

Tortoise QuickTake Podcast

August 21, 2017

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.

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

Last week U.S. crude oil inventories drew 8.9 million barrels, the largest weekly crude oil reduction year-to-date and the seventh consecutive net draw. It is also worth noting that crude oil inventories have dropped nearly every week since April and eclipsed their lowest levels since January 2016.

Despite the inventory decline, WTI fell 0.6% last week, though Brent crude oil moved higher by 1.2%. Interestingly, Brent moved to a 12-week high, pushing the gap between the two to nearly \$4 per barrel, its widest in almost two years. To us, this suggests the U.S. needs additional export infrastructure to facilitate greater exports of WTI to narrow the price gap between the two crude oils that share nearly the same quality.

Despite the constructive price on the commodities, (note natural gas improved 1.0% last week), energy stock prices remain in the dark as energy bulls remain outside the ring. For the second straight week energy stocks underperformed, with broad energy down 2.4%, MLPs off 3.0%, and producers declining 3.5%. For midstream in particular, a lack of project funding is weighing on sentiment, yet stay tuned.

Moving to news...

In services, Transocean agreed to acquire the Norwegian driller Songa in a transaction valued at \$3.4 billion. The deal strengthens Transocean's position as a leader in harsh environment and ultra-deepwater drilling, and brings some needed consolidation to a sector that is suffering from overcapacity.

In midstream, Andeavor Logistics (formerly Tesoro Logistics) agreed to acquire Western Refining Logistics, an affiliated company, and to restructure its incentive distribution rights or IDRs. Andeavor Logistics cancelled its IDRs in exchange for 78.0 million units, representing the largest transaction last week with a value of \$3.8 billion. Post transaction, Andeavor estimates at least \$1 billion annual growth investments supporting distribution growth of 6% or greater.

In the only midstream capital markets deal last week, Energy Transfer Partners raised \$1 billion. For the past year, ETP relied on its ATM program and joint ventures to solve equity needs for its many projects, including: Dakota Access, Rover, Revolution and Mariner East II. Using a different tactic, the large offering last week removes the equity overhang on the stock and immediately strengthens the balance sheet.

We attended a large MLP conference last week. Key topics were (1) alternatives to traditional follow-on equity offerings like ATMs, PIPEs and sponsor support are key to financing growth projects (2) companies are also willing to look to joint ventures to aid financing, especially where a strategic partner can bring incremental volume to a project (3) Plains All American received feedback that a reduction in its distribution to \$1.80 per unit may not be enough to support its capex program and maintain investment grade ratings and (4) management teams were frustrated by the solid fundamentals of their companies not being appreciated in the stock price.

We think the midstream sector's actions last week are consistent with our belief that companies need to lower costs of capital and improve balance sheets for those yet to do so. At the conference, we were also pleased to hear that companies are open to partnering on pipelines. This not only helps with financing, but reduces the risk of pipeline overcapacity or overbuilding, in our view.

This week capital issuance should be quiet given many are out enjoying the last few weeks of summer. In expected news, we'll see if crude oil draws continue the way the eclipse has drawn many to Kansas City and other areas in the path of totality. While the eclipse may leave you in the dark, we'll continue to aim to enlighten you week to week with our thoughts on energy. See 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@tortoiseinvest.com.

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