Tortoise Capital Advisors

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.

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.

Last Friday while preparing this week's podcast, I kept hearing the 1984 hit, "Let's Go Crazy" booming from the speakers. At first, I thought it was a tribute to Prince but then I realized it was our portfolio team celebrating the fact that last week was the first week since June 2014 that MLPs stock prices rose every day of the week. A pretty remarkable week.

So here are the numbers from last week. Energy stocks as represented by the S&P Energy Select Sector® Index rose by 5.5%. MLP stock prices as represented by the Tortoise MLP Index® increased by 11% last week. Also, last week MLPs crossed over into positive territory for the year. Year to date, the MLP sector is up 6%. It appears the tide is turning in the energy sector as it is the best performing sector in the S&P 500® so far this year.

Energy stocks were boosted by a 6% increase in oil prices last week. This was a bit of a surprise after the Doha disaster. The oil market's reaction highlights how there is little margin for error in OPEC production. At the beginning of last week, futures prices were pointing to a sharp decline in oil prices. However, concerns of a strike by Kuwait oil workers that removed 1.6 million barrels per day from global supply reversed early oil price declines and they never looked back despite a mid-week resolution to the strike. We feel that the key fundamental factor needed to balance the global oil market is lower U.S. oil production. Last week, U.S. production fell for the 10th time in the last 11 weeks.

While natural gas prices followed crude oil prices higher rising 11% last week, I do know one thing, natural gas producers are not partying like its 1999. According to the EIA, natural gas prices averaged $1.79 for the month of March in 1999. In March of 2016, the average natural gas price was $1.73. In response to low natural gas prices, U.S. natural gas producers have been reducing drilling activity which should help improve prices in the future. Southwestern Energy, the second largest independent natural gas producer according to Bloomberg, reported last week that first quarter 2016 production volumes from the once prolific Fayetteville Shale were 8% lower than volumes reported in the fourth quarter of 2015. This illustrates the sharp decline in shale production when drilling ceases. Southwestern had previously announced that it has no drilling rigs in the Fayetteville Shale.

Moving on to more positive news, the MLP distribution season continues. So far, 46 distributions have been announced with 19 increases, 25 flat distributions, and 2 distribution cuts. Investors understand that not all MLPs are created equal. The distribution cuts by gathering and processing MLP Crestwood Equity Partners and NGL Energy Partners, didn't surprise the market as both of these MLPs had current yields well over 20% prior to the announced cut. Both stocks traded higher the day after announcing the distribution cut.

For the quarter, the mean distribution increase, excluding distribution cuts, is 2.2%. So as we expected the pipeline names have continued to grow cash flows and pass along this growth to shareholders in the form of higher distributions. The current dividend yield on the Tortoise MLP Index is 8.2% which we think is compelling especially when interest rates are below 2%.

If you agree that oil prices have bottomed, here is another way to think about the case for MLPs and other dividend- paying energy infrastructure stocks. In our opinion, investors win in two of three oil price scenarios. If oil prices rise then the stock prices of all energy stocks, including MLPs, likely are lifted higher as well. If oil prices stagnate and stock prices follow suit, then MLP shareholders receive a solid return if they only receive the current yield offered by the MLP sector. In Kansas City, we like baseball players that can get a hit in 2 of every 3 at-bats.

Earnings season kicked off last week with three bellweather companies spread across the energy value chain reporting first quarter results. What I think is interesting to look at is the impact that lower oil prices had on the cash flow of the bellweathers. Recall, the average oil price for the first quarter of 2016 is approximately 31% lower than the average oil price in the first quarter of 2015. Schlumberger, the largest oil field service operator posted first quarter 2016 cash flow as measured by EBITDA, that was 31% lower this quarter than the first quarter of 2015. Kinder Morgan, a bellweather midstream energy infrastructure operator, reported first quarter EBITDA that was 1.7% higher than the same quarter last year. The first quarter once again demonstrates the resiliency of the cash flows of pipeline operators despite the significant decline in oil prices. Lastly, Lynodellbasell, one of the largest petrochemical producers, announced slightly lower EBITDA compared to the same quarter last year. However, Lyondell continued to generate significant free cash flow, part of which was used to buyback almost 3% of its common stock.

Before wrapping up, let's take a look at some read-throughs from other companies' first quarter earnings reports that support higher energy demand. First, Ford Motor said SUV sales were 16% higher than in the first quarter of 2016 compared to the first quarter of 2015. Second, General Motors announced that first quarter 2016 SUV sales in China were up 148% compared to the same quarter of last year. Lastly, Southwest Airlines highlighted in its first quarter 2016 earnings release that passenger traffic was over 9% higher in the quarter than the same quarter last year. Each of these announcements support our thesis that consumers in the U.S. and around the world are responding to low energy prices through increased demand for energy. Increased energy demand is just as important as declining energy supply in balancing global supply and demand.

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@tortoiseadvisors.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.

About Tortoise MLP Index®

The Tortoise MLP Index is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.