# Tortoise QuickTake Energy Podcast

Feb. 11, 2019

**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.**

Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast. Tough love for energy last week, as broad energy fell 3% and MLPs dropped -3.6% (with lots of dividend ex-dates). Producers brought up the rear, declining 6.4%.

Crude oil prices were no help, slipping 4.6%, though crude oil inventory data continues to be constructive as petroleum stockpiles came in smaller than expected. In fact, U.S. gasoline demand over the last four weeks is the highest for the period since 2007. Weighing on crude oil prices were U.S.-China trade talk uncertainty and lower Eurozone GDP forecasts. Furthermore, the U.S. House Judiciary Committee passed a bill that would allow the Justice Department to sue OPEC, citing antitrust laws. We don't expect the NOPEC (or No Oil Producing and Exporting Cartels Act) to pass the full legislative and executive branches, yet it throws some sand into the wheels of OPEC transparently cooperating to stabilize the oil market.

Moving to earnings reports, producer commentary is driven by 2019 capital expenditure outlooks. The trend to trim continues, with Apache, Carrizo, Suncor, Southwestern and WPX all announcing lower 2019 capex versus 2018. All in so far, capital spending is expected to fall about 4% year over year. Rhetoric consistently points to generating disciplined production growth within cash flow over the long-term, in a mid $50s oil price environment. Stock buybacks remain en vogue, including from the two largest producers reporting last week. Anadarko indicated continuation of its $1.25 billion buyback and Suncor noted it expects to complete a C$3 billion buyback soon, with an additional C$2 billion repurchase authorized.

Midstream company's earnings expectations were relatively high after consistently beating throughout 2018. The largest crude oil transporter, Plains All American numbers were a beat driven by the company's supply and logistics segment. Plains guided 2019 2% lower, indicating an expectation for lower producer budgets and narrower Midland to WTI differentials. The next two largest midstreamers to report were mixed. PSXP beat following strong volumes across its crude, refined product and NGL pipelines and terminals. Next up, expect an IDR restructuring announcement sooner than later. MPLX missed, mostly due to unplanned downtime at its Houston, PA processing complex. Management emphasized a long-haul crude oil pipeline strategy with its Capline and Swordfish projects. Also to be determined yet if its Permian Gulf Coast pipeline project gets combined with the Exxon-Plains joint venture.

Two refiners reported last week, Marathon Petroleum and Phillips 66. Both positive as refining margins benefited from wide Canadian and inland crude oil prices. Retail marketing also surprised to the upside, as the declining oil price in the 4$^{th}$ quarter led to high fuel margins. Returning cash to shareholders via buybacks continued, with MPC buying back $675 million in stock, and PSX buying back nearly $500 million. 2019 outlooks rest upon crude oil price differentials and impacts of IMO 2020.

We've talked about the need for LNG exports at length, and there was a big update last week. ExxonMobil and Qatar Petroleum officially announced a FID or final investment decision for their Golden Pass export facility in Port Arthur, Texas. The $10 billion facility is targeting a 2024 in-service date. There is now 3.3 Bcf/d of LNG capacity in service, with another 10 Bcf/d under construction in the U.S. For perspective, if on-line today, this LNG capacity would demand about 15% of total U.S. supply – very meaningful. We think the Golden Pass FID may be the start of a second wave of U.S. LNG projects moving forward with construction. Stay tuned.

Today is Thomas Edison's birthday, arguably the man who did the most for energy that ever lived. He noted, "Just because something doesn't do what you planned it to do doesn't mean it's useless." The increasing capital discipline that continued last week has yet to have an outsized impact on stock prices. We maintain that this is the right approach and it will ultimately prove most useful. Edison was also known for his perseverance and patience.

Fourth quarter earnings continue in a big way this week, and there is a large energy conference in Vail, Co. And of course, Thursday is Valentine's Day. Talk to you next week about whether Cupid's arrow hit the energy market with some love.

 

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.**

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