Tortoise QuickTake Podcast

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, a senior member of 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.

We hope everyone enjoyed the Memorial Day weekend. For those focused on the long side of energy, last week is mostly worth forgetting. On Thursday, OPEC held their long awaited semi-annual meeting. Unlike previous meetings, the production decision was well telegraphed and not surprising as the group agreed to extend the production cuts at the current level for the next nine months or through the first quarter of 2018. OPEC's target is to reduce global inventory levels to their five year average, or from about 3 billion barrels to 2.7 billion barrels. If production compliance is high and global demand materializes as expected, this inventory level is expected to be reached within the nine month window OPEC agreed to.

Despite the agreement in-line with expectations, WTI fell last week 1.1%, though was hit particularly hard on Thursday, the day of OPEC's announcement, when crude oil fell nearly 5%.

Following crude oil lower were energy stocks, with producers off 3.8%, broad energy down 2.1% and MLPs in the red by 1.4%.

Rationale for the crude oil selloff was that investors expected a deeper production cut and that the OPEC end game after the first quarter of 2018 remains unclear. In our view, rhetoric from OPEC and Russian suggest that the end game is price stability and they'll do "whatever it takes" to achieve it.

With other crude oil fundamentals, the U.S. land rig count increased again, last week by seven rigs, marking the 19th consecutive week of gains. And the U.S. saw another week of inventory draws above consensus expectations. Last week crude oil inventories fell 4.4 million barrels. After building from January through March, crude oil stocks have declined for seven straight weeks by an aggregate of 19.2 million barrels, and it is expected that material draws continue now through the rest of the summer. Hard refinery runs and lower OPEC exports to the U.S. are starting to take effect.

We think the OPEC deal is fundamentally constructive and that the market is focused on inventory levels that remain stubbornly high. In particular, lower inventory levels in the U.S. are a pre-requisite to heal sentiment. Saudi Arabia took note of this and signaled it would intentionally reduce crude oil exports to the U.S. this summer. We're starting to see lower levels in the U.S. already. Stay tuned for more.

Clearly the main event last week was the OPEC meeting. Company news was relatively light. The largest deals were:

In an integrated deal, EP Energy and Tesoro Corp announced the formation of a joint venture to fund oil and gas development in the Uinta basin in Utah. The black wax crude oil produced there is ideal for Tesoro's Salt Lake City refinery.

In midstream, Targa Resources Corp announced a new pipeline project to transport 300,000 bpd of natural gas liquids from the Permian Basin to the NGL hub at Mont Belvieu, Texas. The Grand Prix $1.3 billion pipeline project is scheduled to come on-line in 2019. Taking no risk to financing, Targa raised $780 million in an overnight equity offering during a relatively tough tape for energy stocks.

Plains All American held their analyst day without much fanfare. Plains initiated 2018 guidance largely in-line with estimates, though with a larger contribution from fee-based assets versus more reliance on the variable supply and logistics segment. Management also painted a robust picture for crude oil production growth, with an increased need for takeaway capacity from the Permian basin to either Cushing, OK, Houston or Corpus Christi.

Elsewhere in midstream, Kinder Morgan Canada, ticker KML, priced its share offering in Canada at $17 per share. KML was formed to own and operate Kinder Morgan's or KMI's Canadian portfolio of fee-based pipelines and bulk terminalling facilities, including the TransMountain Pipeline and its ~$7.2 billion expansion project set to finish in 2020. The $1.7 billion proceeds from the offering will be used by Kinder Morgan to reduce debt. Kinder Morgan Canada will be ~75% owned by KMI.

In other capital markets efforts, one company filed for an IPO, Ranger Energy Services filed for a $100 million offering. The company provides wellsite services in Texas, Colorado and North Dakota.

And Kosmos Energy, a West African focused E&P company, had the largest E&P deal last week, selling nearly $300 million in a secondary equity offering as Blackstone and Warburg Pincus reduced their stake in the company.

In downstream, Exxon and SABIC agreed to proceed to the next phase of their proposed Gulf Coast petrochemical plant, a $10 billion ethane steam cracker with capacity of 1.8 million tons of ethylene per year, or simply the world's largest. The project is part of Exxon's "Growing the Gulf" initiative that's made possible by the abundance of low cost U.S. natural gas.

Wrapping up, it appears some oil investors sold in May and went away. Yet the North American energy complex marches on with new pipelines out of the Permian, a strengthening petrochemicals business in the Gulf Coast, and companies raising new capital on both sides of the border to fund growth efforts. We expect this activity to continue through the summer season, and look forward to updating you weekly on its progress. See 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@tortoiseinvest.com.