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.

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Last week started off rough as oil broke $40 Monday and continued to leak Tuesday. By Wednesday, things turned for the better with a huge 3.3 million bbl gasoline inventory draw reported by the DOE. This is one of the biggest summer draws over the last 5 years. This strength continued through the end of the week pushing crude just positive for the week, up 0.5%.

Meanwhile, MLPs as reflected by the Tortoise MLP Index® and the S&P Energy Select Sector® Index were flat, and E&Ps as reflected by the Tortoise North American Oil & Gas Producers Index℠ gained 1.3%.

Shifting to earnings, last week was like the summer Olympics of MLP reporting with some heavy hitters posting quarterly updates. Starting on Monday night, Williams put out what was arguably the most widely anticipated update of the reporting season. Analysts across the country were burning the midnight oil pouring through information to determine how to trade the names. Based off Tuesday's trading, the resounding answer was "buy them" as the markets liked the decision to hold the MLP distribution steady while cutting the GP and using the retained cash to buy $1.7 billion of WPZ equity by the end of 2017. This, combined with the expected sale of Canadian operations for over $1 billion and other equity issuances, should solve the funding gap for WPZ through the 2016/2017 investment period. Per management, both the LP and the GP expect to begin growing their payouts beginning in 2018. These actions allow the combined entity to reduce leverage over time and support their investment grade credit rating.

Next up, Magellan reported Tuesday with solid quarterly results putting up 1.2x coverage of its recently announced $.82 distribution level, which is up 11% over last year. The strong quarter was underpinned by great refined product volumes, up 4% from last year, combined with higher tariffs from last year's PPI escalator. Unfortunately the crude pipes didn't share this good fortune. As new assets have come into service and spreads have narrowed below transport cost, volumes have been moving toward minimum volume commitment levels, a trend the company thinks will hold for the near term. But bigger picture, reflecting the pluses and minuses, management reiterated their previous DCF guidance for 2016 and their 2016 and 2017 distribution growth targets of 10% and 8%, respectively.

Continuing with a Tulsa theme, ONEOK reported Tuesday night with an inline quarter which showed 1.1x coverage at the LP and 1.3x coverage at the GP. They've produced nice year-over-year growth in cash flow from increasing volumes and margins. Volume growth has come from investment, less ethane rejection and reduced flaring while margins have seen a significant bump following a number of contract conversions in the Bakken.

While Energy Transfer didn't actually release earnings until Wednesday night, Kelcy was apparently anxious and the news started flowing out of Dallas Tuesday night. First, Energy Transfer filed an 8K announcing additional IDR waivers averaging $103 million per quarter through 2017 to go along with the existing IDR waiver of $33M per quarter also ending at the end of 2017. Next, they announced the closing of $2.5 billion of project financing for the Dakota Access Pipeline with partners Sunoco Logistics and Phillips 66, which provides the remaining capital needed for this project. And last but not least ETP announced that it and Sunoco have reached an agreement to sell a 36.75% interest in the Bakken Pipeline Project for $2B to Enbridge Energy Partners and Marathon Petroleum. This project includes the previously mentioned Dakota Access Pipeline and Energy Transfer Crude Oil Pipeline.

By the time earnings came out Wednesday night the thunder was gone results came in as expected and their new build projects are on time and even ahead of schedule in some cases.

And rounding out the big caps for the week, Plains announced a relatively quiet quarter after the simplification news came a couple of weeks ago. Results beat expectations and guidance was reiterated for the year. The beat was driven by stronger transportation and storage margins on in line volumes.

We also had a very busy week of earnings for our E&P holdings. In the Permian we had another week of production beats with impressive prints from Concho, Diamondback, Cimarex, Laredo and Parsley. In most cases, these names are increasing full year production guidance, seeing success increasing EURs and lowering production costs.

In the Eagleford, Carrizo broke the trend of volume declines in the basin and beat production expectations, increasing year-over-year and raised full year guidance. EOG is operating with a different strategy and focused on capital efficiency and completion intensity over growth. As a result, they posted volume declines year-over-year but did come in towards the upper end of guidance for the quarter. The capital efficiency focus should pay off going forward as the company has guided that, at $50 WTI, it believes it can grow oil production at a 10% CAGR from 2017-2020 while living within cash flow.

Meanwhile in the Bakken, production volumes are a different story, where Continental followed Whiting's trend from last week and reported production volumes down 10% year-over-year. Offsetting this was a bullish SCOOP and STACK update where acreage was further delineated and their type curve increased.

Speaking of the SCOOP and STACK, news was generally positive with NFX beating on higher production and raising full year guidance while increasing their EUR and DVN posted positive results from a down spacing test in the field.

Finally on the gas side the week included reports from Antero, Rice and Gulfport in the Marcellus/Utica. The theme here continues to be year-over-year production growth albeit at a slower pace; however, both Rice and Gulfport beat expectations for the quarter.

Quickly finishing up with other news, Transocean announced an agreement to acquire Transocean Partners for 1.1427 RIG shares per RIGP unit in an all equity transaction anticipated to close in Q416. Newfield announced agreements to sell its Eagleford and conventional production assets in Texas for a total of $390 million. The assets currently produce 12,700 mbpd which is 35% oil. PAA and Phillips 66 formed a joint venture to owner & operate a crude pipeline bringing crude from various fields in the midcon to Cushing, OK. PAA will contribute a 55 mile pipeline and a 200,000 bbls terminal while PSX contributes $50 million in cash.

Well, that'll do it for this week, 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@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.

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The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

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