Tortoise QuickTake Energy Podcast

Tortoise

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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. Energy was the long-awaited hot place to be last week with oil prices up 5%, the S&P energy sector up 4% and midstream up 1%. Oil was supported by a strong inventory report from the Department of Energy including a draw in crude, gasoline and distillate with a total eight million barrel decline despite a seven million barrel release from the Strategic Petroleum Reserve. In other words, commercial inventories were down a whopping 15 million barrels. The strong week closed out with the Baker Hughes rig count dropping 21 rigs; one of the largest drops since 2016. Maybe producers are starting to wake up and truly show some discipline.

In natural gas news, a couple of tidbits caught my attention. First the EIA's Power Generation Monthly reported year-to-date power generation from natural gas was up 7% year-over-year which, along with a big solar increase, pushed down power generation from coal 14%. Also interesting was LNG export terminal developer, Next Decade, announcing a $50 million investment from the Abu Dhabi backed investment fund Mubadala. While fairly dilutive, the investment provides critical funding for the development of the Rio Grande export terminal. I don't know about you but I find it fascinating to see a fund based in the oil rich capital of the United Arab Emirates making an investment in U.S. energy. Interestingly, while the UAE does have large gas reserves, they are high in sulfur making it expensive to develop, leading to speculation that this investment may be a precursor to a commercial relationship. That said, I guess somebody should warn them that some of the leading democratic nominees for President are planning to air-quotes "ban fracking."

Speaking on banning fracking, there's a recipe for success. Let's pump up coal-based power generation and add back the 700 million tons per year of C02 emission reductions we've accomplished, eliminate our hard-earned energy security, blow the trade deficit, kill American jobs and wreck the state budgets of Colorado, Louisiana, New Mexico, North Dakota, Oklahoma, Ohio, Pennsylvania, Texas and West Virginia and possibly the entire U.S. economy. If you want to save the world, why don't we start with the one billion people across the globe who don't have access to electricity and are dying right now because they are forced to cook with coal and wood in their homes because they don't have an alternative. In India, an estimated 700 million people cook using this method while they wait for the build-out of infrastructure to provide access to U.S.-sourced gas and LPG. Globally, the World Health Organization estimates that open fire cooking in rural poverty stricken areas kills almost two million people a year. That's because it's the respiratory equivalent of smoking 400 cigarettes an hour according to the Environmental Health Department of the University of California, Berkeley.

But let's shut down U.S. oil and gas drilling and make our LNG exports completely uneconomic. That will slow down China's coal consumption. For a more in-depth and much less sarcastic view of democratic energy policies refer to our special podcast from last Thursday available here.

The punchline is we believe whoever wins the democratic nomination will pivot back to the middle because they want to actually have a chance of winning including key battleground and big energy producing states like Pennsylvania and Ohio, not to mention banning fracking requires the legislative branch to agree. So what we think will really happen in a negative scenario, permitting on federal lands could get a lot more challenging which puts at risk up to a weighted average 3% of the cash flows of our midstream and energy value chain portfolios

Last week held a lot of information on the earnings front. First, as Tortoise's very own Braden Cielocha predicted, gulf coast refiner Valero Energy crushed it with a nice quarter and even better Q4 outlook as a few different esoteric market dynamics combined to create wide margins or "crack spreads" which look to possibly widen even more as we move in 2020 and tighter sulfur regulations for marine fuel take hold.

Similarly, Phillips 66 delivered a beat on midstream and marketing and authorized an additional $3 billion share repurchase. They returned capital at an annualized 7% rate during the quarter and we expect that to continue. Long term they are

focused on optimizing refining results and investing to grow their midstream and chemicals business. It's worth noting they took an $850 million write-down of their 50% ownership of DCP Midstream due to the underlying's price decline and recognition that DCP's general partner isn't worth that much these days. The market yawned at the write-down and focused on strength in PSX's core business pushing shares up 3.5% on the day.

So I mentioned Phillips 66 beat on midstream, it was evident in PSXP's results who put up a great quarter and is executing well as the Gray Oak pipeline enters service and will connect to the South Texas Gateway export facility in Corpus Christi. The project will add to cash flow and distribution coverage as it ramps up over the next two quarters.

In the Northeast, Range Resources actually put up a decent quarter but managed to confuse the heck out of the market regarding required level of capital to hold 2020 production flat and drove the stock down several percent before it rebounded later in the trading day down 1% following the release.

Another Northeast producer Cabot beat for the quarter and said at current gas prices the 2020 capital plan will drop to $525 million versus the prior $725 million guide. The key difference being that the lower capital level production will be flat from where they exit 2019. We applaud the restraint and firmly believe that is what all E&Ps should be doing right now.

Finishing up, one of our favorite long time clients was in the office last week for our annual due diligence meeting and he commented that he likes it when we provide Chiefs updates so for this week, some good news – Patrick Mahomes was at practice last week taking snaps so that's promising. Unfortunately the Chiefs lost a heartbreaker Sunday night dropping their 3rd straight at Camarohead. Well, there always next week. Thanks for tuning in.

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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