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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So the second week of the year didn't disappoint in terms of news flow, ranging from direct deals to acquisitions to public offerings. We also had some supportive fundamental data for oil prices, starting with OPEC production cuts in Saudi Arabia and Kuwait who claim to now be producing below their output targets from November's deal, along with Iraq who has reportedly cut production by 170 mbpd. The news was followed by the EIA's short-term energy outlook, which reported 2016 global demand growth of 1.4 mbpd and forecasts further demand growth of 1.6 mbpd and 1.5 mbpd in 2017 and 2018, respectively. With these positive data points, one would think oil would be up for the week, but no such luck. Oil prices and E&Ps were down 3% and the S&P Energy Select Sector® Index and MLPs each lost 2%.

As I mentioned, the news pace was torrid last week for our investments. Starting with upstream: Parsley Energy announced that Midland and Delaware basin acquisitions totaled 23,000 net acres and 2,300 bpd of production for $650 million in cash funded by a $22 million share overnight offering. At the same time, the company released 2017 capital plans and operating guidance, including an increase in lateral lengths to 8,000 feet per well and a substantial increase in overall activity targeting 130 horizontal completions for the year, bringing annual production to a forecasted 60 mbpd, up 58% year over year. This activity will be funded by a $690 million capital budget, up 2/3 from 2016.

Also, SM Energy announced it has formally started the sale process for its Divide County assets in the Williston Basin. These assets included 10,700 bpd of production and, assuming an acceptable offer, SM expects to close the sale by mid year. The process has been widely expected and will allow the company to focus its efforts on the Midland and Eagleford, where it expects to earn better returns.

And the Permian train kept rolling, with WPX Energy announcing the $775 million acquisition of 18,000 acres in the Delaware basin with 6,500 bpd of production. With this deal, WPX is guiding to 30% oil and 25% overall production growth in 2017. Concurrent with the deal, WPX announced a 42 million share equity offering.

Next up was Anadarko, who agreed to sell its 155,000 net acres and associated production in the Eagleford to Sanchez and Blackstone for $2.3 billion. This sale allows the company to divert resources to their higher return developments in the Delaware and DJ basin. They also reiterated their targeted 12-14% five-year oil CAGR.

In midstream news, Energy Transfer Equity announced a private placement of 32.2 million ETE units priced at $18 with institutional investors, including Tortoise. The proceeds will be used by ETE to fund a large portion of ETP's capital budget for 2017 in exchange for ETP units.

You may want to get comfortable for this next one. After the close Monday, Williams Companies announced the exchange of WPZ's IDRs for 289 million WPZ units with a value of $11.4 billion or an 11.5x multiple. In addition, Williams stated it expects to raise over $2 billion through asset sales, including the Geismar ethylene plant resulting in a 97% pro forma fee based cash flow percentage. As if this wasn't enough to digest, WPZ also announced a 29% distribution cut while WMB will increase its dividend 50%, both starting in first quarter 2017. And last but not least, WMB priced $2 billion of equity, and the proceeds will be used to finance the purchase of WPZ units. This cash, along with asset sale proceeds, will keep WPZ out of equity markets for several years, according to the company. When you boil all this down, you are left with a high-quality, fee-based MLP with no IDRs, 1.25x coverage and mid-single digit distribution growth starting in 2018. WMB will remain a c-corporation that simply owns WPZ units and will have a mid-teens growth rate tied to WPZ growth plus significant excess coverage of its current dividend. Following the announcement, WMB traded very poorly and currently reflects a discount to the value of WPZ shares held. It's worth pointing out that we believe WMB should trade at a 5-10% premium to WPZ units, given the security has superior governance rights, liquidity and investor accessibility given that it is a c-corporation. As a result, while we like both entities going forward, we see WMB as offering a better value proposition versus WPZ at the current price level.

Moving north, Kinder Morgan's Trans Mountain pipeline project received British Columbia government approval of its environmental assessment certificate, one of the last major steps to moving forward. Following pending shipper review and final investment decision (FID), the project is expected in service in 2019. In the meantime, we believe Kinder Morgan will look to take on a JV partner for TMX.

And lastly in downstream, it was a relatively quiet week, but private frac sand company Keane Group did launch a $300 million IPO, which is scheduled to price January 19th after the close.

Well, I think that about covers it for week two of 2017. I can't wait to see what's around the corner. We'll 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.

S&P Energy Select Sector® Index
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