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 Matt Sallee, Energy Senior Portfolio Manager at Tortoise.

Happy early Thanksgiving everybody. Thanksgiving is one of my favorite holidays. Family, good food, neighborhood football games where I get to put a shot on my brother in law….and it's the perfect time to take a break and reflect on all we have to be thankful for. Last week I was particularly thankful for a Monday night prime time Chiefs victory over the Chargers. This week we can relax and get healthy during the Chiefs bye week. I'm also thankful that energy staged a midweek rally and recovered from Wednesday on with midstream energy closing the week down just 50 bps from a 4% deficit at one point.

You wouldn't have guessed it by the mood at the RBC midstream conference where investor spirits were the polar opposite from the feel from the utility conference where I was at just the week before. It's a bit crazy, both are asset heavy, regulated, cash flow machines providing the energy to run our economy. One delivers electrons and the other molecules and apparently this is now worth a 3x premium in your valuation multiple. To be fair utility companies are light years ahead of most midstream companies on the ESG front but pipeline companies are starting to catch up.

More on the RBC conference shortly but first, one of the midstream companies that is on their ESG game is the artist formerly known as TransCanada, now TC Energy. They hosted their annual analyst meeting last Tuesday where the company shared an optimistic outlook. The highlights include reiterating the commitment to 8-10% dividend growth through 2021 with incremental guidance for 5-7% dividend growth thereafter. Additionally the company has a $30B approved capital budget, which it can fund without accessing external equity as they are in the process of monetization of a 75% of the Coastal Gaslink project, which supplies Canadian gas to the LNG export terminal near Kitimat British Columbia. This company is exactly what investors are looking for these days, which is why it trades with a utility-like multiple. They own 60K miles of long haul gas and oil pipelines connecting supply from Western Canada to demand markets across North America as far south as Mexico. They are generating over $9 billion of EBITDA moving to $10 billion within a couple of years and 93% of the cash flows come under an allowed ROE or firm reservation structure with no volumetric exposure. Six of the remaining 7% come from fee based volumetric charges and the last 1% come from….who cares. Bottom line, this is a pretty good story, and that's why it has outperformed the AMNA midstream index by 30% this year.

As I mentioned before the mood was pretty somber at this year's RBC Midstream Conference. It didn't help that MLP index is down 10% for the quarter and there are multiple names with double digit yields some even north of 20%. For gathering and processing names, the counterparty risk and exposure to drilling slowdowns have made these names untouchable. In a couple of the situations if their equities don't have a massive recovery, and soon, it's going to hard for the board to justify continuing to pay out the current level of cash flow rather than just buying back stock, if no one else will buy you, buy yourself. Speaking of buybacks a number of management teams were talking up their ability and plan to execute due to frustration with trading levels. I'm cautiously optimistic on this front…compared to capital spending it's a lower risk way to generate additional cash flow per share. On the capital front investors are pushing management to minimize spending and pursue only the highest return projects. Last but not least the 2020 election garnered plenty of interest and was the topic of the keynote speaker. The speaker's key takeaways are the economy will be the key driver for the outcome of the election, the less Washington experience you have, the better which I find hilarious and finally a few months before primaries, in other words now, is the time to start paying attention to the polls. According to Predictit.org Warren has dropped precipitously from 52% to a 25% chance of getting the nomination but Mayor Pete is rising like MLPs in January up to a 23% chance while Biden lingers at 20% odds.

It was a pretty quiet week on the news front with the key item being FERC approving three new LNG projects planned for the Brownsville Ship Channel; Texas LNG Brownsville, Rio Grande LNG Terminal, and Annova LNG Brownsville. They also approved Cheniere's latest expansion at Corpus Christi. Other than Cheniere's expansion the other projects have several hurdles to overcome but if they all move forward this would result in a step change in US gas exports.

Last but not least California announced rules to significantly restrict new oil and gas drilling in the state. The state's production is already down 25% in the last few years and this will only continue the trend. The companies with the most exposure include Berry and California Resources and they were both crushed by 40 and 30%, respectively. To be fair these are both really low quality upstream companies to begin with but this news just did not help.

I'll leave it there for now, enjoy your 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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