Tortoise QuickTake EnergyPodcast

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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.

I am Matt Sallee, Energy Portfolio Manager at Tortoise. I'm calling today's podcast "February was a month to forget" because it was ugly. After a great start to the year, February just plain stunk. In spite of good earnings, volume growth and mostly positive 2018 guidance, energy stocks took a beating. So what happened? I believe it was two factors. First, clearly the VIX doubling and the broad equity market dropping 4% spooked the heck out of energy investors who are dipping their toes back into the water after a tough 2017. The second factor which relates to MLPs and is much more speculative on my part is the unwind of tax loss trades. So the selloff started in late January which would be 30 days after the year-end tax loss trades and the Alerian ETF saw big outflows in February. Of course you may be thinking but those dollars would be going into another MLP product if it was just a tax trade. But what if investors sold but then were spooked by market volatility and remained in cash rather than swapping into another product? Hey, I warned you this was totally speculative. Let's move on to some actual facts.

In news for the week in capital markets, Buckeye Partners announced the latest private placement of $265 million of class C units with two institutional investors including none-other than Tortoise Capital Advisors. The private placement market continues to be hotter than a two dollar pistol and this is the 3rd deal we've been a part of this year. We think the trend will continue since the traditional overnight market simply hasn't been open.

Moving on, in upstream news, as expected Antero announced its board has formed a special committee to review and evaluate its trading discount. While it's hard to say if a major structural change will happen, we don't think they are likely to spin off midstream because they still have significant infrastructure buildout needed and want to ensure that they control this process. However we think that it is very likely that, whatever they decide, a stock buyback will be part of the plan. Speaking of buybacks, both QEP and Keane Group were the latest energy companies to announce a stock buyback last week. That reminds me…I was travelling last week meeting with existing and potential clients and a common question I got was "I understand the fundamental story and that cash flow is growing. So if debt and private equity investors are valuing these assets at record high valuations, when will public equity investors follow suit?" Unfortunately, I can't answer that with any conviction. However, what I am very confident in is that if the discounts persist, stock buybacks will likely become more and more common and these companies could slowly take themselves private until the valuation fixes itself. Take the QEP buyback as an example. They are selling all non-Permian properties and are buying back $1.25 billion of stock equaling over ½ of its market cap!

In midstream news, there were two growth items. First, MPLX announced strong shipping interest in an expansion of Ozark pipeline and they will move forward with the project. Also Dominion's Cove Point LNG export facility is up and running and has officially loaded its first vessel, a major milestone for the company. Finally, Semgroup announced the sale of its UK terminal assets to Valero Energy marking the most recent example of energy companies efficiently managing equity needs and focusing on returns over growth.

I'll finish up on last week's announced plan for a 25% steel tariff. While it varies widely depending on location, size and any number of other factors, this will not likely be a material negative for energy companies, in our view. The majority of the cost of a pipeline is labor, not steel and we expect this tariff would increase the cost of a new pipeline 10% or less. Keep in mind, projects that have been announced already pretty much have all ordered pipe and for something that hasn't been announced the management teams would simply require a high fee to earn the same return. Last, and most importantly, from talking with our companies, the majority of pipe is sourced domestically.

That'll do it for this week. I'll talk to you next time.

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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