Tortoise QuickTake Podcast with Brian Kessens

October 26, 2015

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.

Thanks for joining us today. I'm Brian Kessens, managing director and Portfolio Manager with Tortoise Capital.

The Great Pumpkin has yet to arrive as energy markets fell 1.0% last week as measured by the S&P 500 Energy Select Index. Sector specific indices retreated more with the Tortoise North American Oil and Gas Producers Index off 4.2% and the Tortoise MLP Index lower by 5.9%. They followed energy commodities lower as both the wolves and the moon howled, seeing oil drop 5.5% and natural gas 5.9%.

With oil, WTI ended at $44.50 per barrel. Though the oil rig count decreased for the eighth consecutive week, weakness is attributed to the US storage build exceeding expectations at 8 million barrels, dollar strengthening after the ECB indicated more aggressive easing, and growing economic concerns from the Far East in China and Japan. Notably, oil demand remains healthy with the IEA, OPEC and EIA consistently raising projections this year. The total revisions approximate a robust 50% thus far in 2015.

Natural gas ended at $2.30 per mmbtu, the lowest level in three years following concern El Nino may result in warmer weather leading to poor gas demand after already having more than ample natural gas in storage.

On Wednesday of last week, OPEC held a technical meeting with some non-OPEC members attending. While no policy changes resulted, Venezuela touted a need to maintain an oil price of $88 per barrel, their estimate of the price needed for supply to meet demand over the long-term. The next formal OPEC meeting is set for December 4th.

In company news, the largest midstream company, Kinder Morgan, met quarterly expectations yet lowered 2016 dividend growth guidance from 10% to a range of 6% - 10% in order to maintain greater cash flow coverage. Also, recognizing the more challenging capital market environment, Kinder Morgan announced alternative growth financing versus accessing the equity markets, something that keeps them off the market until the back half of 2016. We continue to think that several financing alternatives exist for midstream companies if necessary, including: PIPE market issuance, parent / sponsor support, excess cash flow, ATM issuance, and private equity backing. Notably, there is over $100 billion of private equity money looking specifically at opportunities in the energy sector.

On the producer side, on conference calls, the growing Utica potential was emphasized after some prolific wells were drilled recently. The takeaway is that if the deep Utica works, it is likely to be larger than the Marcellus over time.

From large-cap services, management teams noted that 1Q 2016 could be the bottom of the commodity price cycle.

This week, earnings season begins in a big way with many energy companies reporting third quarter results. They include the largest segment bell weathers, Anadarko Petroleum, Enterprise Products Partners and Valero Energy.

So far this year we've been fed with more tricks than treats. Yet stay tuned…we'll be back next week to kick-off November.

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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