Tortoise Capital Advisors

Tortoise QuickTake Podcast with Brian Kessens

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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.

Smiles returned to the faces of energy investors last week as the energy sector delivered positive returns in a holiday shortened week. Last week, the broad energy sector as measured by the S&P Select Energy Index rose by 2.5% while the Tortoise North American Oil and Gas Producers Index moved higher by approximately 1%. The largest gainer in the energy sector last week was the Tortoise MLP Index that rose by 10.5%, significantly outperforming the S&P 500 which rose by 3% last week.

The energy sector and especially the MLP sector had a strong performance week despite a relative flat week for oil prices. After closing at a price of $26.21 on February 11th (the lowest oil price since 2003) WTI oil prices eclipsed $30 per barrel by mid-week last week before closing the week at $29.64, a 0.7% increase for the week.

Oil prices were supported by the potential of a Big Freeze in which OPEC producers Kuwait, Saudi Arabia, Qatar, and Venezuela would join non-OPEC producer Russia in holding production flat with January 2016 production levels. The proposed plan effectively shifts the OPEC production quota to an Eastern Hemisphere production quota. However, the plan is not yet complete.

From a fundamental perspective, the weekly EIA oil report was filled with mixed results as U.S. inventories rose again mainly due to higher imports. On the other hand, U.S. oil production fell by 50,000 barrels per day. This was the second consecutive week of lower U.S. production. Last week was the first time since early September that U.S. production has fallen two consecutive weeks. Keep your eye on the weekly U.S. production as we feel it is important to see it continue to fall in order for oil prices to recover. Since the beginning of September the rig count has fallen by 41%. The U.S. oil and gas rig count continues to fall and is now 73% lower than its peak level. Falling rig counts, signal continued declines in U.S. production.

In the upstream sector, it was an active earnings week as well as an active week on the capital markets desk. Last year at this time with oil in the $50s and a future curves indicating that oil prices would move into the low to mid $60s in 2016, many oil and gas producers were talking about cutting exploration capital but production was expected to remain flat if not increase slightly. This year with oil prices in the $30s and a futures curve that doesn't get out of the $40s, the mindset of oil and gas producers has dramatically changed. Producers are battening down the hatches significantly, cutting capital expenditures for the second consecutive year and forecasting declines in 2016 production levels. This week four Permian Basin-focused producers reported earnings results. Three out of the four producers expect 2016 production to decline by between 5% to 10%. We view this news positively as lower U.S. production is needed to balance the short term global supply-demand equation. Longer term, the U.S. is still expected to be a significant supplier of oil to the rest of the world as global demand continues to increase.

Last week, Moody's downgraded five oil and gas producers (Anadarko, Hess, Continental, Southwestern and Murphy Oil) from investment grade to high yield. Bond ratings were moved down between 2 and 4 notches on the rating agency's bond rating scale. Related to the bond market, the high yield energy bond market is on pace for its second consecutive negative return month. The Merrily Lynch High Yield Bond Index has declined by 7% this month and 14% year-to-date through February 19th.

Some oil and gas producers have issued equity to protect their credit ratings. Last week, three oil and gas producers (Energen, EQT and Devon) raised over $2 billion. Year-to-date, eight secondary offerings by oil and gas producers have raised $5.5 billion.

In midstream news, last week Warren Buffett followed his old adage of being "greedy when others are fearful" as Berkshire Hathaway reported its purchase of approximately $400 million in Kinder Morgan securities. In addition, William's management reiterated its commitment to completing the transaction with Energy Transfer and expects to file an amended S-4 this week. Williams dedicated some time on its earnings call last week to address its exposure to Chesapeake Energy due to investor concerns of a potential Chesapeake bankruptcy. Chesapeake represents approximately 18% of Williams' cash flow. Williams' management highlighted the critical nature of its gathering lines in order for Chesapeake to generate revenue. Williams' management also expressed its confidence in Chesapeake as an operator. It was also reported that Chesapeake plans to make its scheduled debt payment of March 15th. The market reaction was positive as Williams Pipeline Partners was the third best performer in the MLP sector while Chesapeake was the top performer in the Tortoise North American Oil and Gas Producers Index last week.

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