

Tortoise QuickTake Podcast with James Mick

November 23, 2015

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.

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Portfolio Manager with Tortoise Capital.

With the tipoff of college basketball in the last week and a half, we have started the journey towards March Madness and the NCAA tournament for this season. With that in mind, it was almost one year ago that OPEC met and decided to hold production quotas flat, kicking off what has been a season of energy market madness. Like upsets in the NCAA tournament, volatility has reigned supreme.

From a commodity perspective, crude oil traded off about 1% for the week ending November 20th. Another week of inventory builds led to the decline. Natural gas had a rough week as well, as warm weather led to a storage build as opposed to the typical seasonal draw, resulting in a declining price. Record inventory levels heading into heating season, combined with the potential for a warm winter continue to pressure the price of natural gas, which ended last week at just over \$2.00.

Further declines in the rig count also took place as U.S. onshore shed another 10 rigs, moving down to 757 total, a full 1,172 below last year. The entire decline occurred in crude oil as natural gas rigs held flat.

Energy markets were mixed last week:

- The broader S&P Energy index was up 1.5%;
- Exploration and production companies were down 60 bps;
- and, MLPs were down about 1.2%.

Some of the noteworthy items included a prominent midstream family analyst day, a continuation of capital market activity and a MLP industry conference.

The Energy Transfer family of partnerships hosted investors and analysts in Dallas on Monday and Tuesday for a glimpse at their outlook for 2016 and beyond. Companies covered included Sunoco Logistics Partners, Sunoco LP, Energy Transfer Partners and the general partner of all three, Energy Transfer Equity. Additionally, the proposed acquisition of Williams Companies was discussed, including the synergies expected and the strategic value of the combined company's asset footprint.

The key takeaways were centered on the value of diversification and the extensive backlog of growth projects at the family of partnerships. For example, Sunoco Logistics highlighted the entity's combined \$7.5 billion dollar capex spend for the 2014-2016 time period, which is almost as much as the company's current equity market cap of just under \$12 billion. Not to be outdone, Energy Transfer Partners highlighted their \$5 billion dollar capex program for 2016, focused on natural gas projects.

Of course bulls pointed towards the continued need for new infrastructure and the resultant distribution growth. And bears pointed to the need to raise capital in a challenging market to fund the large capex programs.

As a nice lead-in, capital markets generally continued to thaw, specifically for MLPs.

- Sunoco LP executed a large PIPE transaction, a private investment in public equity, to support a drop down of retail fuel assets from Energy Transfer Partners.
- Valero Energy Partners completed an overnight equity offering, raising approximately \$200M to fund drop-downs from parent Valero Energy Corp.
- On the negative front for capital markets, the proposed IPO of Noble Midstream Partners was postponed by management due to an unfavorable price.

Thawing yes, completely healed, definitely not.

We also spent a couple of days in Dallas at a timely MLP conference, given the end of 3Q earnings season. Overall the tone was generally neutral as some companies were bullish and others were bearish. Themes remained centered on uncertainty around E&P capex budgets, what was causing all the volatility in the market and why the entire space was being painted with the same broad brush, i.e following the plight of crude oil.

Our focus was on growth projects, capital market access and balance sheet strength. While certainly beneficial, we came away pleased there were no changes to our belief that long-haul pipelines remain strong investments.

Well that's all the time we have for you this week. Enjoy the holidays and we look forward to speaking with you again soon.

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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