Tortoise

# Tortoise QuickTake Podcast

May 15, 2017

**Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise will 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 highlighting the top energy events of last week.

The broad energy sector represented by the S&P Energy Select Sector® Index posted a small gain of 66 basis points last week while MLPs rose by almost 1%.

The rebound in the energy sector was sparked by higher crude oil prices that increased by over 3.5% last week. Two data points had the oil bears running back into their dens. First, it is being reported that Saudi Arabia and Russia are in favor of extending the OPEC production agreement into the first quarter of 2018. Yes, you heard me right, the production cut agreement could not only be extended through the end of 2017 but into 2018. On May 25th, all speculation will come to an end as OPEC is scheduled to meet in Vienna. At Tortoise, we believe the OPEC production cuts will be extended. Clearly, a sustained period of lower OPEC and Russia production would likely mean that oil prices move higher. The second data point that pushed oil prices higher last week was a larger than expected decline in weekly U.S. crude oil inventories. Last week's inventory decline was the largest decline for the respective week over the last five years. This is an important point so let me give you an example to illustrate this point. Last week U.S. crude oil inventories as reported by the Energy Information Administration, or EIA, declined by 5.2 million barrels for the one week reporting period ending May 5th. This decline set a record for the specific week as over the past five years the largest decline in inventories for the period was 3.8 million barrels. Last week's record setting decline extends a developing trend of record weekly declines reported by the EIA over the last five weeks. This trend is something to keep your eye on. If this trend continues, things should get interesting. We are entering a seasonal period when oil inventories typically fall. If the record setting inventory decline trend extends through the summer then the oil bears will likely end up hibernating until the fall. This would be good for oil prices.

The earnings season is wrapping up with not a lot of major surprises. In the upstream sector, Permian production growth grabbed the headlines while anticipated oil field services cost inflation was held at bay for at least for another quarter or two. In the midstream space, management teams spent a significant amount of time discussing expanding project backlogs. Specifically adding infrastructure to support growing Permian natural gas and natural gas liquids production growth as well as introducing the possibility of a new wave of demand for ethane by the petrochemical sector if another wave of petrochemical plants are built. Lastly, from a downstream perspective the refiners were the top performers during the first quarter earnings season assisted by increased exports of refined products such as gasoline and jet fuel to countries around the world. However, in my opinion the most significant statement made during this earnings season was by the Schlumberger CEO Paal Kibsgaard when discussing the future of global oil supply he said, and I quote, "North America, the Middle East and Russia are expected to remain resilient this year. However, for the rest of the world, which still make up more than 50 million barrels per day of oil production, we are headed toward a third year of significant underinvestment, which increases the likelihood of a medium-term supply deficit as produced reserves are not replaced in sufficient volume." That's the end of the quote. This statement supports our thesis at Tortoise where we believe that both the U.S. and OPEC will have to produce more oil in the near future to fill the supply gap tied to higher demand and underinvestment in almost one-half of the world's oil supply.

In company specific news across the value chain, the largest oil and gas producer to report last week was EOG Resources. Once again, EOG did not disappoint. EOG released some record setting Delaware Basin results and increased its drilling inventory. What was most impressive in my opinion was a reduction in the oil price necessary to achieve its growth target. Specifically, EOG now believes it can deliver 18% oil growth spending within cash flow at $47 per barrel for oil, down from $50 per barrel that is a record for the company. Once again, EOG and U.S. producers in general have continued to become more competitive moving down the global oil cost curve. In the midstream space, the largest Permian energy infrastructure company Plains All American reported results last week. While Permian volumes were strong, its segment that buys and sells natural gas liquids posted a disappointing quarter causing the Plains stock price to fall by 3.5% last week.

On the regulatory front, President Trump nominated two new commissioners for the Federal Energy Regulatory Commission last week. This is newsworthy as FERC currently does not have a sufficient number of commissioners which is causing delays in some critical natural gas pipelines. Additionally on the regulatory front, we continue to analyze the potential implications of the Trump tax plan. Although more details are likely to emerge over the summer, lower tax rates mean energy infrastructure corporations can retain cash to build new infrastructure or possibly boost dividends. MLPs continue to have no entity level tax under the plan; thus, should be able to maintain their competitive cost of capital advantage relative to energy infrastructure corporations.

Lastly, notable capital markets news includes Kinder Morgan's announced IPO of its Canadian assets. Kinder Morgan Canada is expected to generate proceeds of approximately $1.7 billion in Canadian dollars. This IPO would be one of the largest IPOs in Canadian history. Kinder Morgan expects to use the proceeds to reduce its debt.

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@tortoiseinvest.com.**

**The S&P Energy Select Sector® Index** The S&P Energy Select Sector® Index is a capitalization-weighted index of S&P® 500 Index companies in the energy sector involved in the development or production of energy products.