6.6%</b>

<sup>1</sup> In millions.

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Hess Midstream has traded at an average price-to-earnings ratio of 13.3 over the last seven years. We view this as a fair valuation multiple. The stock is currently trading at a price-to-earnings ratio of 13.5, very close to its fair valuation level. If the stock trades at its fair valuation level in five years, it will incur a modest -0.4% annualized valuation drag.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	77%	108%	42%	132%	109%	108%	114%	106%	90%	88%

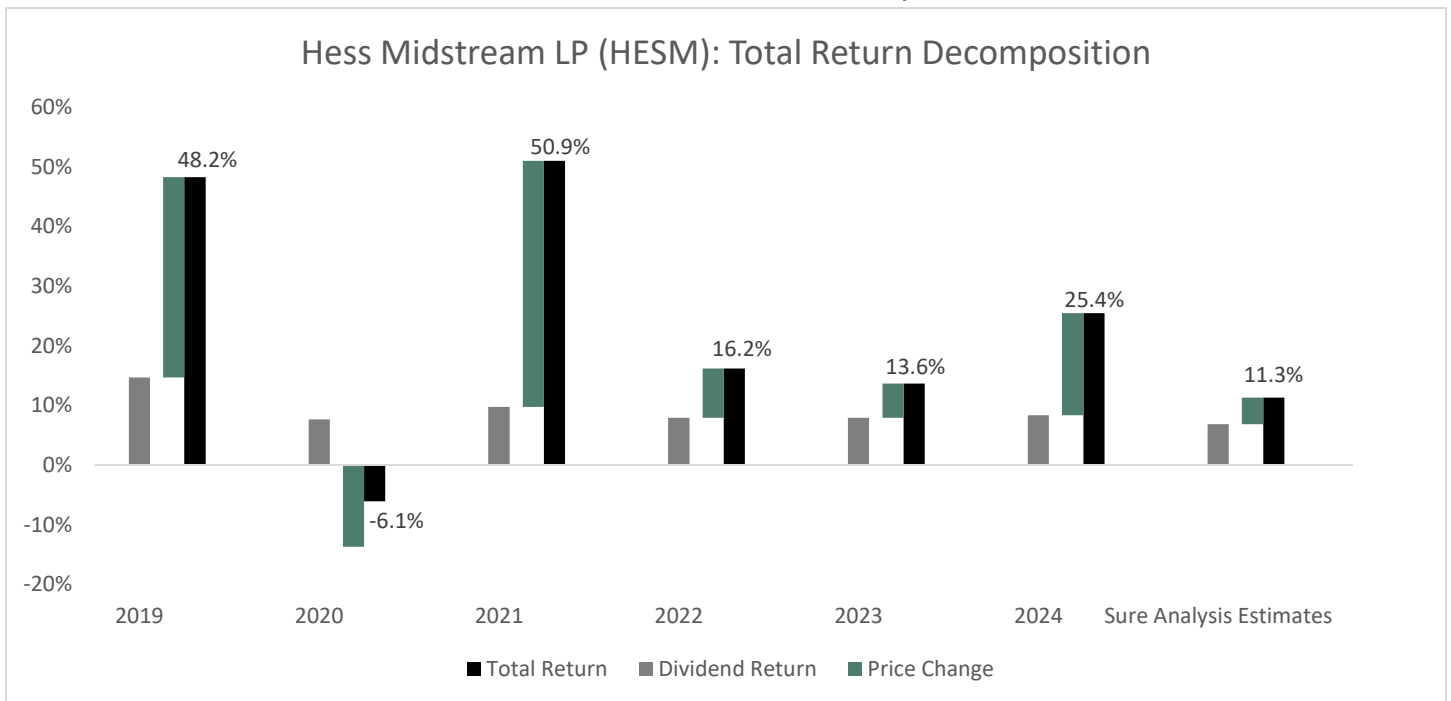
Hess Midstream enjoys significant competitive advantages. Thanks to the toll-booth model of its pipelines and the fact that ~85% of its revenues are protected by minimum-volume commitments, the company is far more resilient to the downturns of the energy sector than most oil and gas companies. Indeed, Hess Midstream has grown its EBITDA every year since its formation, even during the two fierce downturns of the energy sector (2014-2016 and 2020).

The company is also resilient to inflation, as its fees increase every year based on the actual inflation. In addition, Hess Midstream has one of the strongest balance sheets among midstream companies, with a Net Debt to EBITDA ratio of only 3.1x. Even better, the company expects this ratio to fall below 2.5x by the end of 2026. Given also its strong free cash flows, Hess Midstream expects to raise its distribution by at least 5% per year until 2027. Overall, given the rock-solid business model of Hess Midstream and its strong balance sheet, its 6.7% distribution yield should be considered safe. As we also expect material distribution hikes in the upcoming years, we believe that the stock is highly attractive for income-oriented investors.

## Final Thoughts & Recommendation

Hess Midstream passes under the radar of most investors due to its mundane business model but the stock is ideal for income-oriented investors and value investors. The stock has rallied 20% since our last research report, in November, but it remains highly attractive. We expect the stock to offer an 11.3% average annual return over the next five years thanks to its 6.7% distribution yield and 6% growth of earnings-per-share, partly offset by a -0.4% valuation headwind. The stock maintains its buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	565	510	580	712	848	1,092	1,204	1,273	1,346	1,492
<b>Gross Profit</b>	479	410	463	585	705	935	1,038	1,092	1,154	1,289
<b>Gross Margin</b>	84.8%	80.4%	79.9%	82.2%	83.2%	85.6%	86.2%	85.8%	85.7%	86.4%
<b>SG&amp;A Exp.</b>	9	10	14	14	52	21	23	23	26	26
<b>D&amp;A Exp.</b>	86	100	117	127	143	157	166	181	193	---
<b>Operating Profit</b>	195	206	263	378	377	577	727	791	817	919
<b>Operating Margin</b>	34.5%	40.5%	45.4%	53.1%	44.4%	52.8%	60.4%	62.1%	60.7%	61.6%
<b>Net Profit</b>	193	205	41	71	70	24	46	84	119	223
<b>Net Margin</b>	34.2%	40.2%	7.1%	9.9%	8.3%	2.2%	3.9%	6.6%	8.8%	15.0%
<b>Free Cash Flow</b>	73	124	192	225	164	341	632	623	643	---
<b>Income Tax</b>			-	-	(0)	7	15	27	38	72

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	2,356	2,575	2,635	2,991	3,278	3,375	3,486	3,588	3,790	---
<b>Cash &amp; Equivalents</b>		0	47	109	3	3	2	3	5	---
<b>Accounts Receivable</b>	51	45	59	67	88	93	120	123	124	---
<b>Inventories</b>	1									
<b>Goodwill &amp; Int. Ass.</b>										
<b>Total Liabilities</b>	258	336	80	1,115	1,946	2,049	2,733	3,059	3,426	---
<b>Accounts Payable</b>	42	29	12	19	31	30	27	35	39	---
<b>Long-Term Debt</b>	-	-	-	981	1,754	1,910	2,564	2,886	3,211	---
<b>Shareholder's Equity</b>	2,098	2,238	521	518	132	125	204	245	340	---

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	10.4%	8.3%	1.6%	2.5%	2.2%	0.7%	1.4%	2.4%	3.2%	---
<b>Return on Equity</b>	16.3%	9.5%	1.7%	3.2%	4.4%	1.8%	4.5%	13.1%	26.6%	---
<b>Shares Out.</b>	---	---	53.8	54.6	18.0	18.1	25.7	41.4	56.3	89.0
<b>Revenue/Share</b>	10.36	9.34	10.77	13.02	18.71	60.31	46.84	30.75	23.91	16.76
<b>FCF/Share</b>	1.34	2.27	3.57	4.11	3.63	18.82	24.60	15.05	11.42	---

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

## Disclaimer

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