Tortoise QuickTake Energy Podcast

Tortoise

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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.

Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast.

Energy stocks and commodities ended last week slightly lower. Broad market weakness and a bearish crude oil inventory report due to higher week on week imports (after the previous week's bullish report) weighed on all asset prices. Yet there were several positive developments across the energy sector last week.

First, it was a fairly busy week for LNG. The WSJ reported that China's Sinopec may buy $18 billion of LNG from Cheniere with deliveries starting in 2023. This is apparently part of the U.S. – China trade negotiations. This contract would likely help Cheniere's Corpus Christi train 3 reach FID. Staying with Cheniere, the FERC cleared Corpus Christi train 1 for service, the first train to become operational in Texas. LNG exports will continue to be a big driver of natural gas demand in the U.S.

The two largest energy companies, Exxon and Chevron held analyst days, both noting significant growth ahead in the Permian. Exxon, noted a 2019 capital budget of $30 billion, or $2 billion more than indicated last year. In the Permian, Exxon raised production guidance of 600 mboe/d up to 1,000 mboe/d in 2024. The firm also indicated a slight change in emphasis from debt reduction to buybacks. They think their stock is cheap.

Chevron suggested the Permian's Delaware Basin is the most attractive investment opportunity in its portfolio and it has established an efficient "factory model" to exploit this resource efficiently. I was in Midland Texas late last year and can verify Chevron's built a large, fortress-like compound to house their Permian operations. They're there for the long-term. Specifically, they plan to take Permian production from 650 mboe/d to 900 mboe/d by 2023.

The sum of both days? Activity is going to pick up in the basin, not necessarily slow down due to reduced capex from the independent producers.

Next, we attended an energy conference last week in New York. Key takeaways were:

Producers are staying disciplined with their capital, aiming to improve corporate returns by returning capital to shareholders. New technologies, such as machine learning and AI, likely drive maintenance and development costs lower over time.

Despite the E&P discipline, midstream continues to find compelling organic growth opportunities. And with lower leverage and improved distribution coverage, the equity portion of these projects can confidently be funded with discretionary cash flow. Additionally, private equity interest in midstream is healthy.

For downstream, refiners believe IMO 2020 will be a tailwind next year with higher expected distillate margins. Utilities are focused on growth in renewables. Wind, particularly offshore, solar and storage are increasingly more meaningful toward rate base growth. For storage specifically, it is increasingly being included as a component in RFPs, yet it isn't that storage so much is the opportunity, rather storage being more viable increases the opportunity set for more solar and wind.

Finally on last week, and sticking with renewables, NextEra Energy Partners or NEP announced the acquisition of 600 MW of contracted renewable projects from its parent, NextEra Energy. The acquired cash flow more than offsets any cash flow risk resulting from the PCG exposed projects where there is uncertainty due to the utility's bankruptcy declaration. The $1 billion transaction is being financed with $900 mm in proceeds from KKR. KKR is taking an equity interest with NEP having the option to buyback back the equity interest over the next six years. NEP continues to target 15% distribution growth in

2019, and 12-15% through 2023. Two takeaways here: (1) NEP is a first class YieldCo with a very supportive parent, offering compelling distribution growth and (2) private equity continues to offer creative financing to the energy infrastructure sector.

This week, there is a large global energy conference in Houston, CERAWeek. We expect the discussion to focus on the influence of OPEC and national oil companies on oil supply and demand, capital discipline, how to use technology to lower costs and improve returns, the growth and competitiveness of cleaner energy, and the trajectory of energy exports from the U.S.

We appreciate your ear every 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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