

Tortoise QuickTake Podcast

December 5, 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.

I am Matt Sallee, Managing Director and Portfolio Manager at Tortoise Capital Advisors.

It was a big week in energy markets with an event occurring for the first time in 8 years. Yep, that's right, against all odds, OPEC members put aside their differences and agreed to a production cut of 1.3 million barrels per day which, according to our estimates, will bring the global oil market into a supply deficit starting in the first quarter of 2017 when the cut takes effect. On top of OPEC's cut, Russia has agreed to reduce production by 300,000 barrels per day. As a result, oil prices spiked over \$4 Wednesday and finished the week up 12%, energy equities followed suit with the S&P Energy Select Sector® Index up 3%, E&Ps up 6% and MLPs bounced back after a rough start for the week and finished down just 1%.

Along with OPEC it was a busy week in capital markets,

- First, SM Energy Co. took advantage of its 25% post-OPEC rally and issued 9.5 million shares for gross proceeds of \$336 million equating to \$38.25 share price, This deal was upsized from 8 million shares originally.
- Also, frac sand company, FMSA priced a 20 million share secondary offering from holder American Securities. Similar to SM, this deal was upsized from 15 million shares originally. American continues to hold a significant position of over 50 million shares.
- Finally, WildHorse Resource Development Corp. launched an IPO of 27.5 million shares with a range of \$19-\$21. WildHorse is an oil and natural gas producer with acreage positions in Southeast Texas and North Louisiana. This offering is expected to price December 13th.

Shifting to company news:

Starting with upstream, Centennial Resource Development announced Monday an agreement to acquire upstream assets from Silverback Exploration for \$855 million in cash. These assets include 35,000 net acres with production of 3,500 barrels per day in Reeves County of the Delaware Basin, one of the hottest fields in the upstream space currently. Backing out the PDP value, we estimate they paid \$20,000 per acre which compares very favorably to recent transactions in the area. This deal was financed with a private placement to institutional holders.

Looking at midstream, the big news of the week involved new project developments.

- In Canada, Kinder Morgan's Trans Mountain pipeline approved by Canada as was Enbridge's Line 3 expansion.
- And in the U.S., The Army Corps of Engineers denied the permit for the final required easement to complete the Dakota Access Pipeline. However, this follows President elect Donald Trump's public support of the pipeline last week. Our expectation remains that this project will be completed by mid-2017 under the new administration which is vocally in support of infrastructure investments.

Finally in downstream news, Baker Hughes, CSL Capital Management and Goldman Sachs Merchant Banking Division agreed to form North American Land Pressure Pumping Company. In this deal, BHI will contribute its North American land cementing and hydraulic frac business, CSL will contribute cementing and hydraulic frac services and both CSL and WSEP agreed to contribute \$325 million of cash to the new entity.

Well, that will do it 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.

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.

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