

Tortoise QuickTake Podcast with Matt Sallee

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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.

Welcome to the Tortoise QuickTake podcast highlighting our views on the top energy events of last week. I am Matt Sallee, Managing Director and Portfolio Manager at Tortoise Capital Advisors.

Commodity prices and market returns continued to be extremely volatile while the market's focus has shifted from Greece to Iran to earnings...ah earnings season, when the coffee flows like water, the mornings start early, the nights run late and you forget what your kids look like....Good times!

Regarding returns for the week

- The S&P Energy index dropped 1.7%
- E&Ps dropped 3.3%
- Oil dropped 5.2%
- But not to be outdone, MLPs finished the week down 8.4%

This brings MLPs returns to -18.3% for the year and down over 30% from the peak level seen about 1 year ago; wow, MLPs are down a lot fundamentals must be terrible, right?

No, but I'll tell you, earnings season has certainly not been boring;

- PAA/PAGP, hosted the most surprising (or unexpected) earnings call announcement in the midstream space last week, giving a pessimistic 2016 outlook warning of a slowdown of growth. Consequently, PAA/PAGP, were down 11%, 23%, respectively.
- This sparked a selloff across the entire space Wednesday where the index lost 5% on the day ... more on that in a minute....
- So the natural question is if Plains is struggling isn't everybody? And is the MLP growth story dead?
- In our view the answer is a resounding NO!
- So far nearly all of our midstream holdings have reported earnings and the breakdown is as follows
 - Average EBITDA growth was 10% over last year Distributions grew 2.5% over last quarter and 12% over last year
 - With an average 1.2x coverage of those distributions
- So the key takeaway is cash flow is growing and we forecast additional cash flow growth from new projects entering service
 - We believe this will lead to MLP distribution growth of 5-7% over the next 12 months and likely beyond compared to the 5 year median of 4% distribution growth

All this leads to the valuation question...MLP fundamentals have remained steady in spite of sub \$50 oil and MLPs are down over 30% from their peak, then valuations must be cheap right?...WE AGREE

- Wednesday August 5th goes down as one of the worst trading days in MLP history and at the close of last week MLPs were on pace for their worst month ever
- So where do we stand on MLP valuation?
- MLPs have been bouncing around 7-7.5%, yield their cheapest level in over 5 years!
- The last time MLP yields were this wide, growth was running about 3% and historically MLPs not growing distributions have traded around an 8% yield just wide of where we are right now....and like I said we still expect 5-7% growth for the space

But enough about MLPs.....

In E&P earnings the name of the game is growing or maintaining production while spending less capital

- Unless, that is, you are in the Permian basin where drilling earns nice returns even below \$50.
- Here we are seeing companies accelerating drilling activity
- On the other hand In the Bakken we've seen a more cautious outlook several companies cutting spending and production forecasts
- Regardless of basin, the universal trend we are seeing is drilling and completing costs coming down and companies doing more with less

Last but not least the real winners in this environment are refiners and petrochemical companies

- Last week TSO was the latest refiner to announce record earnings, beating estimates by 15% on top of buying back 2% of its outstanding stock and bumping their dividend 28% during the quarter...not too shabby
- And then there's Westlake who also reported record cash flow which beat estimates by 25% and was up 20% over last year closing out reporting season for commodity chems on a strong note

That wraps up this week's podcast. 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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