Tortoise QuickTake Energy Podcast

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

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

If you are one of the ten or so people remaining who haven't seen Avengers: Endgame, then you better get out and see it before it leaves theaters. No spoilers here, but I will say it does a pretty amazing job of wrapping up a 22 movie setup 11 years in the making. That's unprecedented really. Of course, back to length of time in the theater, I was explaining to my two boys that movies actually used to stay in the theater for a long time, especially compared to now. Did you know, based on my limited research, the longest continuous running movie in a theater was E.T., which ran for over a year! That was followed by Star Wars, Back to the Future and Beverly Hills Cop, which was still in theaters over 7 months after its initial release. Ahh, the good ol' days.

We'll start things off with market performance for the week that was:

- On the commodity front, crude oil struggled, down a little over 2%, while
- Natural gas was essentially flat,
- Shifting to equities, the broader S&P Energy Select Sector Index® declined 3.2%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were even weaker, down 5%
- And finally MLPs were better, albeit still negative, as the Tortoise MLP Index® fell 78 bps

As a follow-up to acquisition activity we talked about on previous podcasts, specifically the saga of Occidental Petroleum, Anadarko Petroleum and Chevron, the plot thickens. On Tuesday, OXY announced that none other than the Oracle of Omaha, which is not a Marvel character from Avengers, but rather Warren Buffett, pledged to make a $10 billion investment in OXY via preferreds and warrants. The $10 billion would allow OXY to increase the cash component of the offer to APC shareholders. Many sell siders wrote about the potential investment as expensive for OXY, yet a big positive for the energy sector as a whole as Buffett's credibility as a value investor could provide some upside for a space that has been in need of some positive flows. Yet to be determined how this all plays out, but Chevron will have to raise its bid if it wants to stay in the running.

On a different note, I wanted to highlight an update provided by Enterprise Products. Matt mentioned a few weeks ago about their recently instituted $2 billion unit buyback program. Additionally, he noted that at the analyst day, it was down played a bit and likely would only be used opportunistically. Given that, we were thrilled to see that EPD announced it had purchased about $50 million of units during the 1st quarter of 2019. While not a huge sum, the fact they got started so quickly was a positive in our view. It's clear the priority for midstream companies is not necessarily buybacks at present, just given their capex backlog, but it's good to see a company execute on yet another way to return capital to shareholders.

To say it was a busy week for earnings would be an understatement. We had close to 80 companies across the energy spectrum report this past week. As such, it would be impossible to go through all of them. However, I will highlight a few key points from each sector.

Starting with upstream, a key discussion topic amongst most companies has been controlling general and administrative costs. Additionally, weather played a part in completions and volumes for the quarter. Of course, capex is always a hot topic. In fact, the trend of punishing increased capex has went so far as to punish companies that are even on a pace that exceeds the full year budget, never mind if they reiterated the full year guidance by stating 2Q and 3Q would be lower. Definitely a prove it story at this point for upstream.

On the midstream front, differentials have been pretty strong on the oil side between various regions, allowing for some continued marketing earnings. Additionally, with west Texas natural gas prices weak during the quarter, we would anticipate some were able to capture those spreads as well.

Finally, in regards to the downstream sector, the trend has been positive for refiners. The well-telegraphed rough first quarter prints are essentially behind us and with rising crack spreads, we anticipate a much better remainder of the year, including some positive tailwinds from IMO 2020 implementation, which should lead to better earnings for the group in our view.

This week will see a continuation of earnings as well as continued macro news on trade. Never a dull moment in the stock market.

That will do it for today…have a great week and we look forward to speaking with you again soon.

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℠
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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.

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