Tortoise QuickTake Podcast

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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.

I am Matt Sallee, Managing Director and Portfolio Manager at Tortoise Capital Advisors.

Mark it down folks…two positive weeks in a row for energy. This was led by WTI finishing solidly over $50 and Brent at nearly $57! Speaking of which, this is the widest Brent-to-WTI spread we have seen in over two years. We think this is evidence of OPEC production cuts and strong global demand growth working together to rapidly pull down global oil inventory. In fact, OPEC members stated at last Friday's meeting that inventory in developed economies is down by 170 million barrels, cutting the global oversupply by 60%. Unfortunately in light of the improving market, OPEC elected to defer a decision on extending the current production cut beyond the first quarter of 2018. It would have been nice to get some certainty around an extension but I guess we will just have to stay tuned.

Shifting to news, in a week that was otherwise focused on Donald Trump calling Kim Jong-Un "Rocket Man" and subsequently getting smacked back with the obscure but hurtful "dotard" label, there were some noteworthy developments in the energy patch.

The key theme in the E&P space last week was balance sheet health and a focus on returns over growth. Three data points provide support:

- First Halcon announced the sale of its remaining Williston basin non-operated interest for $100 million bringing total asset sales to $2 billion year-to-date which completes the company's transition to a debt-free, pure-play Delaware basin operator.
- Next, Antero resources announced completion of a $1 billion delivering program funded with $750 million of cash generated by restructuring its existing hedge portfolio plus the previously announced sale of 10 million units in its LP Antero Midstream. Following these transactions, leverage drops nearly a turn, liquidity jumps to $3.5 billion and they remain 80% hedged through 2020 in the mid-$3 range.
- Further, Anadarko announced a $2.5 billion stock buyback funded with cash on hand. This focus on returns over growth was a frequently discussed theme at the Barclays Energy Conference earlier this month and is being rewarded in the marketplace as evidenced by APC trading up 8% following the announcement.

In midstream, the name of the game was alternative access to capital for the second week in a row.

- First, Buckeye announced a $210 million private placement of common units which will be used to pay down their revolver which was previously drawn to partially fund the acquisition of a 50% interest in VTTI terminals.
- And even bigger was PSXP's $2.4 billion dropdown announced in conjunction with a $1.05 billion issuance of preferred and common units taking them off the market through 2018. This deal was powerful in that it went off at an attractive multiple and allows the company to hit its 2018 $1.1 billion EBITDA target without needing to further access to public markets. This name was clearly trading at a discount due to perceived public equity need given that it traded up 6% on the announcement. This transaction was very similar to that executed by Dominion Midstream last October. Over the balance of the year DM traded up over 25% significantly outperforming its peers. We think this is a clear message from investors to consider off-the-market solutions to equity needs. While it remains to be seen if PSXP will trade as well as Dominion did, it seems to be off to a pretty good start.

The last item I wanted to hit was the largely expected U.S. International Trade Commission finding of injury in the Suniva case seeking to apply a tariff to imported solar modules. Now the commission's recommendation goes to the President who has 60 days to approve, modify or reject. The expectation is the Administration will elect for a tariff but one that is lower than the recommendation and will ultimately add about 20-30% to the cost of solar. If this is the case we believe it is net positive to existing projects as PPA pricing will need to move higher and net negative for solar developers who may have a harder time getting new projects as they become marginally less competitive to other energy sources.

Well there's never a dull moment in energy. Thanks for listening.

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.