# Tortoise QuickTake Podcast

October 24, 2016

**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 delivered another hefty draw from crude oil, at 5.2 million barrels, and a draw that loomed even larger against an expectation of a 2 million barrel build. The function of the decline stemmed mostly from imports declining nearly 1 million bpd, due to a slowdown in US refinery activity and the wider WTI-Brent spread from several weeks ago. Notably, imports were below 7 million bpd for the first time since November 2015.

Staying with oil, the Saudi Arabian oil minister indicated at the Oil & Money conference in London last week a two-fold desire for higher oil prices: (1) the more obvious, to alleviate the financial pressure within the OPEC community and (2) to stimulate new investment to reduce the risk of future supply shortages and the consequent price spikes.

Now, let's do the performance numbers:

MLPs ended the week higher by 1.8%, slightly outperforming broader energy which inched ahead by 0.5%. Oil improved 1% and natural gas fell 9% due to the forecast of warmer weather.

On the news front, last week was busy as third quarter energy earnings began.

Leading off were the two largest oilfield services companies.

Halliburton believes significant producer activity increases will begin with prices above $50 per barrel and indicated North American unconventional production would lead the way due to shorter-cycle returns and the ability to act as the fastest marginal barrel to market. Internationally, Halliburton expects continued pricing headwinds and the downturn to continue.

Schlumberger reported in-line and in management commentary, indicated we're at the bottom of the cycle. The company sees a recovery being led by higher activity in North America, the Middle East, Russia and Australia. On the macro, Schlumberger believes supply and demand for crude oil are in balance, adding "the period of oversupply and inventory build is over."

The largest pipeline company reporting last week was Kinder Morgan, which reported earnings in-line with estimates. Key project update takeaway was TransMountain, where favorable regulatory decisions are expected by early 2017 and KMI would consider a joint venture for the $5+ billion project. Management also acknowledged increased regulatory scrutiny in the US, particularly in the Northeast. The company plans to assume longer lead times for new pipelines and higher return thresholds. Also notable, Kinder indicated a substantial dividend increase is in the cards after achieving a leverage target of 5.0x debt to EBITDA.

In the largest M&A deal last week, the Permian continued to be front and center. SM Energy announced a $1.6 billion acquisition in the Midland basin for nearly 36,000 net acres from QStar LLC.

Staying with the Permian, in capital markets, the largest high yield deal went to Permian producer Diamondback Energy (ticker FANG), raising $500 million with a coupon of 4.75%. Expected proceeds are not to increase drilling activity as you might have guessed, but rather to tender for existing debt.

There was one analyst day last week. Chesapeake Energy highlighted its stronger balance sheet and announced a production growth target of 5-15% annually from 2018. Chesapeake also made note of a new technique in the Haynesville coined "Prop-a-geddon", which used 50 million pounds of sand in one well, or more than 3,000 lbs/lateral foot. Remarkable.

Did I say frac sand? In equity capital markets, sand provider Fairmount Santrol (Ticker FMSA) reported a positive operations update and a $285 million equity offering with proceeds used to meaningfully reduce debt, the largest OFS deal of the week.

On the regulatory front, for oil pipeline index rates, the FERC issued an advance notice of proposed rulemaking looking to increase transparency and ensure rate increases are reflective of cost changes. The notice may result in slightly lower tariff increases in the future, yet the aim continues to allow for inflationary increases. We think the issue is likely to go well into next year as there is a comment period and it's unclear when the FERC will respond.

This week earnings continue in earnest, in particular we'll look for an update from the largest MLP, Enterprise Products. We may also see a Permian E&P IPO launched.

Earlier this year I mentioned in a podcast about how the world is upside down, noting negative interest rates, founding fathers singing hip-hop, an unlikely Republican presidential nominee, and Brexit. Now there is Saudi Arabia undergoing economic reform, FARC seeking peace in Colombia, and perhaps most incredibly, not only are the Cleveland Indians in the World Series with a chance to win their first title in 68 years, but they are joined by the Chicago Cubs, ending their 71 year drought since they last even appeared in the Fall Classic. We'll continue to double check our assumptions in this crazy year. No telling what surprise Halloween might bring.

Trick or treat.

**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**