Tortoise QuickTake Podcast

March 20, 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 Rob Thummel with this week's Tortoise QuickTake podcast highlighting the top energy events of last week.

For sports enthusiasts, last week was the beginning one of our favorite times of the year - March Madness. For my fellow long-only energy investors, mad without the ness may be the best way to describe our feelings about oil prices lately. In March, oil prices have declined by 10% and are now below $50 per barrel. However, it is not all gloom and doom. Last week, a decline in U.S. oil inventories was reported for the first time in 2017 by the Energy Information Administration or EIA. The decline was unexpected and may represent a turning point that leads to higher oil prices. Traders bearish on oil were questioning whether the OPEC cuts were really happening as weekly U.S. oil inventories had increased for nine consecutive weeks, mainly due to higher U.S. oil imports. Last week's EIA report contained several data points that indicated OPEC production cuts are occurring. First, oil imports fell. Recall that oil transported from OPEC countries is generally imported via the U.S. Gulf Coast. Last week, crude oil imports along the Gulf Coast were over 400,000 barrels per day lower than the previous week. Second, crude oil imports from OPEC countries like Saudi Arabia and Kuwait declined as well, according to the EIA report. For example, oil imported from Saudi Arabia declined by approximately 400,000 barrels per day last week.

With oil imports declining and the refining maintenance season ending soon, we expect to see some significant declines in U.S. oil inventories as we move into the spring which should boost oil prices. Before leaving the weekly EIA report, a number that we are watching very closely is buried on the last page of the report. What is it? U.S. oil exports. We keep talking about exports and investors keep asking us, "is it happening?" Crude oil exports are increasing. In last week's report, crude oil exported out of the U.S. on average over the last four weeks is almost 500,000 barrels per day higher than a year ago. To say a little more succinctly, U.S. oil exports have almost doubled over from a year ago.

Just a little more about oil, further evidence that OPEC cuts are taking place was highlighted in the monthly Oil Market Report published by the International Energy Agency or IEA last week. The IEA believes that OPEC countries achieved 91% compliance with its stated production cut in February. However, the report highlighted that non-OPEC oil countries have cut production by 37% of their commitment in the first two months of the year. Global oil inventories continue to be above the five-year average, but help is on the way. The IEA report indicated that the global oil markets are expected to operate at a deficit for the first half of 2017. Global oil demand is expected to exceed supply by a half million barrels per day which will reduce global inventories. While the OPEC agreement to cut production is set to expire in June, the Saudi oil minister hinted last week that the agreement could be extended if global inventories have not returned to normal levels by June. We think an extension of the agreement is likely, especially if oil prices remain below $50 per barrel.

Heard enough about oil, let's move onto something else.

As is customary, the fourth quarter earnings season ended last week just about in time for the first quarter earnings season to begin. Oil field services operator The Keane Group, ticker symbol FRAC, was the last energy company to report earnings. Keane emphasized several trends that we expect to see in its 2017 outlook, including increased utilization of existing assets, higher revenue from price increases for services provided, and inflated costs of sand used in the hydraulic fracturing phase of the oil and gas drilling process.

It seems like an eternity ago since the fourth quarter earnings season began. During the earnings season that started on January 18th and ended on March 15th, the energy sector, as represented by the S&P Energy Select Sector® Index, declined by 6%. The energy sector has declined by 7% year to date through March 17th. Oil and gas producers, as represented by the Tortoise North American Oil and Gas Producers Index℠, have fared the worst declining by 9% during the earnings season and 10% year to date. MLPs, as represented by the Tortoise MLP Index®, have delivered positive returns rising by 1% during earnings season and 3% year to date.

Several trends emerged during the earnings season that we expect to carry forward as the year progresses. First, in the oil and gas sector, we expect increases in U.S. capital expenditures and lower international capital expenditures. Secondly, we expect U.S. production will rise in 2017 and higher production will be needed into the future to fill the gap as international oil and gas production declines outside of OPEC. We often get the question as to who will win the boxing match between U.S. shale and OPEC for market share in the global oil market. We believe the answer is both will win. It is not an either/or proposition as to who supplies global oil in the future to meet demand. It is both/and as U.S. shale and OPEC will be critical suppliers of oil to meet global demand. A second trend is higher oil field services costs that we discussed earlier. A third trend in the midstream area is the acceleration of pipeline projects to serve the Permian Basin. Almost all of the Permian Basin energy infrastructure providers announced an expansion of an existing project or acceleration of the timing of a new project during the fourth quarter conference call.

The most noteworthy event last week in the capital markets was a new IPO. ProPetro Holding Corporation ticker symbol PUMP priced its 25 million share offering at $14 per share. ProPetro provides oil field services to primarily Permian based oil producers. The stock traded higher by 3.6% last week closing at $14.50 per share.

Those are highlights from last week. Thanks for listening. We will 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.

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Tortoise North American Oil & Gas Producers Index℠

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.

The Tortoise MLP Index®

The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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