Tortoise QuickTake Energy Podcast

June 10, 2019

Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise provide a timely update on trending topics in the market.

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise.

In an otherwise quiet week for energy, there was plenty of macro news for the market to digest. First let me start with a "Trumpdate." The President was in Europe last week to commemorate the 75th anniversary of D-Day. During the visit he managed to generate plenty of buzz first calling the mayor of London a "stone cold loser", I mean, I've never even heard that one before. Next, in what had to be one of the most awkward meetings of all time, President Trump and Queen Elizabeth met Monday. I found myself keeping an eye on the news coverage waiting uncomfortably for something hilarious to happen. Well for better or worse, I guess better, the worst thing that happened was a slight breach of etiquette when he touched the Queen which apparently you're not allowed to do. Who knew! This was followed by thousands of protestors who took to the streets with the 20' tall Trump baby blimp to demonstrate their disapproval for the President. On a more serious note Wednesday's and Thursday's activities were headlined by D-Day commemoration ceremonies that, as a distant observer, looked to be incredibly powerful and I'd like to recognize all those who served, and currently serve, to keep the world safe and free.

Moving on, the big market news last week was Fed President Jerome Powell signaling openness to a rate cut if needed. This action would be taken in response to the economy softening from uncertainty due the ongoing trade disputes with China, Mexico and others. I found this fairly surprising given prior comments from the Fed and the fact that rates are already ridiculously low. Apparently the market was surprised too and the Dow jumped over 500 points following the comments.

The possibility of a cut gained momentum Friday after a soft jobs number leading the market to rally further on increasing potential for a cut. I'm not buying it.

We were on the road last week at the investor day for one of the world's largest LNG exporters, Cheniere (LNG), and came away with several meaningful takeaways.

- As expected, Sabine Pass Train 6 received final investment decision. Also, with some debottlenecking and efficiencies, they increased capacity guidance per train by a little over 4%. This led the company to increase total run-rate EBITDA guidance to a $5.4 billion midpoint translating to $9.00 per share of distributable cash flow. Not bad for a $65 stock. The cash flow per share guidance is up 12.5% thanks to Train 6 and the debottlenecking.
- They also provide much anticipated capital allocation detail. The plan calls for improving the balance sheet through reducing $3-4 billion of debt through the early 2020s targeting mid to high 4x leverage metrics. Also they plan to repurchase $1 billion of stock over the next three years and while they didn't initiate a dividend they will revisit annually and implement as capital needs decline.
- And finally they announced a new capacity agreement with Apache. This is their first producer customer and an evolution of the structure where the contract effectively represents a fixed tolling fee to Cheniere who will market the gas for Apache and give them the spread between Permian and international gas prices. I'm guessing other producers would be very interested in this contract type.

Speaking of LNG, America is exporting more "Freedom Gas" than ever, in fact Bloomberg recently ran a story that because of the emergence of cheap U.S. gas globally, Japan is going to idle some coal capacity for the near term and increase imports of LNG to fuel power generation. This is a big deal because they don't have the grid flexibility that exists in the U.S. to make a short term switch. They have to make the commitment to shift generation for several months which they feel comfortable doing thanks to the U.S. supply in the market. And, two days later their Ministry of Finance published a report indicating the shift to LNG may be a longer-term move and their increased the long term LNG demand forecast 5% which, combined with renewable power, will replace coal and nuclear to achieve economic and environmental benefits. This reminds me, a recent study by the Paris-based International Energy Agency calculated that if all coal-fired generation was replaced with natural gas it would eliminate enough C02 to achieve nearly half of the UN's Climate Change Panel 2050 emission goal. This is not only realistic but it could be accomplished long before 2050.

I'll finish with a comment on performance. Midstream continued its trend of recent resilience adding nearly 3% in the past week despite huge swings in oil prices and a double digit loss in NGL prices. It's nice to see the correlation breaking down recently. It's about time.

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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