

Tortoise QuickTake Energy Podcast



June 3, 2019

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.

It was a rough week for energy investors last week. Oil fell 9% on stubborn inventory levels in the US and escalating trade tensions. The concern is that higher barriers to trade will slow economic growth, impacting oil demand negatively. So far, that has yet to be the case. With Brent now below \$70 per barrel, (at \$64), we think OPEC and Russia will have less desire to alter the existing production curtailment agreement, and expect more willingness to extend it during the OPEC meeting at month's end.

With oil lower, energy stock sentiment also softened, broad energy dropping 4.5% and MLPs falling 2.5%.

Last week's performance just piled on top of what was a poor month for crude oil prices, down 16.5% in May. Yet despite the steep fall in oil, MLPs hung in relatively well, down less than 1% during the month, and also besting the S&P 500's 6% decline. Maybe a sign of lower MLP and oil price correlation, and a fuller realization that some investors, notably private equity, are coveting midstream cash flows more than public investors.

Indeed, last week private equity continued to be active in midstream. First, Alberta Investment Management or AIMCo agreed to acquire an 85% interest in the Northern Courier pipeline for \$1.15 billion from TC Energy (formerly TransCanada). The 56 mile pipeline transports bitumen and diluent between the Fort Hills mine site and Suncor Energy's terminal located north of Fort McMurray, Alberta. Consistent with precedent multiples, we estimate AIMCo paid 13x EBITDA for the asset, well north of public trading comparables. For TC Energy, the sale helps fund the company's robust \$30 billion capital program.

Next, Stonepeak Infrastructure Partners agreed to invest \$1.3 billion in equity toward Venture Global's Calcasieu Pass, Louisiana LNG export facility. Venture Global believes it will have a cost advantage in LNG through module manufacturing. With this additional financing and a host of gold-plated global customers, including Shell, BP, and Repsol, we believe Venture Global is well positioned to make a positive final investment decision on its Calcasieu project.

Staying with LNG, last week the Energy Information Agency reported the US exported 4.2 Bcf/d of LNG to 20 countries in March. That level represents about 5% of overall US production, is 42% higher than the amount exported one year ago, and we expect that number to double from here over the next 18 months. LNG exports are becoming real in the US. And in a fun turn of phrase, referring to the Freeport LNG project in Texas, the undersecretary of energy stated, "increasing export capacity from the Freeport LNG project is critical to spreading freedom gas throughout the world by giving America's allies a diverse and affordable source of clean energy." Something tells me this won't be the last time you hear about 'freedom gas'.

In other transactions last week, Devon Energy announced the sale of its Canadian business to Canadian Natural Resources for \$2.8 billion. Devon is now nearly transformed to exclusively a US oil growth business, and with the proceeds going toward debt paydown, pro forma leverage is approximately 1x, a considerable improvement. Devon is a good example of the current producer playbook: sell non-core assets, reduce debt, and demonstrate free cash flow with an ability to return cash to shareholders via dividend and / or share purchases.

This week Cheniere Energy is holding an analyst day. Look for a possible FID of another LNG facility and commentary about capital allocation. What is the company going to do with all the forthcoming cash flow? There are also a couple of sell-side energy conferences. We expect to hear a continued commitment to capital discipline and potential M&A among small cap producers.

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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The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

Broad Energy = The S&P Energy Select Sector[®] Index is a capitalization-weighted index of S&P 500[®] Index companies in the energy sector involved in the development or production of energy products.

Producers = Tortoise North American Oil & Gas Producers IndexSM

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MLPs = 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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