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.

Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast.

Last week, Brent hit nearly $83 per barrel, highs not seen since November of 2014 while WTI is approaching November 2014 highs ($74.16 for those keeping score). Following OPEC's decision not to add incremental supply to the market, the camp of believers that $100 oil could be reached continues to expand, with spare capacity concerns continuing to grow. Further, U.S. energy secretary Rick Perry said the U.S. is not considering a release from the Strategic Petroleum Reserve.

For the performance numbers, last week saw crude oil 2% higher as mentioned, broad energy was 0.8% in the green, producers shot up 2.6%, with MLPs struggling, down 1.5%. Structure and allocation of capital continue to be pointed to as sticking points for midstream. Yet let's take a look at the news last week as there are some good examples of capital allocation.

In midstream, on previous podcasts, we've discussed the healthy North American energy fundamentals, need for more infrastructure, growing importance of exports, and the higher cost to build pipelines in the Northeast due to regulatory delays. Last week offered a taste on each of those themes.

First, Pembina increased 2018 EBITDA guidance by $100 million or 4%, due to increased pipeline throughput, higher fractionator utilization and widening fractionation spreads.

In the more infrastructure need category, ONEOK announced plans to construct a suite of natural gas liquids and natural gas infrastructure due to continued production growth across the basins the company serves. Specifically, the company intends to invest $1.5 billion building: a new fractionator at Mont Belvieu, a new processing plant in the Bakken and an NGL pipeline extension and expansion. ONEOK expects to build the projects at EBITDA multiples of four to six times, and does not expect to require equity issuance until well into 2019. Finally, the company noted the announced infrastructure is critical to supporting record-setting crude oil and natural gas production in North Dakota and increasing the connectivity of producers to Mont Belvieu, the nation's NGL hub.

Next, EQT Midstream announced a cost increase for its Mountain Valley Pipeline, a pipeline that will transport natural gas 300 miles from the Marcellus shale in northwestern West Virginia to southern Virginia. The project cost estimate increased to $4.6 billion, increasing the return multiple to 10x EBITDA from the original 7x. About half of the capital increase is due to extended periods of work stoppage during August that triggered ongoing contractual charges and schedule changes due to court challenges from environmental opponents. The balance relates to extraordinary rainfall that continued through the summer, and recent hurricane preparedness actions that interrupted full-construction activities. The company continues to target full in-service during the fourth quarter 2019.

Finally, regarding exports, MPLX acquired a Gulf Coast export terminal with associated storage and a 120,000 barrels per day dock. The facility is able to expand its storage capacity by six million barrels and construct a second dock to meet growing export needs, including to meet the upcoming International Maritime Organization fuel standards in 2020. The company expects a mid-teens percent return.

All in all, we think the capital allocation decisions from ONEOK and MPLX are attractive, and we expect EQM will have capabilities for more growth projects off Mountain Valley when complete.

With crude oil prices hitting levels not seen in several years, an investor might have expected better performance from energy stocks. While broader energy is higher in 2018 by 7.5%, the returns feel underwhelming. Looking back to a year ago, WTI was at $50 per barrel and investors asked for greater capital discipline and a focus on shareholder returns. Anadarko

Petroleum announced a $2.5 billion share buyback, starting a producer shift to a returns emphasis from a production growth focus. Now a year in, companies are showing capital discipline by spending within cash flow, and increasing dividends and share buybacks are commonplace. With WTI now $20 per barrel higher and company's holding to an austerity mindset to appease shareholders, we have more conviction in a higher oil price, and that stock prices will follow. Later this month, we'll hear from companies about their third quarter and 2019 outlook to see if discipline continues to stick.

Thanks for listening.

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Producers = 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.

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