# Tortoise QuickTake Energy Podcast

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**Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.**

Thanks for joining us today on the Tortoise Quick Take Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

This week was all about the four letter word. No, no, not one of those four letter words. Rather, I was speaking of the acronym that periodically rules energy investors' worlds, OPEC. Well, on second thought, it could be synonymous with one of those other four letter words for some people at times. For energy investors, the OPEC meeting dominated the news cycle this past week. We'll touch on that as well as another acronym, COP 25 and an analyst day as well. Just for fun, a few other notable acronyms that you may recognize, NASA, SCUBA and Navy SEALs.

We'll start things off with market performance for the week that was:

- On the commodity front, crude oil was strong, increasing approximately 7.3%, while
- Natural gas was generally flat, up 44 bps,
- Shifting to equities, the broader S&P Energy Select Sector Index® rose 1.6%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ went with crude oil, higher by 4%
- And finally MLPs were just shy of positive as the Tortoise MLP Index® declined 47 bps

Oh the drama. OPEC had its semi-annual meeting on Thursday and interestingly didn't come away with anything. No press conference, nothing. Of course, the meeting was preceded by the Iraqi oil minister letting the proverbial cat out of the bag, alluding to a further production cut. After that, we had to wait until Friday to hear the final outcome. The big sticking point appeared to be compliance by other members, notably Iraq, Nigeria and the UAE.

Despite all the drama, the outcome was worth the wait. Many feared nothing would be accomplished, but Saudi's new oil minister delivered the goods.

In total, here is what comprises the deal:

- Members agreed to an incremental 500,000 bpd cut from the current agreement, taking the total cut to 1.7 million bpd
- Saudi agreed to continue over-complying, reducing production by 400,000 bpd
- This implies a new commitment level of 2.1 million bpd of cuts, if everyone were to comply
- Which also brings us to the next point, better compliance by the cheaters to date
- The deal was not extended, it is still set to end in March of 2020
- But OPEC+ did set a date for an extraordinary meeting to be held in early March to determine if the cuts will require extension beyond 1st quarter and to assess compliance by all countries
- Additionally, non-OPEC countries, notably Russia, have been granted exemptions for gas condensate production. While some view this as Russia getting something extra, no OPEC countries subject condensate to the supply cut agreements, only crude oil, so this seems fair

Based on various research we receive, it was noted a major Saudi goal was to establish a floor for crude oil prices through the seasonally weaker 1st quarter. Additionally, Saudi wants to enforce compliance. The lack of an extension should do that. In all, a pretty good outcome for crude markets to help with the potential for an oversupply and, as noted, the price responded accordingly.

Utilizing another acronym, the United Nations began its climate summit in Madrid, Spain, called COP 25, which stands for Conference of the Parties. It will last through next week as it's a two-week event. Recall, this is where the original Paris Climate Agreement was outlined.

In company specific news, natural gas pipeline operator Williams Companies hosted its analyst day in New York. Interestingly, the company's presentation included a host of slides that were right in line with our Teal Energy Deal strategy, i.e. the significant role that natural gas has to play in 1) delivering energy to developing economies across the world and 2) helping to reduce CO2 emissions by replacing dirtier coal fired generation.  In essence, the global natural gas demand story.

Williams also reaffirmed financial guidance for 2019 while establishing solid guidance for 2020 in line with our estimates. Importantly the company guided to lower capex spend, albeit mostly due to a delay in a major project.  Finally, they highlighted the goal of 5-7% long-term adjusted EBITDA and cash flow growth.

Kinder Morgan also released financial guidance for 2020, actually right in front of Williams. No real surprises. Kinder noted EBITDA growth of approximately 5% year over year, after adjusting for the sale of assets in 2019. Management also highlighted dry powder left over for debt reduction and potentially share buybacks.

Producer Chesapeake announced a series of balance sheet enhancing moves to help leverage. We had noted this might be the case as the company had several levers to pull and it appears they haveexecuted some of these. While not a panacea, it likely leads to a removal of the going concern language when the 10-K is released in early 2020.

To wrap, I would note our final communication of 2019 will be next week as we end with our year-end podcast roundtable.

That will do it for today. Have a great week and we look forward to speaking with you again soon

**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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