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.

I am Matt Sallee, Energy Portfolio Manager at Tortoise. Last week was yet another good week for energy which continues its recent market leadership. Oil prices increased further now pushing $80 on the global benchmark, Brent oil, which is closely linked with crude along the U.S. gulf coast. This is the highest oil price since late 2014. Not surprisingly. The S&P Energy Select Sector® Index moved higher with crude up 2% and midstream, buoyed by M&A news pushed up over 3%. If you missed Rob's podcast from late last week you may be wondering what deals I'm talking about and if you did hear it, sorry, this is a bit of a repeat. There are three deals to cover…

- First, Williams announced an agreement to acquire Williams Partners for a 6% premium to the prior close and a 14% premium to the March 15th close. What's significant about March 15th? Well, that was the day prior to the FERC income tax ruling which led management to announce that they were contemplating a transaction of this sort. Not surprisingly, the MLP meaningfully outperformed WMB following that news resulting in the difference in premiums. On the income side, LP investors get an extra distribution this year, which offsets the impact of WMB's yield being lower than WPZ's for 2018 & 2019 and by 2020, our model predicts WMB's higher growth rate will result in higher income that WPZ investors would have otherwise received.
- The other big deal-related announcement from last week was Enbridge Inc.'s offer to acquire its so called "sponsored" vehicles EEP, EEQ, SEP and ENF. I use that term loosely because usually "sponsor" implies support. Well not in the case of Enbridge. The offer made was equivalent to the prior close for both SEP and EEP. Oh and by the way, both companies are trading right at their five-year lows. Now each long had its struggles, but SEP used to be a darling of the MLP space, so what the heck happened? Both names were among the most impacted by the FERC income tax allowance removal and management has said virtually nothing since this announcement to support the stock price. It's an interesting juxtaposition which exists between Williams and Enbridge, the two proposed deals. A couple of numbers demonstrate my point. Since the FERC announcement, both SEP and EEP are down about 20%. WPZ on the other hand is up 13%. I think it's pretty clear which management team has handled the situation better. It's important to note that ENB has only made an <u>offer</u> to acquire the LPs so now the respective independent boards have a fiduciary duty to do their best to ensure the MLPs are treated fairly. I don't know how an independent board director could view these deals as fair so we expect that ENB will need to come back to the table to make a better offer. Similarly, I really am struggling with why an underlying investor in these MLPs would be supportive of these deals.
- And then finally, as widely expected, Cheniere Energy has made an offer to acquire the 8% of CQH it doesn't already own.

Moving on, in the oil market, a couple of noteworthy items occurred last week. First, the EIA reported yet another strong inventory report with both crude and products shrinking well beyond the five-year normal change. This was supported by record crude exports of 2.5 million barrels per day. Speaking of inventory reports, the IEA also published its monthly update, the highlight of which is that global inventories have now moved below the five-year average. Quite a reduction in supply on the back of strong demand and as well as producer and OPEC restraint.

I mentioned the Williams roll-up earlier, this came in conjunction with their annual investor day. Key highlights beyond the structural news include:

- 2019 EBITDA guidance of $5 billion, in-line with the street and our internal estimates.
- They expect to grow the dividend 10-15% for 2018 and 2019 and have 2019 coverage of 1.7x. This will produce about $1 billion of retained cash flow which will allow the company to avoid issuing new equity to fund its capital projects.

- And then finally, there still seems to be plenty of work for them to do for new investments both in the Northeast gathering system and on their Transco pipeline.

But I'll tell you, what I think was probably most interesting from the analyst day, was the potential for the "Bluebonnet Express." That's a gas pipeline from the Permian to the Transco pipeline at the Katy hub in East Texas. What's unique about it is it provides significant market optionality for producers making it a pretty compelling project in my view.

So I'll leave it there for this week, 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.

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.

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