Tortoise Capital Advisors

Tortoise QuickTake Podcast

February 13, 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 Rob Thummel with this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

Where were you on Feb.11th, 2016? Most investors in the energy sector remember this day vividly. Last year at this time, it was oil Armageddon. Oil prices were in the midst of the longest period of declining prices in history. Over a grueling period of 568 days, prices declined by 75% from $107.62 on July 23, 2014 bottoming at $26.21 on Feb. 11, 2016.

What a difference a year makes. Global crude oil supply declined due to lower U.S. production and a historic OPEC agreement. Oil demand growth continued to be well-above average. The net result is global oil inventories are falling and the price of crude oil has increased by 105% over the past year. Now, the energy sector is in a much better place with stable oil prices and a positive fundamental backdrop.

So, how did energy stocks do last week? The energy sector as measured by the S&P Energy Select Sector® Index declined by 0.2% last week. The energy sector continues to be the weakest performing sector within the S&P 500® Index in 2017 primary due to the price decline of Exxon Mobil, the largest weighted security in the energy index that has declined by 8% so far in 2017. MLPs as represented by the Tortoise MLP Index® declined by 0.3% but year-to-date MLPs win the 2017 best performer in the energy sector award up last week 6.5% year-to-date.

Switching to commodity prices, natural gas prices dropped by 2.4% last week. Natural gas prices have declined by 20% in 2017. Punxsutawney Phil's prediction of six more weeks of winter is needed to turn natural gas prices around. Oil prices were interesting last week. Early last week, oil prices wanted to go down. Oil prices declined by almost 3.5% after the second largest weekly increase in U.S. crude oil inventories ever was announced mid-week. However, oil prices surged in the latter part of the week ending the week essentially flat. What caused the turnaround in oil prices? The biggest positive development regarding prices occurred when the monthly oil market report was released by the International Energy Agency or IEA. The report confirmed that OPEC is complying with its historic agreement. The IEA estimates that 90% of the projected cuts accounting for approximately 1 million barrels per day of production have been made. Additionally, the IEA raised its 2017 global demand growth estimate. Here we go again. Well the last two years global oil demand growth has been 70% higher than normal and has been consistently raised by the IEA as the year progresses. Already this year, the IEA is increasing its oil demand growth for the second time in 2017. We believe this is significant because U.S. oil production is going to increase but a large portion of the increase in U.S. production will likely be absorbed by higher global demand in 2017.

Taking a look at company specific information reported last week, the fourth quarter earnings seasons grinds on.

In the upstream sector, the largest pure-play Permian producer to report last week was Pioneer Natural Resources. Once again, Pioneer did not disappoint. Pioneer management laid out a goal of one million barrels per day of production by 2026. This translates into production growth of at least 15% per year and cash flow growth of 20% per year over the next 10 years assuming $55 oil price and $3 natural gas price. Pioneer highlighted that exports were an important component to reaching its production goal. Pioneer stock traded higher rising 6% last week.

The largest oil and gas producer to report last week was BP. BP's fourth quarter results highlighted the challenges that many of the large, integrated major oil companies are facing. BP's oil production declined when comparing fourth quarter 2016 production to fourth quarter 2015 levels. The largest oil and gas producer in the world Exxon Mobil reported a similar fourth quarter oil production decline last week. However, when you examine the numbers, the decline in oil production is a result of falling international production. U.S. oil production actually increased by 2%. We believe that this trend will continue as the U.S. gains market share in the global oil markets.

Lastly, in the upstream sector in news that spreads across both the upstream and midstream sectors. In a bit of surprise, the FERC approved William's Atlantic Sunrise natural gas pipeline last week. Regulatory approvals like this one continue to be an area that we are seeing improvements which is good sign for energy infrastructure companies and oil and gas producers. The pipeline projects still needs an Army Corps permit and a state of Pennsylvania permit but this announcement removes uncertainty and sets the table for a mid-2018 startup. Marcellus oil and gas producer Cabot Oil and Gas is the largest shipper committed to this pipeline. Cabot was the best performing stock in the S&P Energy Select Sector® Index last week rising by 12%.

In midstream news, Energy Transfer Partners announced receipt of an easement by the Army Corps of Engineers allowing Energy Transfer to complete construction of the pipeline and bring the pipeline into service by the second quarter of 2017. Plains All American, the largest Permian infrastructure company to report last week, provided another data point demonstrating the power of the Permian. Plains commented that their projections have Permian oil production rising from 2.1 million barrels per day today to 3.5 million barrels per day by 2020. Management indicated the need for more exports and infrastructure to facilitate increased exports. We agree that infrastructure projects to support higher export volumes is expected to be a subject that more energy infrastructure companies begin to talk about in the years to come.

Wrapping up with capital markets activity, another week another Permian Basin transaction. Last week, Parsley Energy paid $2.8 billion to acquire 71,000 acres in the Midland Basin, a subset of the Permian. Parsley issued a little over $1 billion in an equity offering to partially fund this acquisition. As a result of the equity offering, Parsley stock traded down 7% last week.

Those are highlights from last week. Thanks for listening. We will 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.

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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.

The S&P 500® Index is a market-value weighted index of equity securities.

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 publicly traded 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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