Tortoise Energy Podcast

Tortoise

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Welcome to the Tortoise 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 Jim Cunnane with this week's Tortoise QuickTake podcast. Well it's Super Bowl week. Good luck to both teams but especially the one from K.C. MLPs haven't been in quite as sporting of a mood over the past week. As represented by the Tortoise MLP Index® they're down -2.7% to start 2020, after a tough -5.7% decline last week. In contrast global utilities as represented by the MSCI Global Utilities Index are acting as a safe haven, up 2.1% for the week and are up 5.4% year-to-date. Commodity prices are really lagging this year, with natural gas prices below $2 per mcf and crude in the low $50 range, both down approximately 10% year-to-date.

We talk a lot about the traditional strength of MLPs and midstream equities in the period between December 15 to January 15. This year MLPs were up again during that window but they've really cooled off since. The good news is that history shows that MLP returns from January through July are typically much stronger then the later part of the year. We will see if that pattern continues here in 2020.

The weakness in equity and commodity prices was a big story last week. The move was likely largely attributable to the accelerating Coronavirus breakout and potential concerns about global economic strength, the resulting energy demand and the potential impact to midstream. The earnings of most midstream companies have fairly limited fundamental exposure to near term economic activity and commodity prices but midstream equities are part of the energy sector and their prices aren't completely immune from reacting to energy-related issues. The Coronavirus is drawing analogies in many investors minds to the SARS virus in 2003 which many estimated impacted global crude demand by 300-400 thousand barrels per day. Some market observers, like Tudor Pickering, have noted that in 2003 China's annual crude oil demand was only 5 million barrels per day and today it's nearly triple that at 13.5. It appears projections on the impact on crude demand from the current crisis are ranging from 300-400 thousand barrels per day to 1.5 mil barrels per day. This concern and the uncertainty around it appears to be driving the commodity price sell-off we are seeing. The bottom line in our mind is that it is too early to assess the size and length of this breakout and the eventual impact on demand. But for now the market has assessed that the virus won't pass in days or weeks and it will likely get worse before it gets better.

Switching to natural gas price news, the EIA reported a withdrawal from storage of 92 Bcf for the week ended January 17. The withdrawal was by far the smallest for this time of year over the past 10 years. Current storage is 23% above last year and 9% above the 10-year average. The bottom line is that natural gas prices are already low, at less than $2, and are likely reflecting a lot of concern about storage levels. More warm weather would make a price rally challenging in the short-to-medium term.

Political news is really heating up with the Iowa primary only two weeks away. We expect to hear more rhetoric around energy policy as primary season heats up through Super Tuesday in early March. Keep in mind that California is now part of Super Tuesday so we will know a lot about the direction of the primary when we wake up on March 4th. A good news item is that other than the rhetoric surrounding the Democratic primaries we don't see a lot of concerning issues for midstream at the State and local level this November but we are keeping our eyes wide open. On an unrelated regulatory item, we also have an eye on the FERC which we found out is going to unexpectedly lose a Republican commissioner at the end of June. Given the FERC is already at its minimum number of commissioners to have a quorum they're going to need another appointment soon to be to operate normally post June.

Kinder Morgan led off earnings season with solid, slightly better than expected earnings last week and investors rewarded them with the stock of approximately 3% following the earnings announcement. KMI reported 4Q19 adjusted EBITDA of just over $2 billion, beating Street median estimates by about 3%. Stronger than expected natural gas pipelines and CO2 results more than offset weaker than expected Product Pipeline results. The terminal business mostly matched expectations. It's worth noting that G&A expenses also came in better than expected. The attention on Kinder will quickly shift to its analyst day this Wednesday, where we expect to hear more on the pace and quantity of share repurchases as well as the potential for further asset sales. Importantly in their earnings this week, Kinder reaffirmed its expectation for 25% dividend growth in 2020, part of a broader trend of dividend growth that we expect to be a big story for midstream for 2020.

We are going to up to our necks in earnings here this week and next week as Magellan and the refiners are reporting this week with many more to come after that.

That's it for now. We will be back with you again 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.

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Producers = Tortoise North American Oil & Gas Producers Index℠
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