Tortoise Energy QuickTake Podcast

Tortoise

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise provide a timely update on trending topics in the market.

Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast.

After a strong start to 2018, energy stocks took a pause last week. Broad energy was off 1.3%, producers 2.4%, and MLPs were down 1.5%. Crude oil and natural gas also were slightly weaker.

Despite the price declines, fundamentals continue to be positive, with U.S. crude oil stocks down 6.8 million barrels, in the ninth consecutive weekly draw. What likely contributed to the crude oil price hiccup was an IEA report forecasting shale to lead non-OPEC supply growth higher by a robust 1.7 mmbpd in 2018. The fear being supply might outstrip demand again. As for natural gas, inventories fell 183 Bcf last week, placing overall stocks 12% below the five-year average for this time of year.

For news, in the largest deal last week, Energy Transfer Partners agreed to sell its compression business to USA Compression for $1.7 billion, and Energy Transfer Equity announced the acquisition of USA Compression's general partner for $250 million, while simultaneously converting the IDRs into common units. We think the transaction is a win for all parties. Energy Transfer Partners divested a non-core asset for cash the company can use to finance its pipeline projects, USA Compression doubles the size of the company and at the same time eliminates its IDRs, and Energy Transfer Equity achieves modest cash flow accretion. Longer-term, we believe USA Compression will buy back its general partner from Energy Transfer Equity.

The largest C-Corp midstream company, Kinder Morgan, reported in-line fourth quarter results. Notably, Kinder Morgan pushed out the expected completion date of its TransMountain project by three months due the Canadian project awaiting clarity on key permits and court proceedings, along with pushing out the date the company expects to become a federal tax cash payer by one year, to 2024. Further, the company repurchased $250 million in stock during the quarter, a trend we expect to continue throughout the midstream sector over the next several years as the default decision for excess cash flow is no longer to pay it out in the form of a dividend or distribution.

Antero Resources and Antero Midstream held an analyst day. Midstream reaffirmed its distribution growth target of 28-30% annually for 2018-2020, and expects 20% growth per year in 2021-2022. Resources touted a concentration on drilling longer laterals and focusing on the liquids-rich Marcellus and Utica shales. Following, the company expects production growth of 20-22% in 2018-2020 and 15% in 2021-2022.

Schlumberger, the largest oilfield services company, reported in-line 4Q earnings last week. Revenue and margins improved sequentially and year-over-year, driven by strong pressure pumping activity, with North American revenue higher by 8% sequentially and International higher by 2%. Schlumberger also repurchased $101 million of shares in the quarter. On the macro, the company noted increased optimism on oil market fundamentals as higher than expected inventory draws followed the extension of OPEC plus Russian led production cuts, and the international production base has had three years of significant underinvestment.

In LNG news, there was one new contract signed as Cheniere announced 1.5 million tons per year, long-term contract that increased the probability of an FID at Corpus Christi train 3. And for an interesting development, this week the Everett, MA LNG import terminal, near Boston, is expected to import LNG that includes some natural gas from Russia. During the recent frigid temperatures, the Northeast had some of highest natural gas prices in the world due to the lack of pipeline supply to meet the acute, weather-driven, demand. An LNG vessel moved to meet this demand. How ironic, the U.S. is importing gas from Russia? Note, the Jones Act prevents domestic, port to port LNG transport.

There were two capital markets deals. Alternative equity capital remains en vogue as Semgroup announced a $350 million, 7% convertible preferred private placement to Warburg Pincus, Atlantic Trust, and Tortoise. And Buckeye Partners priced $400 million of 6.375% junior subordinated notes due 2078.

To sum up last week, global oil demand continues to outstrip supply, US production growth looks on course, companies are returning cash to shareholders through higher distributions and stock buybacks, LNG markets remain dynamic, and alternative forms of financing remain strong.

Looking ahead, this week continues with more 4Q earnings announcements, where we'll discern if production outlooks change following sustained crude oil prices above $60 per barrel. Throw in an analyst day from Kinder Morgan, which we expect to be largely uneventful, and the World Economic Forum in Davos, Switzerland, which will no doubt include some energy dialogue, and it's a full week. Thanks for listening.

Thank you for joining us. And stay tuned for our next cast. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.