

Tortoise QuickTake Special Year-End Podcast

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise provide 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.

Happy New Year! Last week investors returned from the holidays optimistic about the promise of energy in 2017, with MLPs up 2.5%, producers higher by 1.7% and broader energy to the upside half a percent.

Midstream strategic announcements topped the news for the week. In the three biggest announcements:

Marathon Petroleum Corp. announced plans to accelerate the pace of dropdowns to MPLX. Marathon intends to finance the dropdowns representing \$1.4 billion of EBITDA with debt and equity issued back to the sponsor. Further, Marathon intends to exchange its IDRs for common units at some point in the future.

Not to be outdone, DCP Midstream LLC agreed to combine with DCP Midstream Partners, ticker DPM, in a simplification transaction. The LLC is contributing all of its assets to DPM in exchange for common units; in total with debt, a \$3.85 billion transaction. Upon completion, the company will be the largest NGL producer and gas processor in the U.S.

Finally, Tallgrass Energy Partners acquired terminals from its sponsor for \$140 million, representing an 8.0x EBITDA acquisition multiple. The transaction, financed with debt, is expected to be immediately accretive.

In upstream news, in the largest divestiture, SM Energy announced the sale of a non-operated Eagle Ford asset to KKR for \$800 million. The proceeds allow for "aggressive growth" from the Midland basin and improving debt metrics at SM.

There was one production outlook last week. In the Northeast, Antero Resources initiated a long-term outlook, targeting a compound annual production growth rate of 20% to 22% from 2018 to 2020, after expected growth of 20% to 25% in 2017. This highlights, in our view, the economics of the Marcellus and Utica Shale plays that should only get better following improved capital efficiency, with even better well recoveries and improved price differentials as pipeline infrastructure comes on-line over the next two years.

For downstream, in the only transaction of the week, Delek US Holdings agreed to acquire the remaining shares it does not own in Alon USA in an all-stock transaction, valued at \$464 million. The company believes a larger, more diverse company benefits all shareholders, noting synergies of up to \$105 million to be achieved in 2018.

Capital markets activity was fairly muted, though Boardwalk Pipeline Partners did raise \$500 million of 10-year notes at 4.45% in the week's only energy debt offering.

For commodity inventories, crude oil stocks fell 7.1 million barrels as imports fell nearly 1 million bpd. This draw far exceeded expectations of a 1.7 million barrel decline. The reduced level of imports may be a result of OPEC's reduced production starting January 1. While there are doubts as to whether all members comply with the November 30th agreement to reduce production to 32.5 million bpd, top exporter Saudi Arabia cut output this month to just over 10 million bpd, fully implementing the agreement. Contrary to crude oil, gasoline inventories jumped 8.3 million barrels and distillate rose 10.1 million, partly due to higher refinery utilization and a drop in consumption during the holiday season. All in, the WTI price was mostly flat on the week, ending at \$53.65 per barrel.

Natural gas storage levels declined 49 Bcf from the previous week. Despite the much lower draw week over week, natural gas stocks are 21 Bcf below the five-year average and 364 Bcf below last year at this time. For the week, natural gas prices declined 12% to \$3.27 / mmbtu on the forecast for warmer weather. Note last year at this time the natural gas price was 25% lower at 2.47 / mmbtu.

This week, in the first full trading week of the year, expect capital markets activity to ramp up before companies enter a black-out period in front of fourth quarter and full year earnings announcements which start with Schlumberger on January 20th. Somebody else starts that day too.

We'll be back with you next 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.

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