

Tortoise QuickTake Energy Podcast



April 23, 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.

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

Did you hear that noise? It is the train that has left the station and investors are jumping on board as investors are beginning to appreciate the potential of the U.S. energy sector. Last week, the energy sector continued its dominant performance in April with the sector as represented by the S&P Energy Select Sector[®] Index rising by almost 3%. The energy sector outperformed all other sectors in the S&P 500[®] Index last week. During the month of April, the energy sector has been the best performing sector by a wide margin rising by 8.7% outperforming the next best sector 5%. MLPs followed a similar pattern as the Tortoise MLP Index[®] rose by 3.4% last week and are up 6.6% in April. Despite the recent strong performance, we think the party is just getting started. In our opinion, both the energy sector and MLPs can carryover the strong recent performances as the positive long term fundamentals play out. In the short term, we believe the energy sector and MLPs will benefit as both sectors catch-up to oil prices that have increased by 13% in 2018 and are up over 60% from their lows reached in June 2017.

Speaking of oil prices, a new analyst initiated coverage on oil prices last week. Who am I talking about? The President of the United States. Mr. Trump declared on Friday via Twitter of course that "Oil prices are artificially very high! No good and will not be accepted." While these comments slightly stalled the rally in oil prices on Friday, oil prices ended the week 1.5% higher supported by continued declines in U.S. and global oil inventories, better than expected OPEC compliance and the potential for OPEC's production cuts to extend into 2019 and beyond. At Tortoise, we focus on global oil demand and want oil prices to remain low enough to spur above-average demand growth in the years to come. We are keeping our eye on gasoline prices. The Energy Information Administration or EIA expects gasoline prices to be the highest in four years. Last week, the EIA also reported current Permian Basin oil production of 3.2 million barrels a day up 800 thousand barrels per day a year ago. How significant is this? If the Permian was part of OPEC, the Permian would be the fourth largest producer behind Saudi Arabia, Iraq, and Iran. At this pace, Permian oil production could overtake Iran by end of 2018. The last statistic out of the EIA last week that should help investors appreciate the U.S. energy sector even more is that U.S. net petroleum imports that includes crude oil, petroleum products and natural gas plant liquids ended 2017 at 3.7 million barrels per day the lowest level since 1971. Of course, record U.S. exports of petroleum products are biggest contributor.

Shifting to other news from last week, the 10-year Treasury yield rose by 14 basis closing at 2.96% on Friday. This rise left many in the media talking about inflation concerns. Traditionally, the energy sector has performed well during inflationary periods. Over the last five one-year periods when the monthly consumer price index rose by at least 3% over the index in the previous year, the energy sector has been the top performing sector in the S&P 500[®] Index.

In other news, you have heard me talk a lot about records and firsts for the energy sector in 2018. Another first was achieved last week. This time it was the first time that three ships carrying liquefied natural gas traveled through the Panama Canal on the same day. This illustrates the strong demand in U.S. LNG from Asia. The expansion of the Panama Canal reduced travel time from the U.S. to Asia by 42% enhancing the competitiveness of U.S. LNG.

Last week marked the start of the first quarter earnings season. As usual, the first company out of the gate was Kinder Morgan. Kinder Morgan set the tone for what should be a very good earnings season in our opinion. Kinder Morgan beat analyst estimates for EBITDA and distributable cash flow per share. But more importantly, Kinder Morgan generated free cash flow allowing the company to increase its dividend by 60% and to buy back \$500 million of its stock. In addition, Kinder Morgan added \$900 million of new projects to its backlog. Like Kinder Morgan, many companies in the energy sector are expected to be entering an era of significant free cash flow generation providing management teams with lots of flexibility.

Schlumberger, the largest oilfield services company in the world, reported earnings in-line as well. A couple of interesting points from the Schlumberger CEO Paal Kibsgaard. First, Mr. Kibsgaard highlighted declining oil production in Angola, Mexico, Malaysia, China, and Indonesia due to dramatic underinvestment in global exploration and production activity over the past three years. Next, Mr. Kibsgaard suggested that U.S. shale oil producers are starting to face challenges including: well to well interference as more infill drilling takes place, lower production per well as producers step out of Tier 1 acreage and growing infrastructure constraints. What this means is that U.S. oil production might be slightly less than the 1 million barrel per day growth that most are expecting in 2018. However, his comments also highlight our views that additional infrastructure is necessary to support growing U.S. production.

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@tortoiseadvisors.com.

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