Tortoise QuickTake Energy Podcast

Nov. 19, 2018

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.

Thanks for joining us today on the Tortoise QuickTake Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

At times in the investing world it feels as if sentiment will never turn in your favor. The proverbial bad news is bad news and good news is bad news. So what to do in those times? In reflecting on that this weekend, I went back to what I tell my two boys when playing sports, all you can control is your attitude and your effort. How does that relate to investing? Easy, we can't control sentiment, so we focus on the facts. Production growth, pipeline volumes, cash flows, to name a few within our sector, energy. When in doubt, follow the facts. Sentiment will turn eventually, as nothing stays out of favor forever. Rest assured, we will continue to do our part to turn sentiment by telling the story of energy!

We'll kick things off with market performance for the week that was:

- On the commodity front, crude oil continued its brutal trading, falling 6.2%, while
- Natural gas spiked sharply higher yet again, closing the week up 14.9%
- Shifting to equities, the broader S&P Energy Select Sector Index® fell 1.9%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ also trended with crude oil, declining 3.3%
- And finally MLPs were a little better, but not much, as the Tortoise MLP Index® was lower by 1.9%

The big news of the week continues to be oil's volatile trading pattern. As Rob noted last week, the list of reasons for the decline are pretty specific, but are broadly too much supply and a risk of slowing demand growth. And while Rob noted OPEC's upcoming meeting in early December and the thought of a production cut, it appears that idea is gaining steam as 1 to 1.4 million barrels per day of cuts have been thrown out by various OPEC sources this past week. If we get a full 1.4 million barrel per day reduction, that could go a long way to giving investors' confidence the market will remain balanced. In my view, a couple of things are interesting to take away from this: One, the reduction in question is really just countries like Saudi Arabia moving supply back to the original production cut agreement amount and two, part of the supply issue has been surging U.S. production. Interesting, the surging U.S. production should be a benefit to midstream, yet the stocks clearly haven't reacted that way.

Not necessarily getting as much attention as crude, natural gas also continued its explosive rise. With this week's big move, natural gas prices are now up a whopping 42% for the quarter on colder weather and of course continued low inventory levels. Per Morgan Stanley, so far this has been one of the coldest November's in the last 20 years. Is this sustainable? In the natural gas world, weather rules. So the price will remain volatile and depend heavily on what Mother Nature has in store for us.

We had members of the portfolio team attending the annual EEI conference for utilities this past week in San Francisco. A couple of key takeaways:

- Utilities would love to be boring at this point, i.e. small projects that positively impact rate base as opposed to mega projects with lots of risk
- Renewables remain a key theme, in particular replacing coal-fired generation
- Finally, energy efficiency was a big topic, with one utility stating that peak summer demand is 2x demand for the remaining 75% of the year. On this note, it's the exact reason that pipelines are often built for peak demand, meaning utilization is rarely even 90% most of the time. Yet the incremental pipeline size is needed as utility customers' value reliability and surety of supply, especially on the hottest and coldest days of the year.

We also had a group of analysts attend the RBC MLP conference in Dallas. Outside of a variety of company updates, the main discussion topic was centered on attracting investors.

Multiple themes were espoused, including asset rationalization, lowering leverage, continued restructurings and of course some macro stability.

All of these have merit, but we find the continued restructuring theme to be the most important.

Additionally, while crude oil prices are important, midstreamers are generally fine at anything over $50 WTI, yet more than anything, it would be nice to simply get some stability in the price of crude. In our conversations with companies, we are stressing the idea of, let's return the topic to the business and not the structure. Let's get to the point where we can discuss fundamentals, not IDRs. That will go a long way to bringing investors back to the space.

I'll end by circling back to some facts. The Tortoise MLP Index® sits at right about the 1000 level. We have been at this same spot a couple of times over the last several years, but I thought it was interesting that you can go all the way back to January of 2013 and still see the TMLP at these levels.

What's changed since that time in energy?

Well, according to the EIA, crude oil production was 7 million barrels per day at the time. For reference, we just hit 11.4M barrels per day. That's 63% production growth in a little less than six years.

Natural gas production is up a tidy 31% during the same time frame. And natural gas liquids, they are up a pretty solid 92%.

It truly has been a remarkable story for the United States when it comes to energy.

That will do it for today. Have a great week and we look forward to speaking with you again soon.

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.

Broad Energy = 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.

Producers = Tortoise North American Oil & Gas Producers Index℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = 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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