Tortoise QuickTake Energy Podcast

July 30, 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.

The job of an equity analyst, buy side or sell side, can be unforgiving at times. Take this past week. There are almost 50 analysts on Wall Street that cover Facebook and only one of them had a sell going into earnings. Yet, despite 85% of the analysts having buys, Facebook not only disappointed, but did a monumental face plant, achieving a dubious record no company would desire…the single largest one day loss for a company in history. Facebook lost $120 billion dollars in market cap. I could do that in my best Dr. Evil voice for full effect, but I'll spare you. To put that into context, that would be the equivalent of losing almost one third of the entire MLP market in a single day! Events such as these humble you as an investor and caution against getting too comfortable as you never know when something may surprise you.

Let's start with market performance for the week that was:

- On the commodity front, crude oil was weak, falling 2.5%, while
- Natural gas finished higher for a change due to weather, gaining 2.4%
- Shifting to equities, the broader S&P Energy Select Sector Index® increased 2.3%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ eked out a small gain, up 40 bps
- And finally MLPs had a solid week, as the Tortoise MLP Index® finished positive 1%

I wanted to address three items for the week

- One – an earnings recap
- Two – a couple of large M&A deals, and
- Three – trade wars and our expected impacts to energy companies

First, last week was a busy one for earnings, as we had a wide assortment of companies reporting within energy, including a major oil field service name, multiple refiners, a couple of super majors and of course a handful of midstream securities as well.

Halliburton started off the week as the largest oil field service company to report and frankly it was one to forget. The company cited Permian bottlenecks, as well as other basin takeaway constraints likely to impact future growth until sufficient capacity was built. Recall, we have been anticipating this and Rob spoke about a slower Permian growth outlook a couple of weeks ago versus most industry pundits, simply given the lack of takeaway.

Refiners Valero, Marathon and Phillips 66 produced stellar results as all three crushed it this quarter. The three combined to average a plus 9.6% return for the week based on their outstanding results from solid margin capture and wide crude spreads.

On the other end of the spectrum, super major Exxon Mobil had an abysmal quarter. Earnings released Friday missed pretty dramatically, although the company chalked it up to several one-time items. International as well as maintenance appeared to be the main culprit across multiple business segments.

Finally on the earnings front, we did have a few midstream companies report that produced very solid results, the largest of which were MPLX, PSXP and EQM. All three had solid earnings relative to consensus and continue the trend of what we fully expect to be a strong midstream earnings quarter.

Secondly, we did have two large M&A transactions as well. In the biggest deal of the week, BHP Billiton sold its U.S.-based shale assets to BP for $10.5 billion. The assets consist of properties in the Eagle Ford, Permian and Haynesville shale plays, generating over 190,000 barrels of oil equivalent per day of production. We view this as a positive as BP will likely prioritize spending and production in the U.S. lower 48.

Next up was Chesapeake Energy, which entered into an agreement to sell its Utica shale natural gas assets for approximately $2 billion dollars in the second largest deal of the week. Over 320,000 acres produce a little over 100,000 barrels of oil equivalent per day. The proceeds will be used to pay down debt.

The last item for discussion today are the trade wars ever present in the media and our expected view on the impact to the various commodities and energy companies. President Trump and the EU appear to have at least staved off a trade war on that front for the time being. Yet, the building trade war with China continues.

In our view, if the supply and demand for the individual products, such as crude oil, don't change, then we simply have a shift in where groups receive that respective commodity from.

For instance, if China buys less U.S. crude oil, but their overall demand remains the same, it must purchase crude from another supplier, let's say Iran. In that case, theoretically the U.S. would simply supply the previous buyer of Iran's crude that is now going to China, with its crude.

In essence we have a substitution effect, albeit with likely frictional costs of what may be less than ideal trading partners geographically.

Our premise is, as long as global demand stays the same, trade wars should have little impact on U.S. production and exports due to this concept of substitution.

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.

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.

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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