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 have a Bloomberg terminal at your desk, you are used to the daily quotes that accompany the opening welcome screen. Usually they are motivating or inspirational in nature. After a week like last week, I wonder if Bloomberg could have an algorithm that would inject humor into the quotes. Maybe whenever your industry is negative for the week, you get a series of jokes to lighten the mood and make you laugh. Oh well, maybe I'll go for the cheaper option and just get one of the old Far-Side calendars and call it good.

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

- On the commodity front, crude oil was hit hard, falling over 7%, while
- Natural gas followed suit, lower by approximately 6%,
- Shifting to equities, the broader S&P Energy Select Sector Index® fell 2.7%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ fared worse, down 5%
- And finally MLPs continued a defensive stance, as the Tortoise MLP Index® fell by 1.4%

Earnings kicked off for 2nd quarter of 2019, but before we get to two bellwethers on that front, let's go over some quick hit news items:

- On the crude macro front it was a wild week, kicking off with Iran leaking how they would be open to working with the United States on the sanctions and ending with Iran seizing a British oil tanker. Oh and in between the U.S. reportedly shot down an Iranian drone flying near a naval ship.
- Additionally, U.S. crude inventories drew, but products built substantially more
- The IEA lowered their 2019 crude demand forecast by 100,000 bpd, citing the ongoing trade war's impact on the global economy
- Hurricane Barry shut in both crude and natural gas production as it made landfall last weekend on the 13th. It was a relatively quick response as most production was back online by Friday
- From an M&A perspective, Callon Petroleum announced on Monday morning its intentions to acquire Carrizo Oil and Gas in an all-stock transaction
    - The transaction was valued at $3.2 billion dollars and brings together two companies that will have core holdings in the Eagle Ford and Permian basins.
    - While it started out as a 25% premium for Carrizo shareholders, it didn't end that way, as Callon finished down 24% for the week, dragging Carrizo down with it
    - Clearly investor reaction was that Callon shouldn't have paid a premium at all
- Finally, Range Resources sold some royalty interests in the Marcellus shale for approximately $600 million dollars
    - Importantly this reduces Range's leverage by about .7 times
    - Leverage remains high, but this is a step in the right direction

Let's move on now to the earnings for the week, led off by Kinder Morgan and followed up by Schlumberger.

Kinder Morgan released on Wednesday after market close and delivered a relatively in-line quarter.

Notably, natural gas pipelines continue to drive earnings for the company. Transport volumes were up 10% year-over-year in the 2nd quarter and management highlighted this marked the 6th quarter in a row where year over year volumes were up 10% or more on pipelines. Meanwhile gathering volumes were up 16% year over year as well. The Permian GCX pipeline, currently being constructed, is slated to come online just a little early, now moved up to late September, which will provide

much needed relief for producers currently flaring gas in the Permian. Kinder also noted it is contemplating a 3rd pipeline out of the Permian that would flow to east Texas and into Louisiana, likely serving LNG demand.

All in all, a pretty good quarter as Kinder reiterated they anticipate being about 2% below budget on EBITDA for full year 2019 due to delays in the Elba liquefaction facility as well as weaker crude oil and NGL prices in their CO2 business, yet remain on target for distributable cash flow guidance for the year.

Schlumberger reported on Friday morning and was also generally in-line with consensus.

The big news was that the current CEO will step down, beginning on August 1st. The announcement itself was not overly surprising, but analysts noted the timing was a bit sooner than expected. The newly appointed CEO has 32 years of experience with Schlumberger, so it should be a seamless transition.

From a business perspective, international drove results, with revenue overall increasing 5% sequentially. That being said, the North American market in particular remains challenging as producers focus on cash flow and capital efficiency. Not to mention it is simply oversupplied on the oil field services side.

Interestingly, management pointed out U.S. shale remains the only near to medium source of global production growth in their view. We would agree with that sentiment, which is why we remain bullish North American energy.

Earnings really start to ramp later this week and next week. It will be busy as always. 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.

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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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