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.

I am Matt Sallee, Managing Director and Portfolio Manager at Tortoise Capital Advisors.

Well folks, it was a choppy tape last week with oil falling 3% before finally recovering Friday to finish roughly flat. We were due for a bit of consolidation for oil after a 15% run up since early October. I think the market was looking for a reason to sell off, and it actually got two reasons.

First, we got contradictory signals from OPEC and the IEA in terms of their 2018 forecasts released last week, after a supportive outlook from OPEC's monthly calling for another year of above average demand growth leading to an undersupplied market to the tune of about 800 mbpd. By contrast, the IEA lowered their 2018 demand growth estimate based off the expectations for another warm winter and are projecting a 200 mbpd oversupplied market.

The market took a second hit Wednesday after the EIA's weekly petroleum report showed a 1.85 million barrel crude build, as exports remained significantly below the 2 million bpd mark witnessed in October.

A couple of stragglers reported earnings this week, with Cheniere and H&P posting numbers.

- Cheniere's results were strong, and the company raised 2017 EBITDA guidance. The 2018 preview was a little below street estimates, but in our view, this is a function of management being conservative regarding the profitability of their marketing business.
- Meanwhile, H&P beat estimates on the back of a healthy U.S. land contribution for both activity and rates. 2018 guidance is for U.S. land activity to accelerate even further.

In capital markets, companies again demonstrated that while public equity markets remain disrupted for MLPs, other investors are hungry for their securities. Energy Transfer and DCP Midstream were the latest pipeline companies to tap the perpetual preferred market which remains red hot as both deals were significantly upsized raising a combined $2 billion. The punchline is that while equity investors remain sour on the space, preferred buyers have been willing to step in and fill the gap and fixed income spreads remain near all-time tight levels for pipelines. I find it ironic given that usually it's the other way around and equity investors are euphoric while fixed income is skeptical. No doubt some of this may be driven by the year's strong fund flows into fixed income broadly but hopefully at some point, equity investors will take notice of the value fixed income sees in these names.

It was a relatively quiet week for company news but there were a few noteworthy items:

- Anadarko issued 2018 guidance including oil production growth in the mid-teens while producing $700 million free cash flow at the current strip and generating a 20% cash return on capital. A pretty good story in our view.
- Marathon Petroleum announced their widely anticipated dropdown of refining logistics assets and fuels distribution services to MPLX producing approximately $1 billion of annual EBITDA for total consideration of approximately $8.1 billion.
  - MPLX is funding the acquisition through the payment of $4.1 billion in cash and by issuing 111.6 million common units worth $4 billion to MPC.
- Shell Midstream Partners hosted their inaugural analyst day where the company updated its growth outlook to include 20% distribution growth in 2018 and mid-teens growth in 2019 supported by a drop down inventory totaling nearly $3 billion in annual EBITDA. These numbers were in line with our forecast.
- Unfortunately there was some negative news out of TransCanada last week whose Keystone pipeline had a 5 thousand bbl oil leak in South Dakota. The pipeline was immediately shut down, the section of pipe where the leak occurred has been isolated and cleanup work has begun.

Last week some of our analysts attended the RBC MLP conference where the mood was best described as somber. The general feeling was frustration that unit prices haven't reflected the improvement we have seen in fundamentals. Measured from this time last year, oil prices are up 25%, the oil rig count is up 60%, U.S. inventories are down almost 10% and in the meantime, MLPs have actually traded down. Add to this that for all the debate around distribution cuts, IDR takeouts, self-funding and the like, the weighted average distribution growth for our various midstream strategies ranged from 5% - 8% and over 90% of the portfolio holdings reported earnings in-line or better than our estimates. So yes, I share the frustration investors are feeling and a frequent question recently is "what will make it turn around." I've been wrong for three years so why stop now, some things that could help include:

- Higher interest rates which would likely shift fund flows from other yield-oriented asset classes, like bonds and utilities that are at record valuations, back into MLPs.
- M&A activity which might lead the relentless short selling to abate.
- And finally a fresh calendar year probably wouldn't hurt as any tax-driven selling subsides and portfolio managers reposition for the new year.

And now I'll finish up with some really important facts you can share with family and friends this Thanksgiving.

- The word turkey is said to come from the Hebrew word "Tukki" (not sure I'm pronouncing that right) which means: Big Bird or Pheasant bird.
- For you parade fans out there, the first department store to hold a thanksgiving parade was Gimbels also featured in one of my kids favorite movies "Elf" (let's be honest it's one of my favorites too).
- And most importantly, the first Thanksgiving in 1621 was believed to have lasted for three days. That sounds amazing. I think we should finish on that note. I hope everyone has a great holiday.

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.