Tortoise QuickTake Energy Podcast

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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.

Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast.

For those of us in Kansas City, it was good to see the Chiefs continue their strong season last week and it was great to see energy continue its strong start to the year as well. By the numbers, broad energy improved by 3.6%, producers by 4.2% and MLPs by 2.9%, yet still a long way to go to fully recover. Partly driving stocks were commodity prices, with crude oil higher by 7.6% and natural gas by 3.2%. WTI was up for nine straight trading sessions heading into last Friday, the longest such streak since 2010, driven by Saudi energy minister comments about lower Saudi exports and that he would not rule out further OPEC+ cuts.

We attended an energy conference last week to get a sense what management teams are thinking to start the year. The main takeaway is the industry recognizes it must do something differently to attract incremental investor capital. The biggest catch phrase was "capital discipline" or spending within or inside of cash flow. Reducing debt, increasing dividends and buying back shares were emphasized over capital expenditures across the energy value chain. In refining, a couple cases were made that companies could buy back an equal number of shares as were issued in the two most recent corporate transactions. For budgeting among producers, $50 per barrel was the mark for crude oil price modeling and service costs were assumed marginally lower in 2019. Most thought more consolidation should happen, yet were mostly focused on asset swaps where companies pick up more contiguous acreage to drill longer laterals. Our view is that companies will do more with less in 2019, and put some real markers out there towards cash flow discipline and providing transparency toward getting more cash to shareholders.

Moving to news, in-line with what we heard at the conference, Antero Resources announced a disciplined capital spending plan for 2019. The company assumed a price deck of $50 per barrel and $3.00 per MMbtu for natural gas, with plans to reduce capital expenditure relative to 2018 by about $200 million or 15%. Still, Antero expects double digit production growth. Further, the company noted it returned $129 million to shareholders in the fourth quarter through its share repurchase program, with a total authorization of $600 million. That's already 3% of the total shares outstanding. We expect similar guidance from other producers as 2019 budgets are finalized – lower year over year capex, production growth, with visibility to returning cash to shareholders.

SemGroup announced it is partnering with private equity group KKR to create a Canadian midstream infrastructure platform. Specifically, the joint venture will acquire Meritage Midstream for $450 million and SemGroup will contribute its Canadian assets, valued at $860 million. Following, SemGroup will own 51% with KKR owning 49% of the new company, and SemGroup will receive $460 million in cash. The transactions immediately strengthen SemGroup's capital position and provide improved funding certainty for its Canadian growth projects. Private equity continues to hold a positive, opportunistic view of midstream, and we believe partnerships like this are beneficial to both parties while also providing greater visibility to the value of midstream infrastructure.

In regulatory news, earlier this year, FERC Commissioner Kevin McIntyre passed away after battling cancer over the past couple of years. Heart breaking to see after he began what he considered his dream job. The FERC now has four commissioners, one of which, Bernard McNamee, is new, and a full plate of requests. We think new pipeline and LNG approvals will continue, yet may require more time to get through the queue.

In the world of buyouts, QEP received an offer from Elliott Management to be acquired for $8.75 per share or a 44% premium to the previous close. QEP is increasingly focused on the Permian where the company has 50 thousand, largely contiguous acres, and something Elliott thinks like attractive to a third party. This point specifically noting contiguous acreage value also is consistent with the discussion at the conference.

This week fourth quarter earnings kick-off, with the largest U.S. midstream C-Corp, Kinder Morgan, on Wednesday and the largest oilfield service provider, Schlumberger, on Friday. We generally expect strength from Kinder and caution from Schlumberger.

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@tortoiseadvisors.com.

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Broad Energy = 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.

Producers = Tortoise North American Oil & Gas Producers Index℠
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