Tortoise QuickTake Podcast

April 3, 2017

Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise will 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.

After slumping recently, the price of crude oil had its biggest one week gain of the year, higher by nearly five percent, and ending the week just over $50 per barrel. Why the strong gain? U.S. inventory data was constructive, showing a smaller than expected build at 870 thousand barrels. Furthermore, Iran and Kuwait, two OPEC members put support behind an extension of the cut following reports of 95% OPEC compliance, Russia compliance at two thirds, and Libya production dropping due to militant blockades.

Natural gas also finished the week higher, by 3.7%, as the last three storage reports combined posted larger than normal seasonal draws. With the draw season officially over, we start injection season with just over 2 Tcf in storage or at 14% above the five year average. Not great for prices, but significantly better than year ago levels, and with the cooling season ahead, a slow recovery in domestic natural gas production, and strong growth in exports, the supply and demand balance is favorable for gas price support above $3 per mmbtu.

For stocks last week, commodity prices moves were certainly helpful. MLPs were higher by one percent, producers by four percent with broader energy lifting 2.6%.

The biggest energy deal last week was Cenovus, a large integrated Canadian oil company, agreeing to acquire ConocoPhillips' interest in the Foster Creek Christina Lake oil sands for $13.3 billion. For ConocoPhillips, the company will accelerate its share buyback program, reduce debt, and become more levered to onshore U.S. shale.

In the largest services deal, Weatherford and Schlumberger agreed to form OneStim, a joint venture of their completions services and pressure pumping businesses. In the deal, Weatherford will own 30% of the new entity and receive $535 million in cash. The venture will target North American "unconventional resource development", just fancy words for shale.

In midstream, the biggest project announcement was Buckeye Partners' plans to develop a new 400 thousand bpd crude oil pipeline from the Permian basin to Corpus Christi. Its open season is planned for the third quarter, and if successful, the expected in-service date is 2019. The pipeline will support increased crude oil supply to the large refining center at Corpus, and since Corpus Christi is on the coast, facilitate the export of the light, sweet crude oil produced in the Permian. Speaking of exports, we expect over 1 million bpd of crude oil to be exported from the U.S. going forward.

In Washington, President Trump signed an energy independence executive order, directing the EPA to pull back on the Clean Power Plan, remove some restrictions on hydraulic fracturing, and lift the moratorium on federal coal leasing. We think the order is supportive of oil and gas production, though don't expect material changes in production given coal has lost its economic advantage over gas and renewables.

We had some portfolio team members attend one of the larger energy conferences last week. The key takeaway was that even with crude oil prices below $50, operators are not planning on paring back activity, indicating they need to see prices below $40 per barrel for a period to consider cuts. Part of the reason for the drilling confidence is continued efficiency gains from longer laterals and more sand proppant. Another reason is that added hedges in the fourth quarter of last year were 33% higher over third quarter, added at strikes between $50 and $60 per barrel. This helps producers' spend within cash flow in 2017 even if crude oil prices soften.

There was one update on pipeline projects – the Rover natural gas pipeline, faced with a deadline of March 31st to clear trees along its route to the west out of the Marcellus and Utica shales, reportedly completed tree clearing at the last hour.

As we think about the news from last week, U.S. shale continues to be front and center. Two of the largest services companies are working together to improve shale efficiencies, ConocoPhillips' oil sands sale implies more confidence in its U.S. shale portfolio, pipeline companies are offering additional takeaway capacity and the conference takeaways indicated shale breakeven prices continue to fall. There are no Fools here. Shale is not going anywhere. While, the recovery in energy after the worst downturn in 30 years won't be a smooth up and to the right, we think the fits and starts are good opportunities to find new ways into shale developments.

This week, expect the Hess Midstream Partners IPO, which launched last week, to price. It is the first midstream IPO since Noble Midstream Partners' IPO in September of last year. Also, the largest company analyst day is from Sempra, where we'll look for any significant new natural gas pipeline growth opportunities in Mexico, along with updates from their large U.S. utility business.

Back at 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@tortoiseinvest.com.