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 Rob Thummel with this week's Tortoise QuickTake podcast.
Happy Father's Day to the dads. How great was it to see native Kansan Gary Woodland win the U.S. Open golf tournament on Father's Day. The card I received from my teenagers said, "When I grow up, I want to be as funny as you think you are!" So I will stick to reporting the news. Let's get going.

Looking at performance for last week, energy infrastructure stocks as represented by the Tortoise MLP Index® ended the week posting a small positive return of a quarter of a percent. The broader energy sector as represented by the S&P Energy Select Sector® Index declined by a half of a percent. Oil prices continue to be a tug of war between fundamental concerns and elevated geopolitical risk. Last week, fundamental concerns tied to rising U.S. crude oil inventories and downward revisions to 2019 global oil demand won out over rising geopolitical risk as two oil tankers were attacked near the Strait of Hormuz where approximately 20% of the global oil supply travels through. The result: WTI oil prices fell by almost 3%. The global oil market is entering the seasonal period when global oil demand exceeds supply so we expect oil inventories to begin declining soon. While 2019 global oil demand expectations have been reduced to between 1.1 and 1.2 million barrels per day, the primary reason for the reductions has been the U.S. and China trade war. Just last week the IEA introduced 2020 global oil demand growth forecasting a rebound in demand to 1.4 million barrels per day in 2020. The duration of the trade war with China is really creating issues for the U.S. energy sector. Since U.S. and China trade talks ended without a deal on May 10, the energy sector has been the worst performing sector in the S&P 500. However, this can change and change quickly. Remember the St. Louis Blues were in last place to start 2019 and we all saw the Blues celebrate a worst to first finish this week. A U.S./China trade deal is likely a catalyst for a Blues-like comeback for the U.S. energy sector so we are in the process of selecting our rallying cry. Retro songs seem to bring good luck. The Red Sox have Sweet Caroline, the Blues chose Gloria. For Tortoise, how about Roxanne or Billie Jean. Let us know if you have a preference.

Moving to the next piece of news. BP released its 2019 Statistical Review of World Energy last week. This report has been produced for the past 68 years. The report highlights several global energy trends. Global energy demand continues to increase growing at a rate of 2.9% in 2018. This rate is almost double the 10-year average growth rate of 1.5% per year and it's the fastest growth rate since 2010. Global energy demand has now increased 35 out of the last 36 years highlighting how essential the energy sector has become. However, global energy supply sources are changing as natural gas and renewables took market share from coal and oil. In 2018, world natural gas demand growth was 5%, one of the

fastest rates of growth since 1984. Renewables growth was 14.5%. From a U.S. energy perspective, BP highlighted that 2018 was a unique double first in that the U.S recorded the single largest-ever annual increases by any country in both oil and natural gas production. You can thank U.S. shale for that accomplishment. Lastly, there was one disappointing data point. It had to do with global carbon dioxide emissions which grew by 2%. Let's put this in perspective. Over the last 10 years, BP estimated that global carbon dioxide emissions have grown by 11% while global energy demand has increased by 18%. It gets even more interesting when analyzing individual country emissions. Since 2008, India's carbon dioxide emissions have increased by 69% while China's increased by 28%. Conversely, U.S. emissions have declined by 11%. The best explanation for the drastic differences between the countries is that the U.S. has reduced coal to represent below 30% of the total energy supply used to generate electricity while coal represents 67% and 75% of energy supply to generate electricity in China and India, respectively. So, how can emissions be reduced now? BP shares some thoughts that are aligned with we what have been talking about at Tortoise for a while. First, BP estimates that carbon dioxide emissions could be reduced to 2015 levels or 3% lower than the current levels by simply replacing 10% of coal burned by the power sector with natural gas. Of course, more renewable energy always helps reduce emissions. To reduce emissions to 2015 levels with renewables alone would require an additional 1000 terrawatt hours of renewable generation annually. For perspective, 1000 terrawatt hours of renewable generation is roughly equivalent to the entire amount of renewable generation of China and the U.S. combined in 2018. So a combination of more natural gas and renewables is absolutely critical in the short-term to stop the rise in carbon dioxide emissions.

In company specific news from last week, Plains All American held is annual analyst day. Plains is one of the quintessential energy infrastructure stocks in the U.S., owning a diversified suite of energy infrastructure assets including: 18,000 miles of pipeline, over 100 million barrels of storage, eight fractionation plants along with trucks, barges and rail facilities. Plains crown jewel is its Permian system and they announced plans to increase this system by moving forward with the Red Oak Pipeline which is a 50/50 joint venture with Philips 66 that will cost $2.5 billion to build. Red Oak provides flexibility to transport oil to gulf coast refineries and/or increase U.S. crude oil exports in which Plains forecast could grow from an average of 2.5 million barrels per day today to between 5.5 – 7 million barrels in the next five years. In our opinion, Plains is a compelling investment given its 6% current yield, 10% distributable cash flow per unit growth forecasted for 2019, and a company with $2.9 billion of annual EBITDA of which 84% is fee-based.

Lastly, in the category of obscure but interesting transactions last week. Dallas Cowboys owner Jerry Jones announced plans to invest an additional $475 million to assist in Comstock Resources to purchase of Covey Park Energy for $1.6 billion. Comstock's focus is Haynesville shale natural gas production. Jones highlighted how he likes to buy businesses out of favor inferring that natural gas is out of favor, like the Cowboys were 30 years ago. So now the owner of America's team is expanding his patriotism to molecules of America's freedom aka natural gas. Hopefully China, India, and Japan can be the players that help deliver the same success that Aikman, Irvin and Emmitt Smith delivered for the Cowboys.

Those are the 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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