Tortoise QuickTake Podcast

February 7, 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.

With a lot less drama than the Super Bowl, energy stock performance was mixed last week with MLPs higher by just over one percent and both broader energy and producers down about one percent. MLPs in particular have had a good start to the year, up 6.8%, aided by: increased producer activity, more stable crude oil prices that drive sentiment, and the Trump administration's support for pipeline infrastructure and more efficient regulation.

For the commodities, for the week, crude oil prices were 1.2% higher though inventories increased slightly more than expected at 6.5 million barrels. Notably, imports were higher by 480,000 barrels over the previous week to 8.3 million bpd. We believe the rise in prices indicates the market is more focused on OPEC compliance with the November agreement to reduce production which appears to be exceeding expectations, including notable cuts from non-OPEC member Russia.

Natural gas prices fell 10% as natural gas storage saw a drawdown of just 87 Bcf last week following warmer winter weather. This was the smallest withdrawal for any week ending in January over the EIA's five-year history, though storage is still near the five-year average.

We often don't focus on natural gas liquids prices, yet it is worth noting that propane prices continue to be strong, up 4% last week, as LPG exports continue to top 1 million bpd and inventories track close to their historical average. Also notable, ethane returned to more normalized levels, up 29%, after a previous facility outage came back on-line.

In earnings, the largest MLP, Enterprise Products Partners, reported last week in-line with expectations. Strong LPG export volumes to Asia offset weaker crude oil and NGL results.

We expected simplification transactions to trend in 2017 and last week produced another. ONEOK Inc (Ticker OKE) announced the acquisition of its MLP, ONEOK Partners (ticker OKS) in a transaction valued at $17 billion. The price is a 22% premium to the previous OKS close. OKE expects the transaction to be immediately accretive and intends to increase its dividend 21% following closing, and guided to 9%-11% annual dividend growth through 2021 with coverage greater than 1.2x.

The largest producer to report last week was ConocoPhillips who printed earnings better than expectations driven by production, realized prices and cost structure. We would not be surprised if other producers' see similar impacts driving bottom lines as we progress through the earnings season.

Valero Energy, the largest US refiner, reported earnings ahead of expectations though results across its refining footprint underwhelmed as crude oil, or input costs, moved higher. Nonetheless, Valero reaffirmed its 75% payout target and noted that 2016's level was well above 100% as refiners continue to generate healthy free cash flow.

In regulatory news, before FERC Commissioner Norman Bay left last Friday leaving the FERC one commissioner short of a quorum, the FERC approved three major Northeast natural gas pipeline projects: Energy Transfer's Rover, NFG's Northern Access, and Williams' Atlantic Sunrise. Collectively, these projects represent $7.5 billion of Northeast capital investment, adding 5.5 Bcf/d of new natural gas takeaway capacity to areas of demand by mid-2018.

New equity issuance across the value chain was healthy last week as Summit Midstream Partners announced a $100 million dollar deal, Sanchez Energy (a producer) raised $125 million and Smart Sand added another $100 million.

This week, expect fourth quarter earnings reports to continue. We'll be back with you next 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.

