

Tortoise QuickTake Energy Podcast



May 20, 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.

Sell in May and go away – a common investing proverb that is suggested by some this time of year. If you are an energy infrastructure investor you're glad you have not followed this advice as the Tortoise MLP Index[®] has increased by almost 3% during May. Such strong performance has been supported by outstanding first quarter earnings. Matt Sallee highlighted in last week's podcast that our energy infrastructure investments reported EBITDA over 4% higher than estimates. Extending that analysis to other areas of the energy value chain that we invest in, our oil and gas producers investments exceeded EBITDA forecasts by 2.5% in the first quarter while the stocks in our energy value chain strategy beat estimates by 7.5%. Frankly, the entire energy sector except for oil field services had an outstanding earnings season as the U.S. sector is hitting on all cylinders.

Oil prices continue to be a popular topic rising around 2% last week due to heightened geopolitical risk. Saudi oil tankers and key Saudi pipelines were attacked by rebels last week. The tankers were attacked near the Strait of Hormuz, a key shipping artery. The Strait links Middle East oil producers to North America, Europe and Asia. It is 21 miles wide at its narrowest point. Approximately 20% of the global oil supply must travel through the Strait of Hormuz to reach its final destination. Global oil inventories, global oil demand and the availability of the Strait of Hormuz are some of the most significant factors that drive crude oil prices.

In company specific news, I'm going to highlight a company that you probably have not heard of. It's a Canadian energy infrastructure company with a funny name. Pembina Pipeline Corporation held its annual investor day last week. You might be thinking, "Is Canadian energy still relevant?" In the words of one of Canada's most famous fictional celebrities Doug Mackenzie, "Of course, you hosers." Canada represents about 5% of the global oil and natural gas supply. Pembina highlighted the potential of several Canadian oil and gas fields such as the Montney Shale, Duvernay, and Oil Sands as fields with over a century of supply based on current production levels. Pembina is building essential assets such as pipelines positioning Pembina to transport oil and gas for the next 100 years. While you might not have heard of Pembina, the company has a lengthy track record commencing operations in 1954 and Tortoise originally invested in Pembina in 2005. In its 65th year of operation, Pembina successfully transitioned from a Canada Income Trust into a corporation. Many of you remember where you were on October 31, 2006 dubbed the Halloween Massacre when the Canadian government surprisingly announced its intent to tax Canadian income trusts. Pembina was structured as an income trust but converted to a corporation and has since transformed itself into a diversified energy infrastructure provider effectively becoming the Canadian equivalent to Oneok or Enterprise Products. Investors that held onto to Pembina after the Halloween Massacre have been rewarded as the Pembina stock price has risen by 313% since October 31, 2006. This represents a 12% annualized return through April 30 that is significantly better than the S&P 500[®] and the S&P Energy Select Sector[®] Index. In addition, Pembina has never cut its dividend. Instead, Pembina doubled its dividend since Halloween 2006. At its analyst day, Pembina management laid out a self-funded project backlog that should allow Pembina to grow its dividend 5-6% a year well into the future. The Toronto Raptors launched the "We Are North" slogan to help NBA fans remember that there is an NBA team in Canada. Pembina management presented a great case informing U.S. investors that there are some good energy infrastructure investments in Canada as well.

In capital market news, a new energy IPO launched last week. If you suffer from ophidiophobia then you might avoid this one. Rattler Midstream, ticker symbol RTL, is slated to price early this week. Rattler operates midstream infrastructure assets that are currently owned by Diamondback Energy. Rattler will provide crude oil, natural gas, and water-related midstream services to Diamondback Energy. Investors are hoping Rattler is as successful as its family of affiliated companies all of which have ticker symbols associated with reptiles. FANG the ticker symbol for Diamondback Resources

has delivered an annualized return of 33% since its IPO in 2012. VNOM ticker symbol for Viper Energy Partners receives royalty payments from Diamondback production has produced a 9% annualized return since its 2014 IPO date. So, how does the Rattler IPO keep from getting “Uber-ed”? Rattler management believes that its 5%+ dividend yield combined with visible cash flow growth tied to the Diamondback’s production growth will be compelling for investors.

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.

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 IndexSM

The Tortoise North American Oil & Gas Producers IndexSM 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.

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