Tortoise

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.

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Well it was a good one last week for oil prices last week as crude approached $50 gaining 9 percent over the 5 day period. The price action was driven by Saudi Arabia stating they would cut exports in August along with UAE and Kuwait promising to pump less oil. Add to this yet another big U.S. inventory reduction and even the stubbornly negative market sentiment couldn't hold prices down. So how about that inventory? Last week pulled another 7.2 million barrels off the market bringing the total reduction since the end of the first quarter to a total of over 50 million barrels significantly reducing the excess storage in the United States. With the strong crude price response equities followed suit but to a lesser extent with the S&P Energy Select Sector® Index up 2% and MLPs up 1%.

Enough about short term prices, the real action for the week was the fundamental data announced by our portfolio companies including distribution increases and quarterly earnings. Starting with distributions…so far this quarter over ¾ of our MLP portfolio have announced their new payment and the numbers have been quite strong with the weighted average growth up nearly 4% over last quarter. I should note this number is skewed by Oneok's one-time, 21% increase following its acquisition of their LP. But even excluding that bump we are up about 2.5%, or over 10% annualized.

On earnings, I'll spare you my typical rapid fire name by name update and instead cover key themes across the value chain.

Starting with upstream, all eyes have been on whether management teams would blink in the face of sub-$50 oil and pull back on the rapid rig additions we've witnessed so far this year. It's still too early to call given we have a lot of reports yet to come (especially for the Permian names). With that said, we have seen a modest pullback, notably from a couple of smaller independents, Whiting and Sanchez, who are both cutting rigs and therefore lowering production and capex guidance. We would not be surprised to see more of this trend and companies modestly shifting focus from growing to living with cash flow.

Next on oil field services, Halliburton's comment that E&Ps were quote "pumping the brakes" received alot of attention but to clarify later on the call they compared activity levels to going 70 MPH rather than 80 MPH which is consistent with the comments made by E&Ps so far. Growth is continuing but perhaps at a more prudent pace. The other big takeaway from OFS reports is the pressure pumping market is very tight. This is resulting from companies enhancing well productivity through larger completions involving more fracture stages and ever increasing amounts of sand. Patterson in particular had the biggest surprise thus far for OFS names beating estimates by 30%.

The early look thus far from midstream reports is that volumes are indeed improving as expected posting big growth year over year for volumes of NGL and gas in particular. We are also starting to see the drilling ramp's effect in crude pipelines but again it's early in the reporting season so more to come on this trend.

And finally, downstream. For refiners as expected tighter margins weighted a bit on results but free cash flow generation continues at high levels and is being returned to shareholders though dividends and buybacks. Meanwhile utilities seem to be embracing renewables and working with regulators to include these investments in rate base which would in turn support further renewable investment. Thus far state commissions seem to be receptive to the concept.

I'll wrap up with something to watch for this week. On Sunday in Venezuela President Maduro claimed a sweeping victory in a vote to create a new Constituent Assembly that effectively allows for the creation of a dictatorship in the country. The U.S. has warned of sanctions should Maduro follow this path. The greatest of which would be the ban of oil imports to the U.S. from the country. If this indeed turns out to be the case if could be disruptive for domestic oil markets and ultimately lift prices from here since nearly 10% of U.S. crude imports come from the Venezuela.

I'll leave it at that for this 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.

The S&P Energy Select Sector® Index 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.