Tortoise QuickTake Podcast

October 16, 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, despite WTI crude oil rallying 4.4% and natural gas jumping 3.3%, energy stocks were less than stellar with broader energy lower by 1.8% and MLPs declining 1.5%.

Oil's rally is attributed to a number of factors, including: (1) OPEC's Secretary General noting that while producers are succeeding in rebalancing the market, OPEC may take further steps or "some extraordinary measures" in 2018 to reduce any inventory surplus, (2) strong Chinese import data showing imports of 9 mmbpd in September, higher month over month by 13%, (3) the Iraq / Kurdistan conflict intensifying, (4) a crude oil inventory draw of 2.7 million barrels and (lastly) the oil rig count fell by five rigs.

In company news:

The two largest E&P companies to provide updates last week were Pioneer Natural Resources and Apache Corporation. Permian-focused Pioneer reported 3Q oil production higher by 10% quarter over quarter and reaffirmed 2017 guidance. Apache lowered its second half of 2017 production guidance, with natural gas adversely impacted by Hurricane Harvey-related facility delays, while the negative crude oil impact was due to international operations. Apache's Permian crude oil production, both Midland and Delaware, is expected to be at the high-end of prior guidance due to strong pad performance. The company's 2018 budget commentary was unchanged. All in all, the outlook in the Permian remains favorable.

In midstream, Genesis Energy reduced its distribution by 31% in order to improve financial flexibility for internal projects and acquisitions, and to be able to self-fund any equity needs. Noting operations are performing in-line with expectations, the company is now targeting distribution coverage of 1.4x to 1.6x with leverage falling to 3.75x in 2020. Genesis will also evaluate a share repurchase in the future.

Enterprise Products Partners, the largest MLP, moderated its distribution growth rate last week to further strengthen distribution coverage, increase retained cash, and move closer to self-funding.

It is fair to say that the Genesis and Enterprise announcements unsettled the MLP sector last week. The two distribution decisions follow capital markets that remain fickle for new MLP equity issuance.

Taking a step back - what hasn't changed is that company fundamentals remain positive – evidenced by no change to earnings guidance. Yet the sector is maturing and becoming more institutionally held. What is potentially changing then is the form of return. Going forward, we expect more return from (1) underlying distribution growth in distributable cash flow as opposed to distributed cash flow, (2) debt reduction and (3) potential share or unit buybacks.

In regulatory news on the largest pipeline with an expected decision imminent, the FERC granted NEXUS authorization to proceed with construction and confirmed receipt of all federal regulations necessary. And DAPL can continue to operate while the Army Corps of Engineers enhances their analysis of any dangers posed by a potential pipeline oil spill.

This week, energy sector third quarter earnings begin, with the largest US C-corp pipeline and biggest global oilfield service company reporting, those being Kinder Morgan and Schlumberger. Additionally, EnCana is holding an analyst day meeting on Wednesday. Key updates will be plans in the Montney and Permian along with any read on the 2018 budget. Talk to you again 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@tortoiseinvest.com.