Tortoise

Tortoise QuickTake Podcast

September 18, 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, both Brent and WTI reached price levels not seen since spring, after several reports indicated improving fundamentals. First, the IEA revised global demand higher by 100 mbpd to 1.6 mmbpd for 2017 and noted OECD stockpiles are now 190 million barrels above the five-year average versus an amount near 300 million barrels to start the year. Further, OPEC discussed extending the current production agreement beyond three months when it expires in 1Q 2018. In the U.S., while crude oil inventories built by nearly six million barrels as the hurricanes continued to influence levels, gasoline had its largest draw ever at 8.4 million barrels. And the U.S. rig count declined by eight rigs, the largest weekly decline since April 2016.

Following these positive fundamentals, WTI improved 5% to nearly $50 per barrel, with Brent reaching $55.50. Natural gas also surged 5.7% to $3 per mmbtu after warmer weather forecasts. Stock prices followed, with producers up 6.2%, broad energy higher by 3.5%, and MLPs notching a 1.1% gain.

As noted, the IEA raised its crude oil demand expectation to year-over-year growth of 1.6 million barrels bpd. It is now clear the globe may reach 100 million bpd of demand sometime in 2018. Stepping back, in 2010, demand was near 85 million bpd. It's notable that despite significant investments in alternative forms of energy this decade, oil demand will increase by over well 15 million bpd, or near 20% by decade's end. Mindful of electric vehicles, there was a report this week noting that even if demand for electric vehicles are 64% of all car sales in 2040, only 10 million bpd of crude oil will be offset. Following, we believe crude oil demand will continue higher well into the next decade, requiring U.S. shale and OPEC production growth, and new supply from non-U.S., non-OPEC sources.

In the only upstream news of its kind last week, an investor in EQT outlined plans for the company to enhance value by separating the upstream and midstream businesses. EQT said it will establish a committee to evaluate a sum of the parts valuation. Simplification remains a key investor focus.

Saudi Aramco hinted that its much-anticipated IPO, which is expected to be the largest in IPO history, may be pushed into 2019, as the company continues to consider its listing location.

In midstream news, there were two project announcements. Gibson Energy announced plans to construct 1.1 million barrels of new tankage in Hardisty Alberta, increasing total capacity of the terminal to 10 million barrels. And Magellan Midstream and Valero Energy Partners announced a joint venture to develop a Pasadena Texas storage terminal to include five million barrels of refined product storage and two marine docks, partly to facilitate the export of refined products. Estimated cost is $820 million. Both projects add materially to the midstream capital expenditure backlog of $125 billion through 2019.

On the acquisition front, in the only deal of its kind last week, Enable Midstream announced the $300 million purchase of Align Midstream, a gathering and processing company targeting the Cotton Valley and Haynesville. Renewed Haynesville interest is reviving the natural gas basin and altering its production forecast from decline to one of growth.

In MLP equity capital markets, in the only direct deal announced, Shell Midstream Partners raised $275 million in a direct deal with us. Yes, that's right, Tortoise Capital Advisors. The capital goes toward strengthening the balance sheet to facilitate future growth through dropdowns. Oasis Midstream Partners also launched the latest MLP IPO, and two registration statements were filed for future MLP IPOs by BP and Howard Midstream. Enlink Midstream also announced the most recent preferred deal, raising $400 million with a coupon of 6%.

This week, summer will officially collapse into fall, marking the start of the shoulder season for energy demand. We'll look to see if crude oil fundamentals continue to improve with the release of the EIA's drilling productivity report and OPEC joint technical meetings. In capital markets, we expect the Oasis Midstream IPO to price midweek. And we acknowledge three additional Atlantic storms emerging, as our thoughts, prayers and direct efforts by some on our staff continue to be with those devastated by Hurricanes Harvey and Irma. 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@tortoiseinvest.com.

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