Tortoise Energy Podcast

March 23, 2020

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

Good to be with you today. I am Quinn Kiley, Managing Director and Energy Portfolio Manager at Tortoise.

The last few weeks has seen markets move with unprecedented volatility. The rapidity and ferocity of changes in information and swings from panic to optimism have truly been remarkable. Two weeks ago we saw the combined impact of demand destruction from a global pandemic matched with a surge in supply in an already oversupplied oil market lead to the worst trading days in the history of the Alerian MLP Index. The last week saw continued volatility, we experienced three of the largest single daily drawdowns in the Index, and two of the largest upswings.

For the week, markets were generally down but finished the week off their lows:

- Crude oil fell on the order of -26%, natural gas prices declined -15%
- The Alerian MLP Index finished down -15.7%, after bouncing a combined 43% on Thursday and Friday
- The S&P 500 lost -15% closing the week below is December 2018 lows and the ten-year treasury yield was flat for the week.

Midstream companies are reacting to the soft economic outlook by drastically reducing capital expenditure budgets for 2020, announcements so far have ranged from 20-50%, and indicating there may be further reductions in 2021 as needed. The floor for spending is sustaining capex, this is how much money a company needs to spend to maintain their cash flows and the integrity of their assets. The odd outcome of these announcements is generally a modest impact to 2020 guidance, but with improved free cash flow profiles. This will allow management teams to be flexible in how they react to the current crisis. We expect to see an acceleration of debt paydowns. Recent calls to repurchase their own stock or units may occur, but we think strong balance sheets will be the first priority.

To that end, any company concerned about their credit rating may choose to reduce their dividend or distribution payouts. We think some companies with absurdly high yields, 20-80% in some cases, may choose to drastically reduce quarterly payouts; not because they have to, but because they can in this altered new reality. In fact, we saw some of this already last week. Three commodity price sensitive names announced reduced dividends: Targa Resources, a gathering and processing company, cut its dividend by 89%. Oil and gas producers, Occidental Petroleum and Apache Corporation reduced their dividend by 80 and 90%, respectively. Additionally, this morning DCP Midstream reduced its distribution by 50% and lowered its capex forecast by 75%.

These all appear to be drastic moves and will certainly disappoint some shareholders. We think over the long-term these actions are positive for near-term liquidity and to provide balance sheet optionality that will preserve access to debt capital markets over the long-term.

In this odd reality, we also see the resiliency of the midstream business model. Enterprise Products Partners announced a flat first quarter distribution last week. Additionally, several midstream companies have reaffirmed their cash flow guidance for 2020, while lowering capital plans. This is because the majority of the cash flows for 2020 are locked in with existing contracts and hedges. We think the outlook for 2021 could be weaker for energy broadly, but far less so than the recent sell-off in equities would suggest.

After the sudden decline and advance in midstream equity prices last week, there could be more volatility in coming weeks. The rolling shutdown of educational, retail, and corporate workplaces and places of worship will inevitably show up in new jobless claims. Although expected, these announcements could rattle markets. While we think the prolonged weakness in energy commodity prices are reflected in current security prices, we expect the credit rating agencies to be a lagging indicator and issue downgrades for many energy creditors in the coming weeks. These are difficult times and we do not minimize that fact. That said, current security prices for energy issuers reflect a worst-case outcome, and we think the odds are higher ultimately for an economic recovery. Our outlook remains uncertain near-term as the news cycle is changing perceptions daily and the market is reacting accordingly. Longer-term we think the essential nature of midstream assets has value. The economy will recover, oil markets will balance supply and demand, and the transportation and storage of energy commodities will be necessary for both of these things to happen.

With that, we at Tortoise are practicing our best social distancing and trust that you are as well and thank you for your interest.

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.

Alerian MLP Index the leading gauge of energy infrastructure master limited partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

Crude Oil = West Texas Intermediate (WTI) light, sweet crude oil commonly referred to as "oil" in the Western world. West Texas Intermediate is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.

Natural Gas = Henry Hub the best known of all natural gas trading points in North America and standard delivery point for New York Merchantile Exchange's natural gas futures contracts in the United States.

S&P 500® Index is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

It is not possible to invest in an Index.

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