



# Hess Midstream LP (HESM)

Updated February 4<sup>th</sup>, 2026, by Aristofanis Papadatos

## Key Metrics

|                             |      |                                            |       |                                  |         |
|-----------------------------|------|--------------------------------------------|-------|----------------------------------|---------|
| <b>Current Price:</b>       | \$35 | <b>5 Year CAGR Estimate:</b>               | 13.5% | <b>Market Cap:</b>               | \$7.3 B |
| <b>Fair Value Price:</b>    | \$39 | <b>5 Year Growth Estimate:</b>             | 5.0%  | <b>Ex-Dividend Date:</b>         | 2/5/26  |
| <b>% Fair Value:</b>        | 91%  | <b>5 Year Valuation Multiple Estimate:</b> | 2.0%  | <b>Dividend Payment Date:</b>    | 2/13/26 |
| <b>Dividend Yield:</b>      | 8.7% | <b>5 Year Price Target</b>                 | \$49  | <b>Years Of Dividend Growth:</b> | 9       |
| <b>Dividend Risk Score:</b> | F    | <b>Sector:</b> Energy                      |       | <b>Rating:</b>                   | 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, it is based in Houston, Texas, and has a market capitalization of \$7.3 billion. Hess Midstream is an “umbrella style” C-Corp, where the parent corporation is a company. It issues 1099s, not K-1s. In addition, its distribution is typically partially a return of capital and the company issues Form 8937 every year.

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 early February, Hess Midstream reported (2/2/26) financial results for the fourth quarter of fiscal 2025. Throughput volumes decreased -1% for gas processing, -4% for oil terminaling and -5% for water gathering over the prior year’s quarter due to lower production, which was caused by severe winter weather. Nevertheless, thanks to lower general and administrative expenses, earnings-per-share grew 6%, from \$0.68 to \$0.72. Management reaffirmed its guidance for 2026 thanks to positive 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 continues to prioritize financial strength and expects to reduce leverage ratio (Net Debt to EBITDA) below 2.5x by the end of this year.

## Growth on a Per-Share Basis

| Year                      | 2016 | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2025   | 2026          | 2031          |
|---------------------------|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | ---  | \$0.75 | \$1.26 | \$3.71 | \$1.31 | \$1.76 | \$2.01 | \$2.08 | \$2.49 | \$2.86 | <b>\$2.90</b> | <b>\$3.70</b> |
| <b>DPS</b>                | ---  | \$0.58 | \$1.36 | \$1.56 | \$1.73 | \$1.91 | \$2.18 | \$2.37 | \$2.64 | \$2.90 | <b>\$3.06</b> | <b>\$3.55</b> |
| <b>Shares<sup>1</sup></b> | ---  | 53.8   | 54.6   | 18.0   | 18.1   | 25.7   | 41.4   | 56.3   | 104.1  | 129.4  | <b>140</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% in 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 in 2026-2028. Given also that leverage (Net Debt to EBITDA) is expected to fall below 2.5x by the end of this year, management expects to raise the distribution by at least 5% per year in 2026-2027. We have assumed 5% average annual growth of earnings-per-share and 3% annual growth of distribution over the next five years in order to have a margin of safety.

<sup>1</sup> In millions.

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## Valuation Analysis

| Year      | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Now  | 2031 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg P/E   | ---  | 29.1 | 16.6 | 5.6  | 13.5 | 13.8 | 14.7 | 14.3 | 14.3 | 13.3 | 12.1 | 13.3 |
| Avg. Yld. | ---  | 2.7% | 6.5% | 7.6% | 9.8% | 7.9% | 7.4% | 8.0% | 7.4% | 7.6% | 8.7% | 7.2% |

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 12.1, which is lower than its fair valuation level. If the stock trades at its fair valuation level in five years, it will enjoy a 2.0% annualized valuation gain.

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

| Year   | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2031 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | ---  | 77%  | 108% | 42%  | 132% | 109% | 108% | 114% | 106% | 101% | 106% | 96%  |

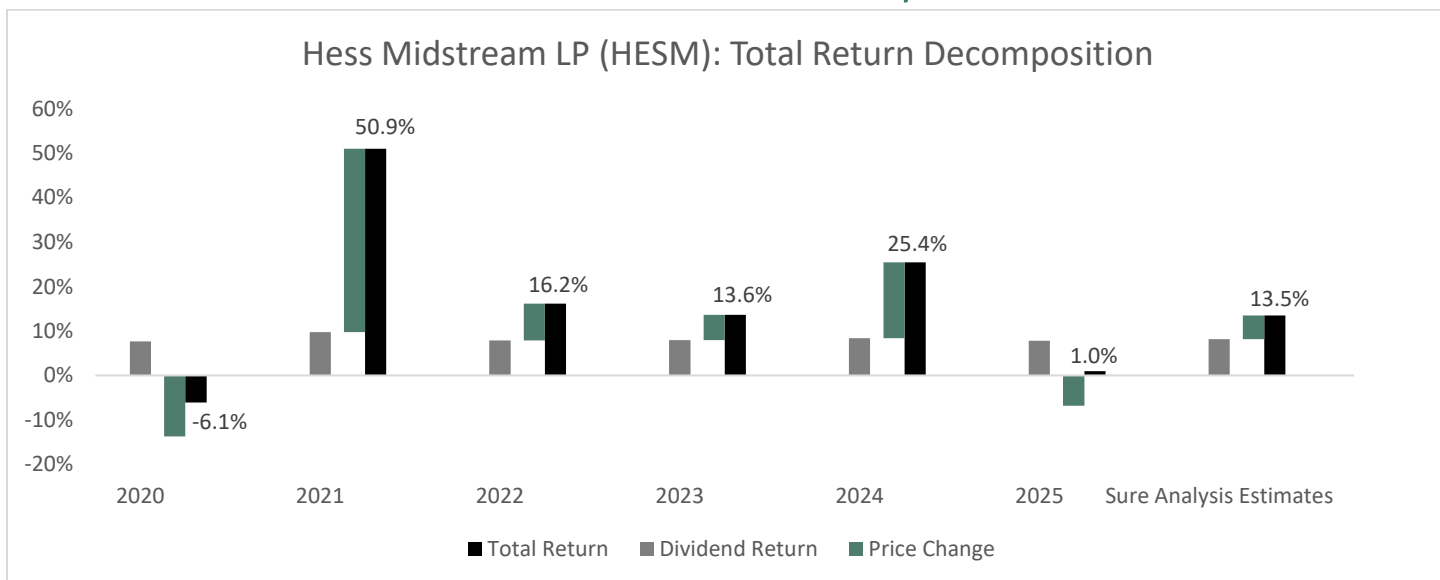
Hess Midstream enjoys significant competitive advantages. Thanks to the toll-booth model of its pipelines and the fact that ~95% of its revenues are protected by minimum-volume commitments, the company is far more resilient to the downturns of the energy sector than most oil and gas companies. Indeed, 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 in 2026-2027. Overall, given the rock-solid business model of Hess Midstream and its strong balance sheet, its 8.7% 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 it is ideal for income-oriented investors and value investors. The stock could offer a 13.5% average annual return over the next five years thanks to its 8.7% distribution yield, 5% growth of earnings-per-share and a 2.0% valuation tailwind. The stock receives a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2025  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 510   | 580   | 712   | 848   | 1,092 | 1,204 | 1,273 | 1,346 | 1,492 | 1,621 |
| Gross Profit     | 410   | 463   | 585   | 705   | 935   | 1,038 | 1,092 | 1,154 | 1,289 | 1,037 |
| Gross Margin     | 80.4% | 79.9% | 82.2% | 83.2% | 85.6% | 86.2% | 85.8% | 85.7% | 86.4% | 63.9% |
| SG&A Exp.        | 10    | 14    | 14    | 52    | 21    | 23    | 23    | 26    | 26    | ---   |
| D&A Exp.         | 100   | 117   | 127   | 143   | 157   | 166   | 181   | 193   | 203   | ---   |
| Operating Profit | 206   | 263   | 378   | 377   | 577   | 727   | 791   | 817   | 919   | 1,008 |
| Operating Margin | 40.5% | 45.4% | 53.1% | 44.4% | 52.8% | 60.4% | 62.1% | 60.7% | 61.6% | 62.2% |
| Net Profit       | 205   | 41    | 71    | 70    | 24    | 46    | 84    | 119   | 223   | 685   |
| Net Margin       | 40.2% | 7.1%  | 9.9%  | 8.3%  | 2.2%  | 3.9%  | 6.6%  | 8.8%  | 15.0% | 42.2% |
| Free Cash Flow   | 124   | 192   | 225   | 164   | 341   | 632   | 623   | 643   | 634   | ---   |
| Income Tax       |       | -     | -     | (0)   | 7     | 15    | 27    | 38    | 72    | 114   |

## Balance Sheet Metrics

| Year                 | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2025 |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Total Assets         | 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  | 45    | 59    | 67    | 88    | 93    | 120   | 123   | 124   | 139   | ---  |
| Inventories          |       |       |       |       |       |       |       |       |       |      |
| Goodwill & Int. Ass. |       |       |       |       |       |       |       |       |       |      |
| Total Liabilities    | 336   | 80    | 1,115 | 1,946 | 2,049 | 2,733 | 3,059 | 3,426 | 3,686 | ---  |
| Accounts Payable     | 29    | 12    | 19    | 31    | 30    | 27    | 35    | 39    | 89    | ---  |
| Long-Term Debt       | -     | -     | 981   | 1,754 | 1,910 | 2,564 | 2,886 | 3,211 | 3,472 | ---  |
| Shareholder's Equity | 2,238 | 521   | 518   | 132   | 125   | 204   | 245   | 340   | 531   | ---  |

## Profitability & Per Share Metrics

| Year             | 2016 | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  | 2025  |
|------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 8.3% | 1.6%  | 2.5%  | 2.2%  | 0.7%  | 1.4%  | 2.4%  | 3.2%  | 16.6% | ---   |
| Return on Equity | 9.5% | 1.7%  | 3.2%  | 4.4%  | 1.8%  | 4.5%  | 13.1% | 26.6% | 159%  | ---   |
| Shares Out.      | ---  | 53.8  | 54.6  | 18.0  | 18.1  | 25.7  | 41.4  | 56.3  | 89.0  | 123.1 |
| Revenue/Share    | 9.34 | 10.77 | 13.02 | 18.71 | 60.31 | 46.84 | 30.75 | 23.91 | 16.80 | 13.17 |
| FCF/Share        | 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.

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