

Tortoise QuickTake Energy Podcast



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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise provide 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. Energy stock prices warmed last week along with the spring temperatures. Broad energy was the strongest, higher by 4%, followed by producers, up 3.6%, and then MLPs, gaining 2.3%. Crude oil finished at prices not seen since 2014, with WTI just north of \$70 per barrel, and Brent now at \$77.

Dominating the oil news was President Trump's announcement that the U.S. is pulling out of the Iran nuclear deal. Yet the future remains uncertain, with President Trump's announcement hyperbole heavy, yet detail light. Might there be a successful renegotiation during the grace period and how much will Iranian crude oil exports be impacted? On the export side, we expect less impact than the 1 million barrel per day taken off the market during the previous sanction period mostly because over the past two years, Iran increased exports to China while reducing reliance on European markets. And not to be overshadowed from a global oil supply effect, Venezuelan production dropped to 1.4 million barrel per day in April, 550 thousand barrel per day lower than last April.

Higher stock prices ignited capital markets activity last week. We saw three deals. In services, Nabors raised over \$500 million split between a common and preferred offering, and ProPetro executed a \$230 million secondary offering. And in utilities, PPL Corporation raised nearly \$1.5 billion of common stock.

In drop-down acquisition news, Andeavor announced it expects to offer assets totaling \$1.6 to \$1.7 billion to its MLP, Andeavor Logistics. The assets, among others, include Permian refining and logistics assets. This expected offer is notable because it was widely expected that Andeavor's assets would be dropped down to MPLX, not Andeavor Logistics, following the previously announced acquisition of Andeavor by Marathon Petroleum. We believe this expected offer is a big positive for Andeavor Logistics as it improves the organic growth profile, boosts cash flow and strengthens distribution coverage.

The largest midstream company to report last week was Energy Transfer. Because Energy Transfer is so diversified, the company's results offer good insight into broad midstream fundamentals. In each of the three drill-bit commodities, Energy Transfer's transport volumes were materially higher on a year-over-year basis. For liquids, crude oil was higher by 26% (partly due to DAPL coming on-line last year) and NGLs were up 15%. For gas, interstate volumes were higher by 45% (aided by Rover phase 1 coming into service) and intrastate stretched to 18% growth. On the marketing side, the company retains some open capacity on both crude oil and natural gas pipelines out of the Permian. Energy Transfer began to benefit from wider crude oil differentials between the prices of Light Louisiana Sweet on the Gulf Coast and Midland in the heart of the Permian, and from expanding natural gas differentials between the prices at Waha in west Texas and Katy in east Texas. We expect both differentials to remain wide until the middle of 2019 when sufficient additional pipeline capacity comes on-line to match production. Note this won't be the last you hear from us on Permian differentials as production expectations remain firm. No Permian operators indicated a slowing of activity during 1Q earnings and there were 770 horizontal wells permitted in April – a record high.

And then back to Energy Transfer, management confirmed a roll-up of the general and limited partnerships will occur once consolidated leverage reaches investment grade metrics. And while management looked at a C-Corp structure, they believe an MLP only-structure is the best fit today. Where a C-Corp doesn't already exist that could take advantage of a stepped up tax basis, management teams are confirming the MLP structure is the best one.

Overall last week, we're happy to see stock price performance matching the favorable energy sector fundamentals. This week first quarter earnings will mostly wrap-up, yet all of the industry bellwethers already reported. Producers continued to favor returning cash to shareholders over boosting capital expenditures. Midstream volumes transported moved higher, with more Permian pipeline capacity acutely needed. And refining benefited from gaping crude oil location and quality differentials, along with historically strong capital discipline. After all, a new refinery hasn't been built in the U.S. since 1976 for goodness sake.

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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