Tortoise QuickTake EnergyPodcast

February 26, 2018

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 Rob Thummel with this week's Tortoise QuickTake podcast.

Starting by taking a look at performance for last week, energy stocks as represented by the S&P Energy Select Sector® Index rose by 1% last week supported by higher oil prices that were up 3% for the week. However, MLPs, as represented by the Tortoise MLP Index®, declined 2% last week despite a strong fundamental backdrop.

One world describes the recent performance of the MLP market: Befuddling. After a strong start to 2018, MLP stock prices have faded recently leaving some investors with a feeling of déjà vu harkening back to 2017. At Tortoise, we do not believe we will see a repeat performance in 2018. Recall in 2017 that oil prices pulled the entire energy sector down in the first half of the year after oil prices fell into bear market territory falling by 21% from January 1 – June 21, 2017. The other factors that weighed on MLPs in 2017, were equity market issuances, several distribution cuts and the impact of a move to a self-funding model. At Tortoise, we believe that many of the 2017 challenges are in the rear view mirror. In 2018, we expect oil prices to remain stable, between $55 - $65 per barrel. In our opinion, stable oil prices are important to bring back investors to the energy sector. Also, we believe most of the distributions cuts are behind us. The balance sheets of a majority of MLPs are in good shape. And the need to access the equity capital markets has lessened. I must reiterate that a lot of the actions taken by MLPs in the past have been to best position the MLP to fund future growth projects. Ultimately, growth projects result in higher future cash flow which we believe will be the driver of higher stock prices for MLPs and other energy companies. A great example of this coming full circle occurred last week, when Willliams Companies increased its dividend by 13%. In 2016, Williams reduced its dividend to improve its balance sheet and finance future growth projects. Investors are now seeing the benefit of those growth projects.

Moving onto to news from last week. The annual BP Energy Outlook was released last week. BP's outlook highlights the significance of the energy sector and the critical role that the U.S. will play over the next two decades. There is a lot of great information in this report but let me summarize a few key points. First, BP forecasts global energy demand to increase by 1.3% per year between now and 2040. At Tortoise, we believe that the steady, consistent growth delivered by the energy sector is underappreciated. Few sectors have grown 33 out of the last 34 years, and few are expected to continue to experience the steady growth demonstrated by the energy sector into the future. A second highlight that we have discussed in previous podcasts is how energy supply mix is expected to change. BP projects that by 2040 the supply mix will be the most diversified fuel mix ever seen. Natural gas and renewables are expected to gain market share while coal and oil lose market share by 2040. BP expects natural gas supply to rise to 26% of total global demand by 2040 up from 24% in 2016. Liquefied natural gas or LNG and the U.S. play a critical role in providing the future natural gas supply. BP believes that global LNG demand more than doubles by 2040 with exports of LNG from the U.S. and Qatar accounting for almost half of global LNG exports by 2040. In addition, BP forecasts the U.S. to be the largest producer of natural gas in the world representing 24% of total gas production in 2040. The last point of interest from the BP report relates to oil and how the rise of electric vehicles will impact global oil demand. While BP expects oil to lose some market share by 2040, crude oil remains a critical commodity as absolute oil demand is expected to increase. BP projects global liquids demand, including oil, is expected to rise to approximately 115 million barrels per day by 2040, representing an 8 million barrel per day increase. Electric vehicles could have the most impact on passenger car consumption which represents about 20% of the total oil demand. BP projects the passenger car fleet to almost double to 2 billion cars by 2040. So, of the almost 1 billion cars sold between now and 2040, 300 million or 30% are expected to be electric vehicles. Therefore, demand for oil from passenger cars is expected to remain flat. So, how does absolute global oil demand increase? Since, passenger cars only represent 20% of total demand, other areas such as trucks, jet fuel and petrochemical demand are expected to increase, helping boost overall demand for oil. The final point of interest is the role the U.S. plays in supplying oil in the future. BP estimates that the U.S. share of global oil production will increase from 12% today to about 18% by 2040, positioning the U.S. as the largest oil producer in the world. This is all great news for the future of the U.S. energy and energy infrastructure sector.

On the earnings front, the earnings season is nearing to end. Unlike the Olympics, as far as I could tell there were no wardrobe malfunctions on behalf of the management teams.

EQT Corporation, the largest natural gas producer in the U.S., announced its much anticipated separation of its midstream and upstream businesses last week. EQT Corporation will now be a pure-play natural gas producer, while a newly publicly-traded corporation will focus on its energy infrastructure businesses. The existing EQT-related MLPs will remain in existence as well. In our opinion, the announcement resulted in more questions than answers so stay tuned over the next few months for more information.

In the oilfield services sector, two providers of sand that is a critical component to hydraulic fracturing process reported results with mixed messaging. Hi-Crush Partners suggested higher volumes and higher pricing were expected into the first quarter of 2018 while its larger competitor U.S. Silica reported flat 1Q pricing and higher costs. The result was an 18% drop in the Silica stock price last week.

On the midstream front, the largest market cap company to report last week was Energy Transfer Partners. Energy Transfer handily beat consensus expectations, reporting EBITDA that was 10% higher than analyst estimates. Another sign that the fundamentals supporting of the MLP sector remains strong.

Also, Oneok and Plains added to the energy infrastructure project backlog. Oneok announced $2.3 billion of new energy infrastructure projects, including a 400,000 barrel per day pipeline that will transport natural gas liquids from Oklahoma to Mont Belvieu, Texas. Plains All American announced its Cactus II pipeline is now supported by third-party shipper contracts. Cactus II will transport 585,000 barrels per day of oil from the Permian Basin to Corpus Christi, Texas at a cost of $1.1 billion. Corpus Christi is becoming an increasingly popular location to export oil to Asia, Europe and South America.

Lastly, Cheniere Energy reported its results last week. Cheniere transported over 300 cargoes of LNG to over 25 countries around the world. Cheniere recently signed a 20-year supply agreement with China National Petroleum Corporation. Cheniere's first-mover advantage positions it well to benefit from increasing demand for LNG throughout the entire world.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

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.

The **S&P Energy Select Sector® Index** is a capitalization-weighted index of S&P® 500 Index companies in the energy sector involved in the development or production of energy products.

The **Tortoise MLP Index®** is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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