

# 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.**

I am Matt Sallee, energy portfolio Manager at Tortoise.

As we sit at the last trading day of the month it appears the energy sector will deliver a heck of a return for April with energy as the best performing sector for the month. Oil prices continued to push higher, now up over 10% for the year and the S&P Energy Select Sector<sup>®</sup> Index has turned positive and is now outperforming the broad market year-to-date. Midstream also put up a great month but has yet to turn back positive. Here's to the momentum continuing.

Moving on to last week's news, Buckeye Partners announced the formation of a joint venture with Phillips 66 Partners and Andeavor to develop a new deep-water, open access marine terminal in Ingleside, Texas on Corpus Christi Bay. The project is expected to be in service by the end of 2019 with an initial estimated 3.4 million barrels of capacity. Also PSXP has received sufficient shipper commitments to proceed with construction of the Gray Oak Pipeline system, transporting crude oil from the Permian basin to the Gulf Coast. Gray Oak is a 75/25 joint venture between PSXP and Andeavor, respectively. Also, Enbridge has an option to buy into the project, which is expected to be in service by the end of 2019 with an initial estimated 700 thousand barrels per day of takeaway capacity.

And finally the big news of the week was the EQT/Rice families announcing the details of their previously disclosed streamlining transaction. As a reminder this is just a consolidation of existing midstream asset controlled by EQT that weren't already held in EQM/EQGP. Unfortunately, the big question regarding form and consideration of the contemplated IDR elimination remains unanswered. We expect clarity on this issue in the 2<sup>nd</sup> half of 2018.

That said, regarding Step One, the streamlining, EBITDA generation from the dropdown assets was larger than we had modeled and the dropdown multiple was lower than we expected at 6.8x 2019 EBITDA. Next EQM is acquiring the public RMP units for a 10% premium in line with our expectations. And finally, EQGP will buy the Rice IDRs from EQT for 17.2x 2019 cash flow multiple. The bottom line is the transactions are expected to be accretive to cash flow for both EQM and EQGP, and EQM will become the third largest gathering company in the U.S.

We believe the company will be able to growth their distribution at a double digit CAGR over the next several years and fund its growth capital with no public equity through at least 2020 while maintaining a modest leverage target of 3.5x. Despite all these positive characteristics, EQM traded poorly upon announcement which I believe is the market telling them that they should have taken care of the IDRs with these transactions.

Moving on, it was the first big week of Q1 earnings and we are off to nice start for portfolio companies with strong beats from Antero, EQT Midstream, Rice Midstream, NuStar, TransCanada and Valero Energy. We also saw in-line quarters from Halliburton, Antero Midstream, Phillips 66 and Phillips 66 Partners, Dominion Midstream and Valero Energy Partners.

The key themes I'll highlight from week one earnings, there was a lot up stock buyback activity, not just from the refiners but even a couple upstream and midstream names.

Capital discipline remains despite higher oil prices, and ever-increasing lateral lengths where Northeast producers have been drilling 3.5 mile laterals. And related to this, on the midstream side, the northeast gas gathering and transmission companies reported huge volume growth year-over-year. Not too bad for week one. Let's keep that trend going. And on that note, we'll 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@tortoiseadvisors.com](mailto:info@tortoiseadvisors.com).**

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