

Tortoise QuickTake Energy Podcast



Sept. 23, 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 Brian Kessens with this week's QuickTake podcast.

Last week's strike on Saudi Arabia's crude oil capacity shook energy markets. Saudi Aramco's largest oil processing facility was attacked by a combination of drones and cruise missiles resulting in 5.7 million bpd of crude oil production going off-line – or over half of Saudi Arabia's and a little over 5% of global oil production. Since then, 2 million bpd was restored with Saudi Aramco estimated that by the end of September production will return to pre-strike levels. And by the end of November, Aramco expects capacity to be back to 12 million bpd. In the interim, Saudi Arabia intends to draw down its extensive oil inventory to meet its global supply commitments.

We think the timeline for Saudi Arabia to bring crude oil production fully back on-line is aggressive. Nonetheless, between strategic petroleum reserves in the US, other OECD countries, and Saudi Arabia, there should be no concern about a near-term supply shortage. Yet the drone strike crystallized tensions in the Middle East. We believe a larger geopolitical premium will remain in oil prices. At week's end, WTI was 6% higher, leading both broad energy and MLPs higher by 1%.

In midstream news, Energy Transfer announced the acquisition of SemGroup Corporation for \$17 per share, or a 65% premium to the previous close. Consideration is 60% stock and 40% cash. Expect the transaction to close in late 2019 or early 2020. From a structure perspective, Energy Transfer will remain an MLP.

How did Energy Transfer outbid private equity? The company guided to meaningful revenue and cost synergies, \$170 million annually. On the revenue side, the transaction increases connectivity for Energy Transfer's crude oil and NGL transportation business. Specifically, the company plans to connect the two largest crude oil terminals in the US by constructing a new, 75-mile, pipeline between its existing Nederland terminal and SEMG's HFOTCO terminal along the Gulf Coast. Financially, ET is paying an 11x 2020E EBITDA multiple, slightly below the average transaction multiple of recent history. The acquisition is immediately accretive to distributable cash flow per unit and neutral to overall leverage.

We think the transaction for Energy Transfer is sound over the long term. There are clear synergies between the two firms and Energy Transfer's management team has demonstrated great success historically through M&A, most notably with the acquisitions of Sunoco Inc. in 2012 and Southern Union in 2011. Yet over the short run, given a current emphasis on returning cash more directly to shareholders, we think Energy Transfer needs to clearly demonstrate value creation before receiving credit for it. We believe the company is actively considering a sale of certain non-core assets. We believe an announcement of such a sale would be well received.

Occidental Petroleum divested its position in Plains All American last week in a move to reduce leverage after acquiring Anadarko Petroleum. In total, the secondary equity offering raised \$650 million. We also understand that private equity is looking at buying a majority stake in Occidental's publicly traded Western Midstream Partners. Blackstone, Apollo, GIP and KKR are all in the mix. Stay tuned on this one.

Staying with midstream, perhaps a side benefit to the US from the attacks in Saudi Arabia last week is that Saudi NGL production is also impacted to the downside. This lost supply tightened the Asian market leading to a need for more propane and butane from the US. This bodes well for US export volumes. New export capacity to come on-line yet this year is well positioned.

There was a large LNG conference in Houston last week. Two supply-side agreements were announced. Cheniere signed a gas supply agreement with producer EOG Resources and NextDecade Corp announced a memorandum of

understanding with Enbridge for a pipeline to its LNG project at Rio Grande, Texas. We understand buyer optimism continues with visibility to strong long-term global demand.

This week expect more speculation around oil along with a potential response once Saudi Arabia and the Western world determine who was ultimately responsible for the attacks on Aramco's oil business. Thanks for listening.

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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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

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