Tortoise QuickTake Podcast

October 30, 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 Rob Thummel with this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

Last week, the MLP sector took investors on a wild ride filled with twists and turns. MLPs as represented by the Tortoise MLP Index®, declined by as much as 5% mid-week. But a welcomed late-week rally that resulted in MLPs selling off by less than 1% for the week. These ups and downs left many investors asking a simple question: What was going on? At Tortoise, we believe the weakness early in the week was technically driven. For example, shorting activity in the energy sector, including MLPs, has been increasing. This could explain the short-term sell-off followed by the late week rally as traders covered shorts. Nevertheless, we think the fundamentals supporting the MLP sector remain intact. Case in point - approximately one-half of the MLPs that declared distributions last week increased their distributions. We believe that cash flow growth will drive value for the MLP sector going forward. MLPs significant backlog of growth projects will continue to support cash flow growth for MLPs in the future.

While the volatility of the MLP markets gained most of our attention last week, an event in the oil markets is worth celebrating for energy investors. What am I talking about? Last week, oil prices turned positive year-to-date closing at $53.90 on Friday. At one point earlier this year, oil prices had declined by 20%. After a 5% rise last week, oil prices now have increased by one-third of one percent year-to-date. What is moving prices higher? Last week, Saudi Crown Prince Mohammed bin Salman indicated that he would support an extension of the OPEC production cut agreement. Earlier this month, Russian President Vladimir Putin stated that he would support an extension of the production cut agreement as well. This is significant as now the leaders of two of the largest oil producers in the world are onboard with an extension. At Tortoise, we believe that OPEC will announce an extension of the production cut agreement through the end of 2018 at its normally scheduled meeting on November 30.

Unfortunately, the strong oil price performance last week did not carry over to energy stocks. The energy sector as represented by the S&P Energy Select Sector® Index, fell by less than 1%. On a year-to-date basis, MLPs and energy stocks have lagged oil. Oil prices are up by slightly less than 1%, yet the stock prices of MLPs and the broad energy sector have declined by 9% and 8%, respectively. We believe that stable and improving oil prices will be a catalyst for better performance in the stock prices of MLPs and energy stocks in general.

Last week was the first full week of the third quarter earnings season. Two things were notable last week. First, we believe that there has been insufficient capital investment in global oil projects that will eventually result in a global oil supply gap that will need to be filled by U.S. shale producers, as well as OPEC and Russia. Chevron's results last Friday potentially foreshadowed how this is going to take shape. Chevron reported third quarter global oil production that was approximately 2% lower than its second quarter oil production as production increases from the Permian and Gulf of Mexico could not offset natural declines in production. We are keeping our eye on this, but we expect the Permian oil producers to fill a large portion of the supply gap that emerges over time. A second emerging theme from the first week of earnings seasons is a potential shift in oil and gas producers' strategy focusing on returns and spending within cash flow. This would be a shift away from production growth that has been a key metric for the past several years. We believe that the oil and gas producers that can continue to grow production while spending within cash flow will be rewarded by investors. Three of the largest Marcellus natural gas producers highlighted this point when announcing 3Q results last week. Range Resources noted its ability to grow production volumes by at least 10% while spending within cash flow in 2018. EQT expressed its ability to do something similar by 2019. However, Marcellus producer Cabot Oil and Gas stole the show announcing a three-year outlook that results in 20% plus annual production growth and generates $2.5 billion of cumulative pre-tax free cash from 2018 to 2020. For context, this could allow Cabot to buy back up to 20% of its outstanding stock. This announcement propelled Cabot's stock price rising by 5% last week.

Lastly, in capital markets activity the highly anticipated MLP IPO from British Petroleum, or BP priced last week. BP Midstream Partners ticker symbol BPMP, raised $765 million issuing 42.5 million common units at $18 per unit to the public. The IPO did price below the initial stated range of $19 - $21 per unit; however, keep in mind that the stock prices of MLPs fell by 7% during the IPO marketing period. The stock price of BPMP fell by 2.3% last week, highlighting the continued peculiarities in the current MLP market. Nevertheless, another major, integrated global oil and gas company has created an energy infrastructure MLP with the intent on growing it which we believe is a positive sign for the MLP sector.

Those are the highlights from last week. Thanks for listening. We will talk to 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.

The S&P Energy Select Sector® Index 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® 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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