

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 Matt Sallee, Energy Portfolio Manager at Tortoise. So last week was the first week in a while MLPs actually didn't go up last week. They traded down with broader energy and oil prices during a quiet late summer week. But I'm not taking it too hard because there was a very positive event that happened last week...my kids going back to school. And let me tell you this went a long way towards returning the sanity of Mrs. Sallee just when I thought she was going to lose it...as Carl Spackler would say, "So I've got that going for me which is nice." If you don't get that, you need to watch Caddyshack ASAP, you're missing out on a classic.

I'll blame the soft performance on crude oil which traded off quite a bit following Wednesday's report of a monstrous 6.8M bbls build in U.S. inventory resulting from a 1.3 mbpd spike in imports to 9 mbpd.

For company news there was a couple items to hit:

First, Diamondback announced a deal to purchase fellow Permian E&P, Energen, in an all-stock deal for \$9.2 billion dollars equating to a 16% premium to Tuesday's closing price. Too bad Diamondback traded down 12% on the news largely wiping out that premium. It didn't help that this was announced the same day as the bearish inventory report I just noted. That said, the deal does create one of the largest producers in the Permian basin with balanced exposure to both the Delaware and Midland and total proforma production of over 200 mbpd.

The big news in the pipeline space was Energy Transfer filing their S4 for its proposed consolidation. Importantly EBITDA expectations for 2019-2021 were nicely ahead of street expectations. Not shocking given the recent earnings beats the company has been posting. This is more evidence that the macro environment is incredibly supportive right now with rapidly accelerating production, record demand and exports and wide price differentials all pushing cash flow higher. The negative aspect was a lack of capex and balance sheet outlook which we will look for more color on in the future.

In other midstream news, EQM pushed back the in service date for Mountain Valley Pipeline to the fourth quarter 2019 from the previous estimate of Q1. The consensus view was the project would be pushed back following the latest regulatory challenges and accordingly the stock only modestly underperformed on the news. This is a name that continues to struggle for firm footing with execution issues on the MVP project and a lack of clarity on the specifics of its IDR cleanup. We met with management in person last week at an industry conference and hammered home the importance of getting back on track by getting the structure taken care of immediately and bringing the project on line with no more issues. It's frustrating as an investor because the company has great assets and high quality cash flow but they can't seem to get out of their own way.

So I mentioned we were at a conference last week which happened to be in Las Vegas. Hey I can't control where they schedule these things. Anyway, over the course of two short days we met with 49 current and potential portfolio companies, multiple bankers and a consultant. I even managed to squeeze in some games of chance as well, which is always good. Not to mention I came away with enough cash to buy the wife a birthday present. But I'm getting sidetracked. The key themes coming out of our meetings were first and foremost, a much improved sentiment compared to a year ago. Both management and investors are high fiving because recent market performance has been really strong and we are coming off the second quarter in a row where several companies beat earnings estimates and in many cases raised guidance. Some common themes from our meetings:

- 1st, Permian differentials and how wide that might get and for how long. Along with this after the current round of projects coming in service thru 2020 which additional pipelines will get built. As it related to the producers, whether the trend of shifting rigs from the Permian to the Eagleford and DJ will continue. Furthermore can the U.S. achieve the enormous production growth forecasts called for by the EIA, OPEC and other energy research firms? U.S. growth is a key criteria to an even remotely balanced crude market next year since OPEC spare capacity is all but tapped out. So we will be watching this closely.
- Sticking on the fundamental side, a number of crude and product export announcements have come out in recent months and updates on these projects was topical. Specifically which projects move forward, who has the best project location/connectivity and what the export capacity might be.
- On the structure side, IDRs continue to dominate the discussion for names that haven't eliminated them yet. Nearly everyone is committed to taking them out but less willing to give guidance how and when and what the restructuring will look like. We continue to impress upon management that we are frustrated and impatient on this issue, especially since in nearly every case this an item they control and just requires them working out the terms internally.
- Finally with just a couple exceptions, companies have the ability and strong desire to stay out of public equity market to fund growth projects from retained cash flow, balance sheet capacity and to a lesser extent asset sales. As we've said in the past, this, combined with simplifications, are key factors to the midstream market's continued recovery.

I'll finish up this week with a hearty congratulations to all those who recently found out they passed either Level 1 or Level 2 of the CFA test. And for those who took Level 3, the waiting game continues.

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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