Tortoise QuickTake Podcast

November 7, 2016

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.

While the Cubs snapped their 108-year losing streak, the S&P 500 extended its longest losing streak in nearly 36 years falling nine consecutive sessions. For the week, the S&P 500 fell by 2%. Energy stocks didn't fare much better with the energy sector as represented by the S&P Energy Select Sector® Index declining by over 2% and the oil and gas producer and the MLP sectors falling by 5%.

The culprit: oil prices. Oil prices fell by almost 10% last week, the highest weekly drop since mid-January. The ghosts from OPEC's past returned as investors question OPEC's commitment to a production cut and member compliance. Throw on top of that the largest ever weekly build in U.S. crude oil inventories. The net result is lower oil prices.

For investors in the energy sector, it has been a rough start to the fourth quarter. During October, the Tortoise North American Oil and Gas Producers Index℠ fell by 6.4% while the Tortoise MLP Index® declined by 4.2%. Canadian oil sands stocks were one of the few themes that generated positive returns.

Moving onto news, there were a few tricks and lots of treats across the energy sector last week.

GE Oil and Gas and Baker Hughes announced the only proposed merger last week which would create an industry- leading oil field services operator that will compete with the two largest integrated service operators: Halliburton and Schlumberger.

The sixth IPO in the energy sector this year priced last week with sand supplier Smart Sand raising $127 million, issuing 11.7 million shares at $11 per share

There were two large equity offerings, with Florida-based electric utility NextEra Energy issuing $1.5 billion in equity and Canadian infrastructure operator TransCanada raising $3.2 billion Canadian dollars.

Speaking of Canadian infrastructure, last week was the anniversary of the Canadian Halloween surprise. Ten year ago, the Canadian finance minister surprised everyone by announcing that pass-through Canadian trusts would now be subject to entity level tax. This scary surprise turned out sweet for investors as the average annual return of the six energy infrastructure trusts that converted into corporations has been approximately 16% per year over the last ten years. Which we think is a testament to the critical nature of the assets that these companies operate.

The third quarter earnings season keeps chugging along. Here are some highlights from last week:

Starting with oil and gas producers, it was Permian Basin producers week as many of the pure-play Permian producers reported third quarter results. Once again, these producers did not disappoint, beating consensus production estimates by an average of 4%. Just last week, pure-play Permian producers, along with other producers transforming into Permian producers, announced intentions on adding at least 25 additional drilling rigs to the Permian by the end 2017. Once again displaying the power of the Permian. However, keep your eye on oil prices, as oil prices likely need to remain in the $45 - $50 range for these producers to carry through with their plans.

Notable company specific news included Occidental Petroleum which was the latest in the long string of Permian acquisitions this year paying approximately $2 billion to acquire 35,000 acres in the Delaware Basin. Also, the two industry bell weathers provided updates on production growth estimates through 2020. Pioneer Natural Resources plans to grow production by 15% per year through 2020, while EOG Resources upped its annual production growth to 15-25% assuming oil prices ranged between $50 - $60 a barrel.

Moving on to midstream, let's first take a look at the dividend/distribution tally for the energy infrastructure companies for the third quarter. Of the 86 companies that have reported, 49 held dividends or distributions flat, 33 increased, while only 4 cut. The mean quarterly dividend or distribution increase excluding cuts was 1.5%.

In company specific news from last week, Spectra Energy and Williams, the two largest northeast energy infrastructure companies to report last week, continued to express optimism about finding solutions to meet the increasing regulatory challenges. With current northeast natural gas prices around $1.30, there is a need for additional infrastructure. Magellan and Plains, the two largest companies to report last week that own crude oil pipeline infrastructure in the Permian, believe there is sufficient pipeline capacity in-place to transport growing Permian volumes for at least two or three years. However, Magellan management is optimistic about additional Gulf Coast crude oil storage opportunities in the near-term.

Those are highlights from last week. Thanks for listening. We'll 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

The S&P Energy Select Sector® Index
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.

Tortoise North American Oil and Gas Producers Index℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

The Tortoise MLP Index®
The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publiclytraded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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