Tortoise QuickTake Energy Podcast

August 19, 2019

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.

Volatility continues to reign supreme in the markets. This time though, it's not all about energy, but all stocks. The continuous trade war waged between the United States and China is clearly impacting sentiment, hurting investor confidence. At some point that will likely have to change if markets are to recover. Of course we are in the dog days of summer and stock markets are acting like the baseball fans of teams like the Royals…just happy for it to almost be football season! It was about this time last year that I provided my Patrick Mahomes fantasy football tip. I can't possibly top that one, but watch for Mecole Hardman of the Chiefs to surprise as a deep sleeper at wide receiver. Call it a deep value play, much like energy stocks!

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

- On the commodity front, crude oil was actually positive, increasing 68 bps, while
- Natural gas had a nice week, higher by approximately 4.8%,
- Shifting to equities, the broader S&P Energy Select Sector Index® fell 3.3%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were almost as bad, down 3.2%
- And finally MLPs provided an energy buffer of sorts, as the Tortoise MLP Index® fell by 60 bps

It was a busy week as we sent most of our energy team to Las Vegas for one of midstream's biggest conferences. We'll touch on that, as well as the weekend's Barron's cover story and a little midstream valuation.

We met with 50 midstream companies in Vegas this past week. Given the market gyrations and the recent weakness, I was surprised to find the company management teams operating with a subdued, but confident tone. I heard very little crying about stock prices after initial intros in meetings and more focus on what was going right and what the plans are going forward. Specifically, the focus was on execution. Midstream companies have a lot of capital projects being put in service now and in the near future, so the updates were encouraging to hear as companies were confident on bringing assets in service, both on time and on budget.

Additionally, the conversations were constructive on another front as well. We spent a lot of time discussing options how best to utilize growing cash flows. Those conversations included lowering debt, growing distributions, and buying back stock. The really positive aspect was the fact we were talking about what to do with growing cash flow.

Finally, we were encouraged that management teams were clearly cognizant of the economic malaise globally and that the lessons of 2016, the most recent downturn for energy, were fresh in everyone's minds. I guess one of the only benefits of having recently been in a pretty massive downturn is that you hopefully won't be surprised.

All in all, a solid conference. Midstream remains well positioned to deliver what investors are looking for, a growing free cash flow yield at a very attractive overall valuation.

Shifting gears a bit, but thematically similar, apparently Barron's has been listening to our podcasts. The cover story for this past weekend was about how Wall Street has abandoned oil and gas stocks, but you as an investor shouldn't.

The article highlights many of the things we have been discussing in these podcasts, specifically that energy demand continues to climb, despite the fact that investors would rather walk on broken glass than own energy stocks. That being said, the unloved sector is starting to change course and return more capital to shareholders. As we have noted, midstream companies are clearly already doing that with yields in the high single digits.

Additionally, free cash flow is growing across the sector as capex spending declines to more modest levels from the apex we have been witnessing.

Bottom line from the article, this presents a great opportunity to buy companies that operate assets that have to exist at compelling valuations.

Speaking of valuations, I wanted to wrap up with a quick analysis for midstream energy. A metric commonly used in the past to assess value is the yield spread between the 10 year treasury and MLPs. Over the last five years, that spread has averaged approximately 500 bps. However, at current levels, it's blown out to over 750 bps based on Friday closes for the 10 year Treasury and the Tortoise MLP Index. I would note as well, if you go back to say 2015, the average spread was less than 400 bps. The recent energy downturn has really moved the averages. That being said, despite the higher average for the last five years, we are still well outside of that.

Again, this is just one valuation point of reference, but it points again to how such a compelling yield should provide a great opportunity for investors searching for income in a world with several countries providing negative yields and even the U.S. providing little in the way of income.

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 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.

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