

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.

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise. It was a wild ride last week in markets where the S&P was “Trumped” by self-inflicted headwinds from a reinvigorated trade war with our largest trading partner. It’s always great when you are enjoying a relaxing sun drenched Sunday afternoon and a Bloomberg message pops up informing you that the Dow futures are down 500 points because of a new round of tariffs. However energy fared much better boosted by strong earnings and M&A news.

Regarding earnings at this point in the quarter, we’ve had virtually all of our midstream portfolio companies report and the trend continues for yet another great round of updates. Specifically, only one company in our MLP portfolios missed and several beat estimates while the rest were in line. On a weighted average basis, our companies reported EBITDA over 4% better than our estimates. Pretty impressive considering the last several quarters have been really good leading to ever increasing forecasts. We’ve given updates the last couple of weeks so I’ll just add that last week’s reports continued the trend of production and transportation volumes coming in Hot (which has become the key phrase of Q1) and in some cases a bit of capex creep. Obviously the former was received well, the latter, not so much. Speaking of strong volumes, midstream companies reporting last week continued the theme of a surprisingly large benefit from having capacity to capitalize on discounted oil and gas in the Permian and deliver it to market.

But enough about fundamentals, we’ve been talking about that the last several quarters and the market doesn’t really care. What does the market care about? Catalysts...and it was a big week for those!

I’ll start with Anadarko. We’ve been tracking the Occidental Petroleum jet all over the globe trying to predict how the highly followed battle for Anadarko would play out. Now we already have a large research budget (don’t worry, paid for by the advisor) but who knew we’d need to add high-priced jet-tracking software to stay ahead of the market. If you have no idea what I’m talking about just google “occidental jet.” Or for your convenience the transcript has a link to a Bloomberg video clip that will shed some light. Anyway, the latest stop for the Oxy plane is The Hague (or, Den Haag, in Dutch). By the way, why is The Hague, “The” Hague instead of just “Hague?” I asked my wife who lived in Amsterdam for a year and she couldn’t tell me. Now this is really none of my business but I think they should drop the “the”...it worked out pretty well for Facebook. Moving on “The” Hague is home of Royal Dutch Shell which begs the question what would they be talking to them about? One theory is they’re talking with Shell about the joint venture they have with Anadarko in the Permian which has been a source of friction in the past. Another theory which I personally see as more likely is that Oxy is talking with them about selling Anadarko’s Gulf of Mexico assets. We estimate these assets would fetch several billion dollars which combined with the sale of the African asset to Total would hit the top end of their divestiture target. This would likely be a positive outcome for Western Gas as it would take away the current uncertainty that results from speculation they are on the block. And who knows, maybe Oxy would still want to monetize WES since the bid now has such a large cash component. And I assume you are all up to speed, but last Thursday Chevron announced they would not be coming back with a higher offer so Oxy appears to be the winning bidder and we’ll know their divestiture plan soon enough.

Next up, MPLX Logistics and Andeavor Logistics announced a deal where ANDX would be acquired by MPLX. This was expected to be announced this quarter but we got a nice surprise in that the conversion ratio was higher for the public unitholders than for the units owned by MPC. This allowed MPLX to benefit from great accretion from the deal and ANDX unitholders get a modest premium. Well done Marathon.

Last and certainly not least, earlier this year we did a 2019 outlook piece where we forecasted catalysts to drive midstream performance. This included a number of themes but one of the main ones is if public midstream continues to trade this cheap

private capital is going to take somebody out. In fact, internally we speculated Buckeye would sell last fall when they were undergoing a strategic review. They were a very logical candidate given elevated leverage, very tight coverage and headwinds in their Caribbean storage business. Well, timing's everything and like many good economists, we were about six months early but Friday BPL announced they were selling to IFM Investors, an infrastructure fund manager owned by Australian pension funds. And indeed it does confirm one of our key themes that if public companies continue trading at these discounts someone is going to take advantage. The deal translates to a 28% premium to Thursday's close. Clearly this is a big boost for the space and is yet another data point that despite what public markets are saying these assets have tremendous value. Furthermore, I don't think it's a coincidence that the premium lines up with the current EV/EBITDA discount midstream that we're trading at. The all-cash nature also provides a huge technical tailwind to the space. Effectively this is \$6.7 billion of new money entering the space as we and other investors have their BPL position basically converted to cash.....cash that needs to be redeployed into other midstream names. I don't think I can over emphasize that this is a big deal. This transaction is unprecedented. We've had large deals that were stock for stock. We've had small deals that were cash. But to my recollection this is first time we've had an all cash deal for a large midstream entity.

Bottom line...last week the S&P Index was down 2% and the Uber IPO lost 8% in its trading debut (plus another 10% this morning)...meanwhile the XLE was flat despite the trade war and MLPs were up 2.5%. New money if you're listening, come on in, the water's fine.

There is one breaking news item to mention this morning as Saudi Arabia said two of its oil tankers were attacked while sailing toward the Persian Gulf Sunday. Oil was up almost two dollars at one point this morning on the news. That's it for today, thanks for listening.

Oxy jet video: <https://www.youtube.com/watch?v=t5ajddtbQhc>

Why The Hague: <https://theculturetrip.com/europe/the-netherlands/articles/the-story-behind-the-hagues-name/>

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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