Tortoise Energy Podcast

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

Hello, I am Matt Sallee, Energy Portfolio Manager at Tortoise. Why do the short weeks always feel the longest? After a quiet President's Day last Monday things got kicked into high gear with some market moving news and a very busy continuation of earnings season. First crude oil prices got a boost from the U.S. issuing sanctions on a unit of Rosneft to block its oil export activity from Venezuela and the breakdown of cease-fire talks in Libya after the country's capital port was attacked by Khalifa Haftar's forces.

On the LNG front, the big news was Spanish Utility Naturgy cancelling two LNG cargoes from Cheniere. Due to the contract structure, Cheniere will still get its contractual fee on the cargoes but it's a grim reminder of just how oversupplied the global gas market is.

Last week was yet another big one for earnings, and highlights include

- Permian E&P heavy weights Concho, Diamondback and Pioneer who all reported along with a host of smaller E&Ps including Parsley, Cimarex and Devon. The key themes for these companies were crisp operational performance, execution on capital discipline and returning capital to shareholders. On the return of capital front, Diamondback, Concho, Pioneer and Devon increased their respective dividends 100%, 60%, 25% and 22% and FANG and CXO each repurchased $200 million or more of stock during the quarter highlighting the shift from production growth to shareholder returns.
- One the midstream side we witnessed diverging fortunes
  - Wednesday, Enable and Genesis both took a smack down follow an underwhelming Q4 in the case of ENBL and disappointing guidance for Genesis. For Enable the slowdown in midcon drilling activity was widely expected and the company reiterated its full year guidance so in my view the 5% hit post earnings isn't necessarily justified. On the flip side Genesis' weak guidance is on the back of a 25% decline in their outlook for its soda ash business. I'll perform an act of mercy here and spare the explanation of what that business even is, but suffice it to say management has lost even more credibility as they have defended this business' stability since they initially made the mystifying acquisition a few years ago.
  - On other hand, Williams posted a modest beat and reiterated their full year guidance despite skepticism from the market on the Northeast gathering business and Targa had a blowout quarter and put forth guidance ahead of our estimates and it reflected very conservative commodity prices
  - I've got a 3rd camp this week. This group is called we put up a decent quarterly performance but remain tone-deaf to the market. This group is comprised of Energy Transfer and Shell Midstream
    - Quickly, with SHLX, they had an in line quarter but somehow managed to avoid addressing the IDRs yet again….I'm mean, really?
  - And for ET, I'll sum it up with what I believe is the worst quote of earnings season when Kelcy Warren said "We will continue to -- and I know the market doesn't like this, but it's just reality, we're going to continue to look at M&A. We always look at M&A." These guys are sporting nearly a 20% cash flow yield, the only thing you should be look at are buybacks…in fact don't look at buying assets, look at selling them…this is exactly why we are *imploring* Energy Transfer to improve their governance and improve capital allocation. They have a good business, they just need to remove the impediments to people wanting to invest in that business. This is exactly reason we created the Essential Playbook for Midstream Management. It's a very simple set of guidelines intended to help midstream companies attract more capital…exercise capital discipline, take ESG seriously, improve your financial health and return capital to equity holders. The Playbook is attached to the transcript of this podcast here if you are interested.

Moving on, last week also held the latest installment of the Democratic debate ahead of the Nevada caucuses where Bloomberg had a rough night and Bernie Sanders doubled down on socialism. Following the debate, Sander's odds of winning the nomination as measured by PredictIt increase 3 points to 53%. What I find fascinating is that as Bernie's nomination odds have skyrocketed so have the odds of Trump winning reelection, now up to 58%. It's shaping up to be an interesting year.

With that, stay tuned, we'll 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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