Tortoise QuickTake Energy Podcast

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Welcome to the Tortoise QuickTake podcast. Thank you for joining us. Today, senior members of Tortoise provide a timely update on trending topics in the market.

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise. As I sat on the tarmac the Sunday before last waiting for my flight to take off, I was thinking it would be a good week. I read that news that at the G20 not only had Saudi Arabia and Russia agreed a production cut was needed but also the U.S. and China had agreed to freeze any additional tariffs. Equity futures were up big and oil was up even more. And we did get follow through Monday but that quickly fell apart Tuesday and beyond as concerns surfaced about how solid the trade deal was and fear was further accelerated by the arrest of Huawei's CFO for violations of the Iran sanctions. The fact that OPEC's official meeting was happening on Thursday didn't help things as contradicting leaks flowed out leading up to the meeting on if, and how much, of a cut would occur. Add it all up and the S&P 500 was down nearly 5% ouch. Thanks to the fact that OPEC did indeed announce a nice cut, Energy performed better down 3% and midstream was defensive as it should be down only 1%. Before I move on I'd like to add a special thanks to Jakob Tobler who performed a YouTube search to ensure I pronounced Hauwei correctly. And Jakob and I weren't alone. The "How to pronounce Hauwei video" had been viewed millions of times. Go figure.

Moving on…along with improving our foreign language skills we spent much of last week in New York where multiple events were happening including the Marathon Investor Day, Wells Energy Conference and Morgan Stanley's Clean Energy Conference. I'll quickly hit the highlights

At the investor day, Marathon:

Increased its synergy guidance from the Andeavor merger to $1.4 billion from the initial $1 billion after it was able to do a deeper dive, bottoms-up analysis post-close. MPLX put out 2019 and 2020 guidance which were nicely above estimates and ANDX reiterated prior guidance both a positive in our view. Additionally they continue to have a positive outlook on Northeast volumes and will make it a priority to expand their Permian business including downstream to NGL infrastructure. And interestingly, for the first time, Marathon's CEO said they are considering buybacks of MPLX stock. I think that would send a positive signal to the market on the disconnect between current valuation and future profit outlook.

Shifting to the Wells Energy Conference where our team had over 25 1-1 meetings with the management teams of our portfolio companies. The main takeaway was capital efficiency.

While there is still significant midstream investment needed to transport a combination of record supply, demand and exports, pipelines are looking to minimize the capital to satisfy customer needs. Just one example is the potential consolidation of two competing Permian crude export lines, which was discussed by a few of the companies involved. If combined, the project would be owned by six different midstream companies and would go a long way to easing concerns that too much capacity is being built in the basin. In fact, multiple owners sponsor the vast majority of new gas, crude and NGL lines from the basin. However, I should add that a potential overbuild of NGL fractionation capacity remains a topical concern.

In a related theme, for the first time at a midstream conference, the topic of buybacks came up in several conversations. I'm somewhat skeptical the space will see widespread buybacks, but it certainly makes sense in some situations. Kinder Morgan is currently executing on a $2 billion buyback program and Enterprise, Plains and MPLX all have publicly indicated that they're open to buybacks.

And of course, there was lots of discussion on OPEC and oil price weakness. However, the silver lining is midstream companies have significantly delevered, increased coverage and we are in the bottom of the 9^{th} inning on simplifications. The bottom line is the space is much more resilient than a few years ago if oil falls below the $50 range.

For more on the OPEC decision, please refer to Rob Thummel's special podcast released Friday which is on our website

Finally, at the Morgan Stanley clean energy symposium discussion topics included:

- The enormous shift from coal to gas and the benefit that it's had on CO_2 emissions
- As well as the future benefit possible from wider adoption of gas over coal and oil

On this topic, presenters stated if all coal consumed switched to LNG; that alone would reduce total global CO_2 emissions by 16%! This would singlehandedly accomplish about a third of the UN's Climate Change Panel 2050 emission goal.

Obviously solar and wind generation will likely be a key contributor too and there was a lot of discussion on how remarkable cost reductions in recent years and that along with federal tax credits have made these sources cost competitive with gas generation and superior to coal-fired power generation.

As you would expect there was tons more covered at the meetings but those were the highlights.

I'll finish up with a fun fact that the Department of Energy's weekly inventory report last week showed the U.S. was a net exporter of crude and refined products for the first time in 75 years. So while stock prices certainly aren't reflecting it, there really are some special things happening in U.S. energy. So I'll leave it there. Thanks.

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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