Tortoise QuickTake Podcast

March 6, 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.

Last week energy stock prices improved, by 1.4% for broader energy and 1.2% for MLPs. These increases were contrary to crude oil prices which declined 1.1% on the week. Good to see correlation breaking down some.

Crude oil was marginally lower on another stockpile build, this time of 1.5 million barrels, and as the tug of war continues between expectations for increased U.S. production in 2017 versus OPEC efforts to cut production. Prices continue to oscillate between $50 and $55 per barrel. In coming weeks, we expect eyes to focus on U.S. crude oil imports, which are expected to decline following OPEC production cuts at the start of the year.

It is worth noting the EIA's oil supply data update last week which showed U.S. oil production fell 91 thousand bpd month over month in December to 8.8 million bpd. Nearly all of the decline was accounted for by North Dakota, which was down 89 thousand bpd due to harsh winter weather, not atypical. We continue to expect production lows are largely behind us, believing growth will accelerate in the first half of 2017.

Natural gas prices jumped last week by 7.6% following expectations for colder weather over the coming weeks. Natural gas buyers shrugged off the weekly inventory data that showed a build in the month of February for the first time on record, according to EIA data going back to 1994. That's what warm weather does for you, definitely one for the record books.

Earnings continued last week. The largest companies reporting in upstream and midstream were:

EOG in upstream, with solid Q4 2016 execution and EBITDA slightly beating consensus on higher oil production and lower operating expenses. EOG also indicated production growth of 18% in 2017, similar to other producers focused on the top shale plays.

In midstream, ONEOK reported lighter results than expected due to severe winter weather. Adjusting for that, and earnings were in-line. We expect an improving cash flow profile in 2017 particularly at the back-end when the amount of ethane recovered should materially increase as new ethane crackers come on-line and export facilities ramp.

Midstream acquisition activity stepped up last week. The largest transactions were:

Marathon Petroleum closed a dropdown of terminal and pipeline assets to MPLX for $2 billion at an 8.0x EBITDA multiple. The assets are 100% fee-based and include minimum volume commitments and inflation escalators, items we emphasize in our midstream portfolios.

Kinder Morgan announced the sale of a 49% stake in Elba Liquefaction Company to EIG Global Energy Partners for $385 million. The export project is expected to begin operation in mid-2018.

TransCanada (ticker TRP) announced an offer to sell a 49% interest in the Iroquois Gas Transmission System and a 12% interest in Portland Natural Gas Transmission to its MLP, TC Pipelines (TCP).

Finally, VTTI Energy Partners received a buyout offer from its parent, VTTI BV, for $18.75 a share, a 2% premium to the previous close. The conflicts committee at VTTI Energy Partners is now reviewing the offer.

We attended two midstream conferences last week, courtesy of Morgan Stanley and Barclay's. Overall the tone was cautiously optimistic for 2017, everyone with a bit of spring in their step. The tailwinds of increased producer activity, a Trump win viewed as beneficial for oil and gas, and an improving economy are boosting confidence. Companies noted the need for new capex is increasing for Permian and SCOOP / STACK gathering and processing, NGL infrastructure along the Gulf Coast and Permian crude oil takeaway capacity. Also, budgets were built on the rig count at year-end. If drilling continues to accelerate, expect financial guidance to march higher as 2017 progresses.

Capital market activity was sparse last week aside from the launch of one oilfield services IPO. Select Energy Services is looking to raise $100 million by providing water services to producers. As earnings season terminates this week, expect traditional activity to resume.

This week, Enterprise Products Partners holds its analyst day on Wednesday. Expect a detailed update on NGL supply and demand with an emphasis on what 2017 holds for export opportunities. Until 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.