

Tortoise QuickTake Energy Podcast



Aug. 27, 2018

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.

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

It's time to rejoice fellow fake football friends! With the NFL season on the doorstep, we are once again ready for fantasy football. Given our location here at Tortoise, I wanted to start by offering a little pro tip...when drafting this year, wait to take a quarterback and then draft Kansas City's own Pat Mahomes. According to ESPN, he's currently being selected as the 18th quarterback off the board. However, given the dumpster fire that is the Chiefs defense this year, Mahomes is bound to rack up tons of attempts in multiple shootouts. With weapons such as Tyreek Hill, Travis Kelce and Kareem Hunt, he's loaded with fast options. If you don't believe, just check out the highlights of his 70 yard in the air bomb to Hill against the Falcons in Week 2 of the preseason. You're welcome.

Now that I'm done pontificating, let's start with market performance for the week that was:

- On the commodity front, crude oil was hot, rising 5.9%, while
- Natural gas was not, ending the week about 1% lower
- Shifting to equities, the broader S&P Energy Select Sector Index[®] increased 2.7%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers IndexSM followed crude up as well, gaining 3.6%
- And finally MLPs were solid, but more modest, as the Tortoise MLP Index[®] rose 58 bps

I'll start with some quick hit news items before addressing M&A activity within midstream.

- The U.S. Department of Energy announced intentions to release approximately 11 million barrels of sour grade crude oil from the Strategic Petroleum Reserve in October and November
 - Note, this is all part of a mandated sale program approved in 2015 and should not be a huge disruption to the market given the small size
- Crude oil inventories were released on Wednesday and the large build Matt Sallee spoke about last week was effectively reversed with a pretty substantial draw of almost 6 million barrels
- On Friday, the rig count was reported and it was actually a decline of 13 rigs domestically, including 9 on the oil side
 - Rigs remain generally in the same range they have been in for the last 3 months
- In OPEC news, Reuters reported that an Iranian diplomat stated that no other member country should be able to take the share of another country that was effectively lost due to any circumstance
 - Of course you may recall the Saudis did just that the last time U.S. sanctions were placed on Iran
- And in company news, Enbridge Inc, announced it would increase its bid for subsidiary Spectra Energy Partners by 9.8% from a previously ridiculous zero premium
 - The stock was already above the aforementioned bid, so the net impact will be a 5.7% premium to the closing price prior to the most recent announcement

Shifting gears to the topic of week, let's focus on M&A activity within midstream. We had two very intriguing transactions this past week.

First up, SemGroup Corp. announced the sale of 49% of the Maurepas Pipeline for \$350 million to funds managed by Alinda Capital Partners. Based on analyst estimates, it puts the value of Maurepas at approximately 13x EBITDA. Even better, SemGroup has an option to reacquire the 49% from Alinda prior to the 5 year anniversary. According to the press release,

the call price is based on a fixed return for Alinda. As SemGroup indicated, proceeds will be used to pay down debt and SemGroup will also remain the majority owner and operator of the pipeline.

In the other transaction of the week, both Plains All American and Magellan Midstream Partners entered an agreement to sell 30% and 20% respectively of the BridgeTex Pipeline to the Ontario Municipal Employees Retirement System, or OMERS. Magellan will continue to operate the pipeline. The sale was valued at \$1.4 billion dollars and based on our analysis, values BridgeTex at approximately 14-15x EBITDA on a 2020 cash flow basis. BridgeTex is a strategic pipeline, running from the Permian Basin in West Texas to Houston, a premium crude oil market. Yet, in our view, both PAA and MMP likely make out very well in this deal, receiving a premium multiple with the ability to now redeploy those proceeds back into projects at attractive multiples based on historical capex activity.

Interestingly, it was well rumored that PAA was looking to monetize its portion of BridgeTex, but not nearly as expected out of MMP. This likely speaks to the multiple paid by OMERS and Magellan simply feeling they couldn't pass up this deal.

It does raise a bigger question however regarding private equity and other outside capital putting a premium on midstream assets. Recently Occidental Petroleum sold several midstream assets for an approximately 14x multiple. What's interesting is that very few if any midstream entities actually trade at 14-15x multiples. Yet, apparently many of their underlying assets are valued at those levels by private equity and other investors. Which begs the question, when will they start trading for what they are truly worth? Just like Pat Mahomes, in our view the time is now.

That will do it for today...have a great week and we look forward to speaking with you again soon.

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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The Tortoise North American Pipeline IndexSM

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