Tortoise QuickTake Podcast

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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.

I am Matt Sallee, Energy Portfolio Manager at Tortoise.

I'm feeling especially good today following a heck of a first week to the new year for energy which was topped off by a big Chief's win…oh wait…somehow despite finishing the first half up 21-3 the Chiefs managed to get shut out in the second half and lose the game 22-21. Oh well, I washed away my sorrows with some chicken wings from a local Kansas City favorite "The Peanut" and, believe or not, it did make me feel better. The Peanut truly does put out a fine product and you really need to try them next time you're in town, better yet, call me and I'll take you. But I'm getting sidetracked. Let's get back to the market…

The strong market start is due to a few reasons in my view. New fund flows have been outstanding, general interest and optimism from Wall Street and continuation of crude market rebalancing are the drivers.

- On the first point, we got off to a great start on flows averaging over $60 million per day for the first week. To put this in perspective the last three years have averaged daily flows of around $20 million and you have to go back to 2014 to get average inflows over $60 million. Obviously we only have a few days of data but it's an encouraging start nonetheless.
- Regarding the Wall Street view, we spent the first week of the year going through 2018 outlook pieces and the consensus is reason to be optimistic and all indications are that there is a great deal of new interest in the space. Reports are expecting a shift in focus from restructuring and distribution concerns to improving volumes, operating leverage and attractive valuation just to name a few. Of course we do still expect some additional restructuring and IDR collapses this year, but expect these would be done from a position of strength and not generate a negative outcome.
  - Related to this, I was reading a report over the weekend which showed the 4th quarter Wall Street consensus earnings estimates for the energy sector have increased almost 25% over the last three months, reflecting an improving operating environment and higher crude prices. This is the biggest quarterly earnings revision that I can recall.
- The last key driver of market strength last week was a continuation of crude rebalancing. To illustrate this point all you have to do is look at the inventory report where U.S. crude inventories dropped 7 million barrels for the week. In the natural gas market, extreme cold across the country and a "bomb cyclone" generated huge gas demand with one day running over 150 bcfd of pull which was an all-time daily record for gas consumption. I'm not real sure what the heck a bomb cyclone is, but I'm glad I wasn't in the Northeast last week to find out.

Shifting to news:

- The EIA published its latest monthly report of production data for October, which showed crude supply up 170 mbpd. A very large number, but somewhat skewed from a recovery after Septembers hurricanes. Even more impressive in my view was the ginormous increase in NGL production, which too was skewed but quite bullish nonetheless. Particularly noteworthy was the Bakken, which saw ethane production increase 60 mbpd.
- That's a nice segue into my next news item which is Oneok announcing a new NGL pipeline from the Bakken to get this increasing supply to market. This is a $1.2 billion project and is supported by long term contracts generating an expected 4-6X EBITDA multiple which is very attractive for an interstate pipeline. Concurrent with the announcement, the company completed a $1 billion equity offering to pre-fund the capital needs.
- Speaking of more volume, Enterprise Products announced another processing plant at its complex in the Delaware Basin in West Texas, bringing its total capacity to 900 million cubic feet per day.
- In other midstream news Enlink announced the promotion of Mike Garberding to CEO while current CEO Barry Davis will remain on as Executive Chairman.
- There were a few tax-related news items. First, Antero Midstream GP increased it distribution targets by 20% through 2020 as a result of lower corporate tax rates. Also, both PAGP and EOG will reduce their deferred tax assets with 4th quarter results by around $800 million and $2 billion, respectively. While these are very big numbers, it's important to note they are simply non-cash accounting charges.

- In M&A news, refiner Andeavor announced the acquisition of the Rangeland crude pipeline in the Permian basin which ultimately will make its way to its MLP, Andeavor Midstream.
- And finally Dominion announced the acquisition of Scana Corp, South Carolina's utility for $7.9 billion in cash.

I'll leave it there for now, 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.