Tortoise QuickTake Energy Podcast

Tortoise

April 8, 2019

Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, Tortoise provides 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.

Last week both my yard and energy stocks ended in green. MLPs inched higher by a little over 1%, broad energy by 2.3% and producers gained 3.5%. Sentiment improved in part due to crude oil prices leaping by nearly 5% following increased geopolitical uncertainty. Last week a rogue general in Libya mounted an offensive to take over the capital city of Tripoli. This threatens to interrupt Libya's 1.3 million bpd of oil production and just adds to the geopolitical tensions in the oil market, that being on top of concerns around Venezuelan leadership and Iranian sanctions. Furthering oil's advance, we learned that non-OPEC, non-US oil production might be harder to maintain than thought after Brazil reported February oil production 5% lower than January's level.

Moving on to value chain news, we've consistently talked about the second wave of LNG projects, and last week there were two major U.S. announcements at the LNG 2019 conference in Shanghai. First, NextDecade reached an agreement with Shell to supply 2 million tons per annum (mtpa) or nearly 0.3 Bcf/d over 20 years from NextDecade's Brownsville, TX export facility. The contract is particularly notable because the LNG pricing is linked to Brent crude oil, similar to international contracts, and not to Henry Hub natural gas, the typical U.S. pricing model. NextDecade is aiming to make a positive final investment decision for the project by the end of the third quarter.

Secondly, Total signed an agreement with Tellurian (ticker TELL) to become a partner in the Driftwood LNG project. The partnership details include Total purchasing 2.5 million tons per annum (mtpa), buying $200 million in TELL stock, and making a $500 million equity investment directly into the Driftwood LNG project.

In midstream news, we're seeing evidence that the MLP evolution is coming full circle. You may remember that Plains All American reduced its distribution during the energy downturn to paydown debt and become self-funding for the equity portion of growth projects. Last week, Plains announced the company completed its deleveraging plan and will increase its distribution 20% next quarter. Plains now targets leverage of 3.0 to 3.5x debt to EBITDA and a minimum of 1.3x distribution coverage. Note we anticipate 2020 coverage at 1.6x. Going forward, Plains intends to grow its distribution by 5% annually and fully fund the equity portion of growth capex with cash flow in excess of distributions. The company also indicated it will consider opportunistic share buybacks if market conditions warrant it. It is great to see Plains achieve its goals and now prepared to succeed in MLP 2.0. Feels like spring is arriving in the midstream sector.

Private equity continues to be active in midstream. Stonepeak Infrastructure Partners announced the acquisition of Oryx Midstream, an oil gathering and transportation system in the Permian's Delaware Basin, for $3.6 billion. The sellers were two producers, Concho Resources and WPX Energy along with two other private equity firms. We continue to see upstream selling their midstream assets and using the proceeds to improve balance sheets.

Finally, last week we received some real insight into the world's most profitable company, Saudi Aramco. As part of Saudi Aramco's first international bond sale to help fund its purchase of SABIC, the state petrochemical company, the company filed a 469-page prospectus. Leading the headlines was the reported $111 billion in net income last year. The outsized net income is partly a result of Aramco producing nearly 14 million barrels of oil equivalent per day (mmboe/d) and having the lowest average per barrel cost, of about $10. We also discovered that the world's biggest conventional onshore oilfield, Ghawar, which started production in 1951, produced 3.8 million barrels per day last year. What's notable here is that Ghawar has not only declined a bit since 2004 when it produced 5 million bpd, but that the Permian, at just over 4 million barrels per day of production, is now the world's largest oil producing basin. Starting production in 1923, the Permian is as strong as ever.

© 2018 Tortoise

This week is the last full week before companies report first quarter earnings. That being said, with ongoing US/China trade negotiations, Brexit discussions, and leadership uncertainty in both Venezuela and Libya, and there are plenty of potential market moving events.

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.

The S&P 500® Index is a market-value weighted index of equity securities.
The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

Broad Energy = 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.

Producers = Tortoise North American Oil & Gas Producers Index℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = 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.

The indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) ("S&P Dow Jones Indices") to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline Index℠ and Tortoise North American Oil and Gas Producers Index℠ (each an "Index"). S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and, these trademarks have been licensed to S&P Dow Jones Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Tortoise, through its family of registered investment advisers, does provide investment advice to Tortoise related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, Tortoise does stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*

© 2018 Tortoise