# Tortoise QuickTake Podcast with Rob Thummel

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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.**

Hello. I am Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

Let's start by talking about MLP distributions. January is always a critical month for MLPs as it is one of the four times of year that investors receive cash distributions. We track MLP distribution announcements as well as dividends declared by all infrastructure corporations. So far, 79 companies have reported distributions with approximately 34% of the companies reporting increased cash payouts to investors. 56% of the companies held distributions flat while 10% or 8 companies cut distributions. The cuts occurred in oil and gas producer MLPs and shipping MLPs. Normally, a sign of a healthy company is one that generates sufficient cash flow to pay shareholders back in the form of a dividend. A really healthy company is able to grow its cash dividend to shareholders. However, we are not currently operating in a normal market.

This is evident in the dismal start to 2016 with the S&P 500 declining by (5%) in January. It's the worst January return since 2009. The weak start carried over to energy stocks as well. In January, the energy sector as measured by the S&P Energy Select Sector Index fell by (3.4%) while the Tortoise North American Oil and Gas Producers Index fell by (3.6%) and the Tortoise MLP Index fell by (13%).

January was filled with significant volatility as well, especially in the MLP sector. For example, daily movement up or down of 1% in stock prices for MLPs occurred in 18 of the 19 trading days during the month of January. Daily up or down movements exceeding 3% in one day occurred in 13 of the 19 trading days in January. To put this in perspective, in 2015, MLPs traded up or down by 3% in one day on only 29 of the 251 trading days.

Oil prices continue to be the main driver of energy stock prices. Oil prices are looking for a bottom. In January, oil fell by 28% closing at $26.55 per barrel on January 20 before ending the month down 9% at $33.62 per barrel.

Last week oil prices rallied 9% on the news that OPEC and non-OPEC producers are considering a 5% output cut. Nothing has been confirmed by either party.

Regarding U.S. oil production, the November 2015 oil production was released by the EIA last week. The trend in U.S. production is heading in the right direction. November 2015 production was 9.3 million barrels per day that is only slightly higher than November 2014 production levels of 9.2 million barrels per day. December 2015 production is expected to be equivalent to December 2014 levels as a clear sign that U.S. oil production is gradually declining. This is an improvement when compared to the first four months of 2015 when monthly production volumes were at least 1 million barrels per day higher than 2014 levels.

Lots of company specific news last week as the fourth quarter earnings season is beginning.

There were two notable upstream announcements last week. Continental Resources and Hess Corporation reported lower capital expenditures but more importantly signaled that 2016 production is expected to fall by 10% from 2015 levels. The market rewarded this news with the Hess stock price rising 22% and the Continental stock price rising 12% post announcement. In contrast, Oasis Petroleum announced an equity offering to fund its 2016 capital expenditure program and its stock traded off 10% on the day of the announcement. The market sent a clear signal to oil and gas producers that it will reward disciplined producers who cut capital and spend within cash flow even if the net result is lower future production.

In the oil field services sector, the U.S. oil and gas rig count continues to set records for decade level lows. The three large integrated oil field service providers Schlumberger, Halliburton and Baker Hughes have reported results with all continuing to experience declines in North American revenues. Year over year revenues have fallen between 54-66%, while fourth quarter revenues declined by 13-17% from the third quarter of 2015. In addition, these service providers expect the rig count to continue to fall with Baker Hughes stating at current commodity prices, the global rig count declines as much as 30% in 2016.

Enterprise Product Partners was the largest midstream company to report last week. Enterprise is an example of a healthy company that has consistently grown its dividend. EPD delivered solid distributable cash flow growth while maintaining a 1.3 times distribution coverage ratio. Enterprise also calmed the fears of many in the market by enhancing its disclosure of its customer base noting that 80% of its top 200 customers are investment grade rated or secured by a letter of credit. The EPD stock price rose 13% last week strongly outperforming the Tortoise MLP Index that rose by 4%.

Looking at the downstream sector, two of the largest refining companies announced results last week. Valero Energy strongly beat analyst expectations. VLO had previously announced a 20% increase in its quarterly dividend. Record refining throughput was cited by analysts as one of the reasons for the strong EPS beat. Phillips 66 also beat analyst earnings expectations. High refinery utilization rates as well as very strong fourth quarter refinery margins especially on the West Coast boosted Phillips 66 quarterly results. Refiners like Valero and Phillips 66 continue to benefit as low oil prices increased demand for refined products like gasoline, diesel, and jet fuel.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

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