

# [***Midstream industry can expect continued shareholder activism in 2017***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:5MG2-9F01-DXCW-D3JY-00000-00&context=1516831)

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United Kingdom: S&P Global Market Intelligence has issued the following press release:

Activist investors are expected to be more hands-on in midstream energy companies through 2017 as they look to optimize the value of their assets in a rebounding industry ***environment***.

Pipeline operators whose assets are perceived as undervalued or trickier to monetize will be the first to attract increased shareholder activism in the coming months, according to business consulting firm EY's U.S. master limited partnership leader, Greg Matlock. "Some [midstream] companies have untapped value or assets within their portfolios that aren't attracting the right amount of capital. That can attract shareholder activism. I think you are seeing the market trend supporting that," he said.

Activist shareholders in the sector typically exist in parent companies that control one or more midstream and/or MLP affiliates. These activists tend to exercise their rights as owners by influencing the board of directors and management.

Given the commodity price rally and improved capital markets access, activist shareholders have already started driving midstream managements to revisit their valuations and be more opportunistic.

Elliott Management Corp., which holds a 4% stake in Marathon Petroleum Corp., recently urged the company to speed up the dropdown of its assets to its MLP, MPLX LP, and proposed an exchange of Marathon's incentive distribution rights for limited partner units. In a Nov. 21 letter, the hedge fund's portfolio manager, Quentin Koffey, emphasized that Marathon can boost its share price by up to 80% by unlocking $14 billion to $19 billion in value.

Marathon CEO Gary Heminger announced the strategic review of MPLX's general partner in late October. In addition to Elliott Management, other well-known activists including Barry Rosenstein's Jana Partners LLC and Keith Meister's Corvex Management LP have snapped up stakes in Marathon.

Mizuho Securities USA Inc. analyst Brian Zarahn expects activist investors at smaller companies like Valero Energy Corp. and Tesoro Corp. to follow suit with similar proposals for Valero Energy Partners LP and Tesoro Logistics LP. "[These] refiners are trying to find ways to unlock the value of their midstream businesses. They are trading with crack spreads and the value of general partner ownership is harder to determine," he said of parent companies Marathon, Valero and Tesoro.

"I've got several clients facing activists who are trying to push them to figure out what alternatives they can use to create value in what activists are viewing as non-core assets," said Gerald Spedale, who advises C-corps, MLPs and midstream companies as a partner at Baker Botts LLP.

Expectations of rising shareholder activism through 2017 continue a trend from the past 12 months involving midstream operators including Williams Cos. Inc. and Crestwood Equity Partners LP. Meister sold much of his stake in Williams after its deal with Energy Transfer Equity LP crumbled and his fight to replace the board ended. In December 2015, hedge fund investor Raging Capital Management LLC's Chairman and Chief Investment Officer William Martin pushed Crestwood for a "comeback" program, which led to a 56% dividend cut.

Matlock and Spedale expect shareholder activism to catalyze more acquisitions in 2017.

"If you have assets that could go into an MLP, but they are not [yet] in an MLP, you may get an activist shareholder asking why they are not in an MLP. If you are a company sitting on a lot of cash, then you'd probably have shareholder activists ask why you are not buying assets," Matlock said. "What companies can do to face potential activist shareholders is either getting them involved or having some form of analysis done to be able to respond strategically and factually to their concerns."

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