Tortoise QuickTake Energy Podcast

Tortoise

Nov. 04, 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 Rob Thummel with this week's Tortoise QuickTake podcast.

Last week the Federal Reserve cut interest rates by a quarter point for the third time this year, China announced that a consensus on trade deal principles had been reached with the U.S., and some of us at Tortoise were entertained by a Halloween-inspired visit from Matt Foley, a fictional character played by Chris Farley as part of a Saturday Night Live skit in the late 1990s. The first two factors combined with a very strong jobs report that included an increase in the labor-force participation rate resulted in a 1.5% increase in the S&P 500 index as well as a 1.3% increase in the MSCI World Index. U.S. and global utilities delivered a slight gain while U.S. and global energy stocks generated a slight loss last week.

There were a lot of great takeaways from a busy third quarter earnings week. One major energy theme that we think will continue to draw interest from investors are energy exports. The Tortoise Teal Energy Deal white paper highlights how U.S. energy exports can reduce global carbon emissions. In addition, rising U.S. energy exports positively impact the U.S. trade deficit. Since the 1970's, the U.S. has moved from a trade surplus to a deficit position. The U.S. trade deficit has rapidly increased and will likely eclipse $900 billion in 2019. From 2003 to 2007, the value of energy imports was about 10 times greater than the value of exports. The U.S. energy trade deficit peaked in 2008 at $415 billion. As U.S. energy production has increased, the energy trade gap has narrowed. Today, the U.S. exports as much energy as it imports. There are several benefits from reducing the U.S. trade deficit including stronger U.S. economic growth, higher U.S. employment, a stronger U.S. dollar, and lower inflation. In 2020 and beyond, we expect the U.S. sector will positively impact the trade deficit as the U.S. will be a net exporter of energy.

Last week, one of the U.S. companies that is making a major contribution to U.S. energy exports reported results. Cheniere Energy set a new record for exports of liquefied natural gas or LNG exporting 108 cargoes to destinations in Asia, Latin American, Europe and the Middle East during the third quarter. Cheniere is working its way up the charts towards becoming one of the top LNG suppliers in the world. We continue to believe Cheniere's growing contracted cash flows from global demand driven markets is a good formula for future success as the world transitions to more renewables and natural gas.

Enterprise Products Partners is another company that is building energy infrastructure in preparation for higher U.S. energy exports. Last week, Enterprise reported results that beat analyst expectations. However, the stock market responded negatively to additional capital expenditures announced related to an offshore crude oil export terminal that the

company is constructing to accommodate very large crude carriers that can transport two million barrels of crude oil in a single shipment. We believe Enterprise's crude oil export terminal will add to free cash flow in the future. However, higher capital expenditures reduce free cash flow in the short term and in today's market energy investors want free cash flow. As a result, the EPD stock price fell by approximately 3% last week.

An example of companies increasing free cash flow by lowering capital expenditures was displayed by a couple of Marcellus natural gas producers last week. EQT Corporation, the largest natural gas producer in the U.S., released its 2020 forecast while reporting 3Q results last week. EQT cut its 2020 capital expenditures forecast by almost 30% as well as announced plans for flat year over year natural gas production in 2020 as a result of low natural gas prices. The net result is an increase in 2020 free cash flow. CNX Resources exhibited similar discipline, reducing 2020 capital expenditures by 9%, lowering 2020 production growth from 9% to 3%, while most importantly increasing 2020 free cash flow forecasts by 8%. Investors rewarded both of the Marcellus producers with the EQT stock price rising by 11% and CNX by 13% last week.

Unfortunately, Williams Companies that operates energy infrastructure assets in the Marcellus was not treated the same as its Marcellus customers. Williams suggested its 2020 growth outlook might be lower than the 5 – 7% long-term growth rate that it has guided towards. However, 2020 capital expenditures will likely be lower as well resulting in higher free cash flow in 2020. These assumptions will be solidified at the Williams analyst day during the first week of December. But in the meantime, Williams dividend yield of 6.6% is 3.5 times the S&P 500 dividend yield of 1.9%

Last but not least, two of the largest energy companies in the world announced 3Q earnings last week. Exxon Mobil's results were better than expectations while Chevron results came up a little short of expectations due to lower than expected earnings and cash flow. The common theme amongst both companies was that the Permian continues to be a positive driver for both. In the case of Chevron, Permian production volumes increased 35% year over year. Current Permian production of 455 thousand barrels per day represents 49% of Chevron's U.S. oil and gas production and 15% of Chevron's global oil and gas production. For Exxon, Permian production rose by 70 percent from a year ago to 293,000 barrels per day. The Permian represents 7.5% of Exxon's global oil and gas production. As the largest energy company in the world, Exxon is all-in in the Permian increasing its Permian rig count when everybody else is reducing rigs. In addition, Exxon is participating in energy infrastructure expansion being a joint venture partner in a 1 million barrel per day Permian pipeline that is expected to come on line in 2021.

Exxon's reign as the world largest publicly traded energy company may come to end as Bloomberg is reporting the Saudi Aramco plans to list shares to trade on the Riyadh stock exchange this week. The initial valuation is expected to be as much as 25% below the $2 trillion valuation originally discussed. Additional disclosure and improved governance is likely necessary before a U.S. listing occurs.

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.

The S&P 500® Index is a market-value weighted index of equity securities.

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 Index℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

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.

The MSCI World Index, which is part of The Modern Index Strategy, is **a** broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and MSCI world index does not offer exposure to emerging markets.

The indices are the exclusive property of Tortoise Index Solutions, LLC, which has contracted with S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC) ("S&P Dow Jones Indices") to calculate and maintain the Tortoise MLP Index®, Tortoise North American Pipeline Index℠ and Tortoise North American Oil and Gas Producers Index℠ (each an "Index"). S&P® is a registered trademark of Standard & Poor's Financial Services LLC ("SPFS"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and, these trademarks have been licensed to S&P Dow Jones Indices. "Calculated by S&P Dow Jones Indices" and its related stylized mark(s) have been licensed for use by Tortoise Index Solutions, LLC and its affiliates. Neither S&P Dow Jones Indices, SPFS, Dow Jones nor any of their affiliates sponsor and promote the Index and none shall be liable for any errors or omissions in calculating the Index.

Disclaimer: *Nothing contained in this communication constitutes tax, legal, or investment advice. Investors must consult their tax advisor or legal counsel for advice and information concerning their particular situation. This podcast contains certain statements that may include "forward-looking statements." All statements, other than statements of historical fact, included herein are "forward-looking statements." Although Tortoise believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Actual events could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors. You should not place undue reliance on these forward-looking statements. This podcast reflects our views and opinions as of the date herein, which are subject to change at any time based on market and other conditions. We disclaim any responsibility to update these views. These views should not be relied on as investment advice or an indication of trading intention. Discussion or analysis of any specific company-related news or investment sectors are meant primarily as a result of recent newsworthy events surrounding those companies or by way of providing updates on certain sectors of the market. Tortoise, through its family of registered investment advisers, does provide investment advice to Tortoise related funds and others that includes investment into those sectors or companies discussed in these podcasts. As a result, Tortoise does stand to beneficially profit from any rise in value from many of the companies mentioned herein including companies within the investment sectors broadly discussed.*