Hess Midstream LP (HESM)

Updated May 9th, 2025, by Aristofanis Papadatos

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	14.2%	**Market Cap:**	$8.7 B
Fair Value Price:	$41	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	5/8/25
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.2%	**Dividend Payment Date:**	5/14/25
Dividend Yield:	7.6%	**5 Year Price Target**	$55	**Years Of Dividend Growth:**	7
Dividend Risk Score:	F	**Sector:** Energy		**Rating:**	Hold

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 $8.7 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 April, Hess Midstream reported (4/30/25) financial results for the first quarter of fiscal 2025. Throughput volumes grew 8% for gas processing, 7% for oil terminaling and 9% for water gathering over the prior year's quarter thanks to higher production. As a result, revenue grew 7% and earnings-per-share grew 8%, from $0.60 to $0.65. Management reaffirmed its 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 next year.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	---	---	$0.75	$1.26	$3.71	$1.31	$1.76	$2.01	$2.08	$2.49	***$3.10***	***$4.15***
DPS	---	---	$0.58	$1.36	$1.56	$1.73	$1.91	$2.18	$2.37	$2.64	***$2.82***	***$3.69***
Shares[1]	---	---	53.8	54.6	18.0	18.1	25.7	41.4	56.3	104.1	***120***	***200***

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 this and next year. 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
Avg P/E	---	---	29.1	16.6	5.6	13.5	13.8	14.7	14.3	14.3	***11.9***	***13.3***
Avg. Yld.	---	---	2.7%	6.5%	7.6%	9.8%	7.9%	7.4%	8.0%	7.4%	***7.6%***	***6.7%***

[1] 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 11.9, which is lower than its fair valuation level. If the stock trades at its fair valuation level in five years, it will enjoy a 2.2% annualized valuation gain.

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%	***91%***	***89%***

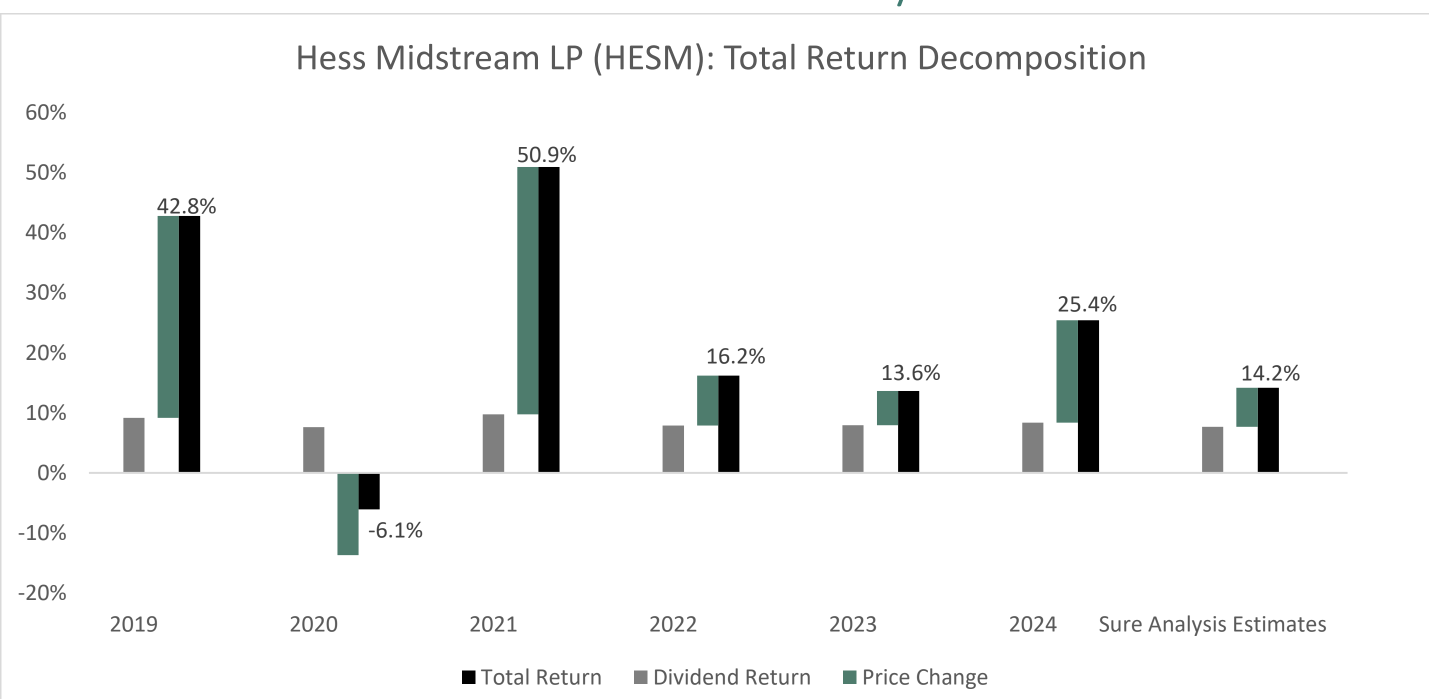
Hess Midstream enjoys significant competitive advantages. Thanks to the toll-booth model of its pipelines and the fact that ~85% of its revenues are protected by minimum-volume commitments, the company is far more resilient to the downturns of the energy sector than most oil and gas companies. Indeed, 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 7.6% distribution is unlikely to be cut in the absence of a severe recession. 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 shed -16% off its recent peak due to the global financial turmoil and the plunge of the price of oil this year, but we view these headwinds as temporary. We expect the stock to offer a 14.2% average annual return over the next five years thanks to its 7.6% distribution yield, 6% growth of earnings-per-share and a 2.2% valuation tailwind. The stock receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	565	510	580	712	848	1,092	1,204	1,273	1,346	1,492
Gross Profit	479	410	463	585	705	935	1,038	1,092	1,154	1,289
Gross Margin	84.8%	80.4%	79.9%	82.2%	83.2%	85.6%	86.2%	85.8%	85.7%	86.4%
SG&A Exp.	9	10	14	14	52	21	23	23	26	26
D&A Exp.	86	100	117	127	143	157	166	181	193	203
Operating Profit	195	206	263	378	377	577	727	791	817	919
Operating Margin	34.5%	40.5%	45.4%	53.1%	44.4%	52.8%	60.4%	62.1%	60.7%	61.6%
Net Profit	193	205	41	71	70	24	46	84	119	223
Net Margin	34.2%	40.2%	7.1%	9.9%	8.3%	2.2%	3.9%	6.6%	8.8%	15.0%
Free Cash Flow	73	124	192	225	164	341	632	623	643	634
Income Tax			-	-	(0)	7	15	27	38	72

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2,356	2,575	2,635	2,991	3,278	3,375	3,486	3,588	3,790	4,151
Cash & Equivalents		0	47	109	3	3	2	3	5	4
Accounts Receivable	51	45	59	67	88	93	120	123	124	139
Inventories	1									
Goodwill & Int. Ass.										
Total Liabilities	258	336	80	1,115	1,946	2,049	2,733	3,059	3,426	3,686
Accounts Payable	42	29	12	19	31	30	27	35	39	56
Long-Term Debt	-	-	-	981	1,754	1,910	2,564	2,886	3,211	3,472
Shareholder's Equity	2,098	2,238	521	518	132	125	204	245	340	531

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	10.4%	8.3%	1.6%	2.5%	2.2%	0.7%	1.4%	2.4%	3.2%	5.6%
Return on Equity	16.3%	9.5%	1.7%	3.2%	4.4%	1.8%	4.5%	13.1%	26.6%	53.9%
Shares Out.	---	---	53.8	54.6	18.0	18.1	25.7	41.4	56.3	89.0
Revenue/Share	10.36	9.34	10.77	13.02	18.71	60.31	46.84	30.75	23.91	16.76
FCF/Share	1.34	2.27	3.57	4.11	3.63	18.82	24.60	15.05	11.42	7.13

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