Tortoise QuickTake
Energy Podcast

June 11, 2018

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.

Looking at performance last week, it appears that investors went away after May. MLPs, producers, crude oil and natural gas were all essentially flat. Broad energy had the largest move, higher by just three-quarters of one percent. I guess without earnings reports or a big M&A announcement, and in front of the OPEC meeting later this month, investors were content to sit tight.

Nonetheless, there were some noteworthy developments last week from OPEC + Russia positioning, an analyst day, a midstream private equity transaction and an energy conference. Let's dive in.

Expect oil markets over the next couple of weeks to be driven by OPEC + Russia rhetoric and not necessarily by the weekly inventory numbers. The Organization is trying to delicately balance the long with the short-term. That is, garnering more capital investment to ensure sufficient long-term supplies, with shorter term impacts to supply from Venezuelan production declines and the uncertain impact of sanctions on Iran, along with maintaining a price low enough not to impede global demand. Along with that, the U.S. apparently asked Saudi Arabia to increase output, potentially up to 1 million bpd. OPEC's previous goal to return inventories to a level consistent with the five year average is largely met. What a simple goal in hindsight. Now OPEC moves from playing checkers to chess.

Moving on to other events last week, Plains All-American held the only midstream analyst day. Plains offered no change to guidance, yet hinted at potentially raising the distribution in 2019 as deleveraging and self-funding plans remain on track. We think Plains' is well positioned to benefit from continued US crude oil production growth given the company's integrated footprint tied to the Permian basin. If Plains' Permian production forecast of 6 million bpd by the end of 2022 is correct, versus 3.5 million bpd today, they'll have multiple opportunities for additional growth projects.

We've discussed before the amount of private equity capital looking for a home in the energy sector and the fact that private valuations are ahead of public midstream valuations. So it comes as no surprise then that Devon Energy sold its ownership in EnLink, both the general and limited partnership, to a private equity fund, Global Infrastructure Partners, or GIP, for just over $3 billion. GIP successfully grew midstream assets in the past, most notably purchasing a 50% stake in Chesapeake Midstream in 2009, before selling fully to Williams Companies in 2014. For EnLink, the deal is marginally a credit negative given Devon was an investment grade parent. Otherwise, we think the transaction can be positive if GIP contributes growth capital, relationships or assets for dropdown. The biggest uncertainty is the timing for a simplification transaction to eliminate the IDRs. We think the sooner, the better.

We attended an energy conference in New York last week. Meetings with refiners were standing room only. Both Valero and Delek believe that crude oil spreads are likely to remain wide over the next year until new pipeline capacity emerges. We think one refining executive's comment that they are "able to buy Ferrari's for the price of a Ford" (no disrespect to Ford) illustrates current refining fundamentals well. We also caught up with Canadian pipeline companies. They are expecting Canadian production volumes to continue increasing despite being farther away from demand markets. This is providing them an opportunity to construct new processing, pipeline and even petrochemical infrastructure.

In renewables, China announced it is halting its utility-scale project subsidies and capping this year's subsidies for rooftop as the federal government aims to shift more of the cost burden to its provinces. We expect lower panel and inverter costs to result, benefiting U.S. rooftop development.

This week offers four central bank meetings, that of Argentina, the US, Europe, and Japan and a buffet of geopolitical activity. First, there is the US / North Korea Summit on Tuesday in Singapore. Then the World Cup kicks off on Thursday with a match between of all countries, Saudi Arabia and host nation Russia. It is reported that the oil ministers of both countries will meet along with Putin and the Saudi Crown Prince – an OPEC watcher's delight for sure. Speculation is likely to increase about what was to agreed regarding oil supplies ahead of the June 22nd OPEC meeting.

Look for an update on that discussion and other energy events when we're back with you next week. 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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