Tortoise Energy Podcast

Tortoise

Feb. 3, 2020

Welcome to the Tortoise podcast. Thank you for joining us. Today, Tortoise provides a timely update on trending topics in the market.

Thanks for joining us today on the Tortoise QuickTake Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

Congratulations to the 2020 Super Bowl Champion Kansas City Chiefs! What a game, what a season and what a team. The legend of Pat Mahomes continues to grow. I have to admit, I wasn't feeling too confident down 20 to 10 and the 49ers seemingly knocking off chunk plays for 10-15 yards per pop. But once the fourth quarter hit, Mahomes turned it on and the defense stepped up to help out. It took a ton of big plays, but the Chiefs became the first team in NFL history to trail by 10 plus points in all three playoff games and come back to win. It will be quite a scene here in K.C. for the next week or so, including a parade that will likely eclipse the over one million people who turned out for the Royals 2015 World Series victory. Unlike Bill Murray in Ground Hog Day, I hope we see the same thing next year. In case you were wondering, early odds have the Chiefs as the favorite to win it all next year as well. In Mahomes we trust…

We'll start things off with market performance for the week that was:

- On the commodity front, crude oil continued its slide, declining approximately 4.7%, while
- Natural gas was marginally negative, down 52 bps,
- Shifting to equities, the broader S&P Energy Select Sector Index® had a dismal week, falling 5.6%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were even worse, lower by almost 7%
- Utilities, per the Dow Jones Utility Index, continued to be a safe haven, higher by 72 bps
- And finally MLPs moved lower, but were better than other energy sectors as the Tortoise MLP Index® declined 3.7%

Before we leave performance, let's tie in the recent slide in energy indices with the biggest driver of the week and the year, the coronavirus. If we go back to the middle of January, Thursday the 16th to be precise, MLPs were up almost 4% and things were going very well. Broad energy was essentially flat and the S&P 500 was up about 2.7%. The weekend occurred, and then on Monday, January 20th, the markets were closed for MLK Day. However, on the next day, the 21st of January, the first travel-related case of the coronavirus was detected in the United States. The next two weeks would be nothing short of a meltdown in the stock market. MLPs were down 9%, broad energy down over 9%, crude oil down almost 12% and even the S&P 500 down over 3%. The number of cases of the virus has ballooned to over 14,000 and sadly over 300 people have passed away.

Clearly this has been tragic on so many levels and while it feels insincere to talk about the stock market at a time like this, we are simply trying to explain what has transpired to cause the dip in equity markets. Simply put, the concern for energy stocks revolves around end user demand and the potential impact the virus is and will have on it. In particular for midstream stocks we are frustrated by the decline as they were off to such a great start for 2020 and earnings so far for the fourth quarter have done nothing to dissuade the belief that this will still be a great year for midstream energy.

As a follow-up, it was noted this past week that OPEC+ may advance their planned March meeting to address the concerns regarding global crude oil demand and if more barrels need to be taken off the market. Despite Libya producing almost one million barrels per day less than expectations, a formal reduction in supply would be a welcome data point for oil markets. Before we get to earnings, let's quickly hit on the Kinder Morgan analyst day hosted in Houston last week. The themes were many, but at the forefront was ESG and capital discipline. First on the ESG front, Kinder noted it ranks number 2 out of 184 companies on Sustainalytics ESG risk rating within the refiners and pipelines industry group. Additionally, they spent a lot of time talking about methane emissions and how KMI surpassed its methane emissions intensity target a full seven years ahead of schedule. A few other highlights included how natural gas is much less carbon intensive than coal, a great partner to renewables and has helped the U.S. reduce emissions in the last 15 years. Sound familiar? If you are a regular listener to

this podcast it should, as it all ties in perfectly with our Teal Energy Deal we have been discussing on here for the better part of the last seven months. Finally, Kinder reiterated its intense focus on capital discipline and high grading of projects to generate only the best return on invested capital.

One more quick tie into the Teal Energy deal, as India announced over the weekend, the aggressive plan to double natural gas usage by 2023. Based on current production, it would appear almost all of that will need to come from LNG imports. Recall, increased usage of natural gas by China and India were key drivers of our two decade outlook.

Earnings were plentiful, so I wanted to do some quick hits for several companies:

- Refiners Marathon Petroleum and Valero Energy both had blowout quarters on strong utilization and margin capture rates. PSX met expectations but didn't exceed them, primarily due to turnarounds not allowing for the strong capture rates of its peers
- Midstream heavyweights Enterprise Products, Magellan Midstream, MPLX and Phillips 66 Partners all reported during the week. The messaging was consistent, with capital discipline at the forefront. Enterprise announced a buyback program for 2020. Magellan handily beat expectations in the 4th quarter, but guided to a more modest 2020, if history is any guide, likely conservatively. MPLX had a nice quarter with a very strong guide to being free cash flow positive after capex and dividends in 2021, but no announcement from the current strategic review left investors wanting more. Finally, Phillips 66 Partners continues to excel, with an excellent quarter and outlook for future growth.
- On the majors front, both Exxon and Chevron reported on Friday with mixed results. Neither performed well on the day as both lost around 4%. In the case of Exxon, investors seem most concerned about a lack of free cash flow as capex will again be pretty high, upwards of $33 billion as well as weak refining and petrochemical results. In the case of Chevron, a messy cash flow quarter was driven by foreign exchange issues and some unexpected taxes. On the bright side, Permian production continues to do grow nicely.
- Moving to utilities, CMS Energy, WEC Energy Group and Xcel Energy all reported. These three are about as steady as it gets when it comes to earnings. CMS met expectations and increased its 2020 guidance slightly, which includes 6-8% EPS and dividend growth. WEC Energy beat its 2019 EPS guidance, which is like clockwork, as it has done so every year since 2004. Almost as consistent, Xcel Energy continues to post similar beats. All three guide to 5-8% growth expectations and are some of the best managed companies out there, regardless of sector.

February 3rd kicks off the first state of the Democratic Party's nomination process in Iowa. Clearly it will be an eventful next few months.

That will do it for today…have a great week and we look forward to speaking with you again soon.

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 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.*