

Tortoise QuickTake

Energy Podcast



Nov. 5, 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 Matt Sallee, energy portfolio manager at Tortoise. After starting the week down nearly 2%, the midstream market found its footing on Wednesday following a slew of earnings reports and finished the week producing a flat total return.

Speaking of earnings, last week was a huge week for midstream results which, for the 3rd straight quarter, have been incredibly positive. The key themes are high asset utilization, increasing spot fees, good end user demand and wide basis differentials. In particular for those with natural gas liquids assets it was a great quarter. Some highlights include:

Enterprise whose NGL segment beat our estimate by 14% leading to an overall big EBITDA beat with 1.7x coverage

ONEOK's NGL segment also led them to a 5% beat over the street, who, by the way, had taken up their estimates pretty significantly in the last week leading up to the report.

MPLX Logistics beat nicely and pointed out that their Q3 run-rate EBITDA is already higher than 2019 consensus estimates. Not to mention they have lots of growth projects coming online over the next year. I think we may see some revisions upward on this one.

On the gas side, Williams posted a small beat and expects to be at the top end of 2018 guidance. Also noteworthy is that 2019 EBITDA guidance does not include any benefit from the pending \$270 million Transco rate increase providing a nice tailwind to the outlook.

In gathering, Antero beat and CNX Midstream beat and raised guidance.

Finally in liquids, Shell Midstream and Enbridge Energy Partners both beat on crude pipeline volumes and Magellan had a modest beat and also increased guidance for the year by \$20 million supported by crude volumes. By the way, they've increased guidance every quarter this year.

The common theme is volumes, volumes, volumes, which makes sense when you consider the U.S. is producing a record level of crude, gas and NGLs.

In total so far for midstream earnings, our portfolio companies have had six beats greater than 5%, 10 in-line to small beats and one miss. So who missed, you ask?

Well, leave it to Buckeye to miss in this environment. Their Caribbean and New York Harbor storage utilization dropped yet again from 85% last quarter to a new cycle low of 78% leading to the quarterly miss. This business is unique to them which is why they've had challenges when so many others are doing so well. Also, with the release, they announced the results of their strategic review. As expected they reduced the distribution 40%. What was a little more encouraging is the \$1.425 billion of asset sales at 12-13x multiples. This results in leverage reduction to 4.3x and distribution coverage of about 1.3x which provides enough excess cash flow to fund growth projects.

Along with earnings it was an active week of M&A with asset sales from NuStar, Pioneer and Halcon and the previously mentioned Buckeye. I guess it's a sign of the times...companies are able to sell assets at a higher multiple than where they are trading so it makes sense to shrink a bit.

Also we had couple of interesting corporate deals with Chesapeake announcing a deal to acquire WildHorse for \$4 billion in cash and stock. It's not every day you see a company acquire another company using their \$3.72 per share currency as partial consideration. Another head scratcher was Encana's deal to buy Newfield. Why a headscratcher? Well the company got a 25% nominal premium based off the prior close. Unfortunately that close was the lowest level the stock had traded at in 10 years and it was roughly the value of their proved, developed, producing reserves.

I'll finish up with key items to watch from the midterms:

- 1) The big one is Colorado Proposition 112 seeking to increase drilling setbacks from the current 500 feet to 2,500 feet. Recent polls have this as too close to call.
- 2) Also on the Colorado ballot is amendment 74 which would entitle property owners to damages should state regulation reduce property value. This is directly related to Prop 112 so it will be interesting to watch.

Some related fun but totally irrelevant facts are that some famous names have come out for and against Prop 112. In the “for” camp is former Vice President Al Gore (who is famous for inventing the internet), Titanic star, Leonardo DiCaprio and Mark Ruffalo, who I had to google to figure out who he was. And I’ll tell you, it was worth the effort because I learned that prior to teaming up in Colorado politics, DiCaprio and Ruffalo starred in one of the creepiest movies I’ve ever seen, Shutter Island.

In the “against” camp is former Kansas City Chiefs arch nemesis John Elway –no comment.

Anyway, also interesting to watch will be Arizona’s Proposition 127 and Nevada’s Question 6, both calling for a requirement for the state’s utilities to get 50% of their power from renewable sources by 2030.

So, at the risk of stating the obvious, the energy world continues to evolve. Stay tuned.

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.

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