Tortoise QuickTake Energy Podcast

April 22, 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 Rob Thummel with this week's Tortoise QuickTake podcast.

Let's start by looking back at performance last week. MLPs, represented by the Tortoise MLP Index declined by a little over 2% while the energy sector represented by the S&P Energy Select Sector® Index fell by a half of a percent. Year-to-date, both MLPs and the energy sector have outperformed the S&P 500® delivering returns of approximately 17%.

The weather is warming up and summer vacations are not too far away. As an energy sector specialist, one of the most common questions that I get from those not interested in stocks is what is the gasoline price going to be? Last week, the EIA provided its prediction for motor gasoline prices for the 2019 summer driving season. The good news for the consumer is that the EIA predicts that summer 2019 gasoline prices will be 3% lower than the summer of 2018. Most of you know that I love to talk about record setting activities in the energy sector. Here is another one for you. The EIA forecasts U.S. motor gasoline consumption to approach record levels this summer. In addition, the EIA forecasts the U.S to be a net exporter of total gasoline during the summer for the first time since 1960. In my opinion, this is significant. It sends signal to the rest of the world that U.S. refiners can deliver low cost gasoline. Of course, increased exports improve the trade deficit as well.

Switching to company specific news, Kinder Morgan and Schlumberger kicked off the first quarter earnings season last week providing some insights on what we might see from other energy companies during this earnings season.

Starting with Kinder Morgan, the highlight was the 25% increase in its dividend. Kinder Morgan's rising cash flow has allowed the company to improve its debt metrics in addition to raising its dividend. Currently, Kinder Morgan trades at a 5% dividend yield that is more than double the 2% average dividend yield of the S&P 500. In addition, KMI trades at a cash flow multiple or enterprise value to EBITDA of approximately 10x. This multiple is lower than the average EV to EBITDA multiple of the S&P 500 which is around 12x. From an operational perspective, Permian basin producers are eagerly awaiting the completion of critical infrastructure to improve natural gas pricing. Today, some producers are effectively giving away their natural gas production for free in West Texas. Kinder Morgan and its partners are slated to complete a natural gas pipeline from West Texas to the Gulf Coast this year followed by another gas pipeline next year. Kinder management hinted at the potential for a third natural gas pipeline to alleviate longer-term natural gas bottlenecks in the Permian. Investors were slightly bothered by Kinder's 2% reduction in 2019 EBITDA guidance. In addition, some investors expected an announcement of the future of KML - Kinder Morgan's publicly traded entity that trades on the Toronto Stock Exchange. We expect an announcement soon related to KML that could be a positive catalyst for this stock.

Schlumberger was the only other energy industry company to report 1Q earnings last week. Schlumberger is the largest oil field services provider in the world so its commentary offers insights on the outlook for oil field services operators as well as oil and gas producers. As expected, Schlumberger's 1Q revenues declined by 4% in North America and 2% internationally since its last reporting period highlighting the continued challenges being experienced by oil field services providers. This trend likely carries over to other oil field service companies. Also, Schlumberger management discussed how the lack of capital investment in global oil and gas projects is starting to be felt. At Tortoise, we have been talking about this for a while. Schlumberger estimates that non-OPEC, non-US oil production declined by approximately 400,000 barrels per day over the last year and by 900,000 barrels per day over the last two years. So to be clear, I am talking about declines in global oil production in countries that are not members of OPEC. These declines have occurred because oil prices are too low to support capital investment. The U.S. and OPEC will need to fill the supply gap if production from these countries continues to decline. One other position taken by Tortoise is that we believe U.S. oil production won't be as high as many are forecasting in 2019. Schlumberger confirmed they share a similar view as

Schlumberger sees E&P investment in North American declining by 10% in 2019. We still expect U.S. oil production to grow but at a moderate pace that should be good for stable oil prices and the entire energy value chain.

Lastly, there was some notable regulatory news last week. In Colorado, Senate Bill 19-181 bill was signed into law. In his press conference, Governor Jared Polis specifically stated that “this is an important step for the stability of Colorado to end the oil and gas wars in a way that everybody wins.” A key highlight of the new law requires oil and gas producers receive local approval of proposed drilling activity prior to requesting drilling permit from the Colorado Oil and Gas Commission. We don’t expect this new law materially change the course of drilling activity in the State of Colorado. 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 500® Index is a market-value weighted index of equity securities.

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.*