Tortoise QuickTake Energy 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.

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise, It was an exciting week last week with the much anticipated OPEC meeting driving all sorts of predictions and warnings, but in the end OPEC maintained a disciplined market posture which provided a big boost to energy Friday as the news started coming out.

As expected OPEC did increase its production target at its June 22nd meeting in Vienna. Starting next month the group (and Russia) will nominally add 1 million bpd which, since some countries can't increase production, will actually be effectively a 600-700 mbpd increase. So why are they increasing production? Well, the group has been producing about 800 mbpd below the 2016 production target and global markets are significantly undersupplied. This production increase should help get the group close back to 100% compliance with the 2016 target. So this marginal output increase is a move to avoid a potential price spike that the market is currently set up for given strong demand and global under-investment.

As I mentioned it was bullish for energy and on the week MLPs, E&Ps and oil were up 2%, 5% and 6%, respectively.

Also last week we were at the JP Morgan energy conference and I'll hit some key themes that our team brought back.

- First, Infrastructure is generally full across the country in key shale plays and Western Canada with the Eagle Ford as the lone exception; the key takeaway here (pun intended) is that midstream companies have better negotiating power with producers on transportation rates
- Continuing with this theme, there was lots of discussion on Permian bottlenecks and related local discounts on oil and gas prices but more on this in a minute
- The last big takeaway is that despite pretty supportive oil prices, E&Ps are staying disciplined and maintaining their free cash flow focus rather than production growth
- A couple interesting company-specific notes to mention on the midstream side are that EPD stated they can increase Seaway capacity by 75 mbpd in the short term and ETP shared that for every 10 cents in Waha basis they expect a $50 million annual EBITDA pickup. For context, Waha is currently trading $.90 cents below Henry Hub versus about $.30 cents this time last year, implying about $300 million EBITDA tailwind year-over-year.

So I mentioned Permian constraints were a big discussion topic at the conference. Some other interesting related data points have come out recently. Last Tuesday Permian E&P Halcon announced it will drop a rig in July due to the wide the Midland price discount. This follows a prior announcement by Marathon Oil that they would be dropping a rig in the Delaware for the same reason. In related news, Diamondback announced they have secured transportation agreements locking in Gulf Coast pricing minus a discount for 2018 and 2019 for approximately 70% of their production. What's noteworthy is the pricing locks in a $15 discount in the third quarter, a $16 discount in the fourth quarter and an $11 discount for 2019 and the stock actually traded up the day. This goes to show the market firmly believes basis is going to stay wide or get wider through the end of 2019, and we agree.

In capital markets it was another active week for debt issuance with sizable deals from ONEOK and EQM demonstrating plentiful market access. In case you were wondering if the equity markets are thawing for energy just look at the Tellurian deal. Last Monday, they issued $115 million of equity through Credit Suisse at $9.90, down 9% from the closing price. The stock actually traded down the next day from the deal price and continued to lose ground ultimately down about 20% on the week.

I'll finish up with a big congratulations for all those CFA candidates who endured another round of torture and took the exam on Saturday. Now you get to enjoy waiting it out for the results until mid-August. Why it takes that long to get results from a multiple choice, electronically-graded test remains a mystery; perhaps it's just part of the rights of passage into the glamorous world of portfolio management.

On that note, 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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