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 Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's Tortoise QuickTake podcast.

The second quarter earnings season ended last week. For many energy stocks, the second quarter of 2020 will go down as one of the worst in company's history. However, the Alerian Midstream Energy Index delivered a total return during the earnings season that started on July 22 of 6% - double the performance the S&P 500 over the same period. Several signs that better days are ahead emerged last week. U.S. gasoline demand is within 7% of the prior year's level based on data reported last week. The U.S. Energy Information Administration's short term energy outlook highlighted a 10% increase in global petroleum demand with July demand rising to 93.4 million barrels per day from 85 million in the second quarter of 2020. The EIA forecasts continued global consumption growing from here approaching the pre-COVID levels of 100 million barrels per day by mid-2021. Similarly U.S. oil production is forecasted to have bottomed in the second quarter of 2020 and will begin rebuilding but won't reach pre-COVID levels during the forecast period due to capital discipline and focus on free cash flow exhibited by U.S. oil producers.

The most significant fundamental theme from the earnings season continues to be free cash flow generation. Every sub-sector in the energy sector emphasized free cash flow. Typical production growth focused Permian oil producers Pioneer Natural Resources, Concho, and Diamondback shifted messaging away from production growth fully committing to returning cash to shareholders as commodity prices rise. You already know that energy infrastructure companies pay high dividends or distribution to shareholders. In the second quarter conference call, energy infrastructure companies highlighted operating leverage tied to underutilized pipelines that won't require additional capital expenditures as production volumes return. The result will be a rise in free cash flow growth over the next several years producing a free cash flow yield that is meaningfully higher than the S&P 500.

In addition, several energy infrastructure companies are just a few years away from meeting the requirements to be considered an S&P 500 dividend aristocrat. To be considered a dividend aristocrat, a company not only consistently pays a divided but it has raised its dividend for at least the past 25 years. The average dividend yield of the S&P 500 Dividend Aristocrats is 2.6%. Enterprise Products, Magellan Midstream, Enbridge and TransCanada all have increased dividends or distributions for at least 19 years in a row. Enbridge has increased its dividend for 24 straight years followed by TransCanada and Enterprise Products that have raised dividends or distributions for 22 consecutive years. Magellan's streak is at 19 years. The average yield of these four energy infrastructure stocks today is 8% or 3x the 2.6% average dividend yield of the current dividend aristocrats.

Now, to the most notable announcement from the earnings season. There is no question that BP stole the show announcing a transition from being an international oil company for over a century to becoming an integrated energy company. What this means is that BP will reduce its oil and gas spending and production and accelerate solar and wind growth with a goal of becoming a global leader in wind and solar by 2030. BP joins Royal Dutch Shell, Equinor, and Total as international oil and gas producers in transition. Theses oil and gas producers in transition are following the course taken by several large global utilities over the last several years. Our team in London has identified and invested in several of the global utilities in transition that are transitioning to cleaner fuel sources to generate electricity typically transitioning from coal to wind and solar. An example of a global utility in transition reported earnings last week. RWE Group is a German listed utility that has been producing electricity for over 120 years and has a market cap over $25 billion in US dollars. RWE has become a world leader in wind and solar electricity generation. RWE has transitioned its electric generation fleet away from coal towards renewables increasing its renewable generation capacity from 5% in 2010 to 23% in 2019. What most people don't know is that RWE owns a significant amount of wind and solar generation in the U.S. RWE operates over 3,500 megawatts of capacity in the U.S. In fact, RWE owns more wind and solar generation capacity in the U.S. than 9 out of the top 10 U.S. electric utilities by market cap. At Tortoise, we expect global wind and solar capacity to grow by at least 10% per year over the next decade. By 2022, RWE expects to increase its renewable electric generation capacity by almost 50% over 2019 levels. This growth translates to earnings growth as well with analyst expectations of 14.5% EBITDA growth in 2020 and 9% growth in 2021. Combining the renewable infrastructure growth stocks that offer EBITDA and dividend growth with high yield provided by energy infrastructure stocks could be a compelling investment opportunity for investors looking for yield plus growth.

Lastly, it's time for the for corporate sustainability reports. Several energy infrastructure companies are publishing reports for the first time. Pure play LNG provider Cheniere Energy issued its first sustainable report highlighting how switching to natural gas has already helped limit the rise in global emissions since 2010 and has avoided over 500 million metric tons of CO_2 emissions between 2010 and 2018. Recall that the largest CO_2 emitter in the world continues to be China. Chenier's sustainability reports notes that each U.S. LNG cargo to China displaces 140,000 metric tons of carbon dioxide in China. At Tortoise, we are encouraging energy companies to enhance ESG disclosures so that investors can understand the impact these companies are making.

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.

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