

Tortoise QuickTake Podcast

December 11, 2017

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 Brian Kessens with this week's QuickTake podcast.

Last week, energy was unable to build on the momentum following November's OPEC meeting. Broad energy and MLPs were both down nearly 1%. Given the dearth of other negative news, the weakness is explained by the petroleum inventory data, as a 5.6 million barrel crude oil draw was offset by a gasoline stock build of 6.8 million barrels. Following, WTI fell 2%.

Natural gas prices at the U.S. Henry Hub also declined, off over 3%, as the cold weather forecast moderated and storage had an unseasonal build of 2 Bcf. Of note, that while U.S. natural gas prices softened to \$2.80 per mmbtu, Asian LNG prices are now above \$10, a nearly three year high. Simply, prices tied to oil prices, firm winter demand and policy directives in Asia are leading to strong LNG prices.

There were several guidance updates and analyst days last week along with an industry conference.

The largest C-Corp midstream company, Kinder Morgan, provided cash flow and dividend guidance in-line with expectations, while targeting 2018 year-end leverage of 5.1x EBITDA. Kinder also maintained dividend growth guidance of 60% in 2018, followed by 25% dividend growth in each of the following two years. Assuming guidance is met, the company will have \$500 million of excess cash flow next year for additional projects or share buybacks, which are authorized to begin this month. Regarding current projects, TransMountain timing remains uncertain, though the National Energy Board in Canada ruled the project could sidestep some local permits.

Western Gas Partners also provided in-line EBITDA guidance, including distribution growth of 7% with 1.1x distribution coverage for full year of 2018. The GP, Western Gas Equity Partners, provided distribution growth guidance of 12%.

In refining, Andeavor held an analyst meeting where management made the case for better than expected growth, driven by the refining and marketing segment. Specifically, management targets consolidated EBITDA growth of 45% by 2020. Synergies following the acquisition of Western Refining should help as should lower sulfur emissions requirements in maritime shipping in 2020.

Staying with refining, HollyFrontier also held an analyst day. Management guided to 2018 refining EBITDA in-line with consensus. A large part of the day focused on the sustainable economics of the recently acquired lubricants business, and why it should trade at a higher multiple than refining. At Holly Energy Partners, management indicated it is reevaluating distribution growth in 2018 in light of recent trading levels and more focus on self-funding. Note, prior guidance was 8% growth.

At a large MLP conference we attended last week, attendance was higher on a year over year basis. While management teams and investors were weary from the disconnect between stock price performance and fundamentals, attendees were cautiously optimistic 2018 will bring healthy returns. Key topics included funding of growth capital expenditures, improving shareholder alignment, and tax reform. Self-funding growth projects remains a holy grail for the sector given closed equity market access. And for those MLPs with IDRs, there was heightened interest in simplifying sooner than later. Finally, consensus on tax reform was that both the House and Senate proposals are better for the sector versus the status quo, as the proposed pass-through rates are below the highest current marginal rate. Finally, the timeline to achieve reform prior to the Christmas holiday is realistic.

To sum up last week, we believe the 2018 picture is becoming clearer as growth and supply and demand fundamentals remain healthy. Expect midstream companies' focus to remain on reducing two things (1) to reduce organizational complexity to improve shareholder alignment and (2) to reduce reliance on equity capital markets to fund growth capex. We are not seeing a reduction in the appetite for new midstream projects. And as for large-scale energy infrastructure, we expect some final investment decisions on new US LNG projects next year. The difference in U.S. and Asian natural gas prices is too large to ignore.

This week, Enbridge Inc. holds an analyst day on Tuesday. Given the guidance Enbridge provided two weeks ago, we expect only further details on asset divestitures and financing, and nothing transformative. Also look for continued progress on tax reform, and for liquidity to start drying up as we near year-end. That's probably a signal that I should start my holiday shopping. 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@tortoiseinvest.com.

Disclaimer: *Nothing contained in this communication constitutes tax, legal or investment advice. Investors must consult their tax adviser or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intent.*