Tortoise QuickTake Energy Podcast

January 28, 2019

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

Here in Kansas City we are still grieving the end of the football season. We are longing to hear the voice of Patrick Mahomes bark a quarterback cadence such as 12, 2020, 68, 39, and 16,426. I guess we will have to wait until next year for that. In reality, the numbers I just mentioned are the five most important data points from last week in my opinion. Let me elaborate.

Let's start with 12. 12 reflects 12 million barrels of crude oil and refined products added to U.S. inventories last week as reported by the EIA. The larger than expected storage numbers drove the 0.6% decline in U.S. oil prices. Accordingly, the U.S. energy sector as represented by the S&P 500 Energy Select Sector Index fell by 1.5% and MLPs represented by the Tortoise MLP Index declined by 0.5%. Despite last week's performance, the energy sector continues to be the best performing sector in the S&P 500 in 2019 up 9.6% YTD. MLPs are outperforming the energy sector by additional 3% year-to-date.

2020 is the next number in the cadence. In my opinion, this is the most important data point of last week. 2020 is the year that the EIA forecasts the United States becomes a net exporter of energy. This was highlighted in the EIA's 2019 Annual Energy Outlook released last week. The date that the U.S. becomes a net energy exporter has been accelerated by 2 years from a previous report by the EIA that came out in the middle of 2018. Other highlights from the Annual Energy Outlook include the following:

- U.S. natural gas production and consumption increase every year through 2050
- Natural gas continues to be the largest fuel source in the electricity generation fuel mix growing market share from 34% in 2018 to 39% in 2050
- Renewable energy led by solar is projected to grow becoming a larger share of U.S. electric generation than nuclear and coal in less than a decade
- Last but not least but a very important point – carbon dioxide intensity across all energy consumption sectors including transportation, commercial and residential, industrial, and electric power declines through 2050. The EIA report highlights how overall carbon dioxide intensity in the U.S. power sector has declined by 25% since the mid-2000s.

68 is the next number. 68 is the percentage that natural gas projects represent of Kinder Morgan's new project backlog presented at its analyst day last week. At Tortoise, we highlight how there are lots of ways to make money investing in the energy sector that are not associated with oil prices. Investing in stocks that benefit from growing demand for U.S. natural gas is one of those ways in our opinion. The escalating significance of natural gas was highlighted by Kinder Morgan management. For example, Kinder Morgan projects global LNG demand to almost double growing from 40 bcf/d today to 75 bcf/d by 2030. Kinder Morgan predicts and we agree that the U.S. will capture almost 40% or 13.5 bcf/d of this forecasted growth in global LNG demand. To achieve this, the U.S. will need to produce, gather, process, transport, store, and liquefy a substantial amount of natural gas. Overall, Kinder Morgan laid out a 2019 plan that included components that will be reiterated by many high quality energy infrastructure companies during this earning season. The plan includes increased cash flow, higher dividends, and lower debt. At Tortoise, we are strongly suggesting midstream management teams add a share buyback component to their plans to further enhance shareholder value.

Let's move to the next number 39. 39 represents the decline in the EQT Corporation stock price in 2018. EQT's price decline was almost double the decline of the S&P 500 Energy Select Sector Index. EQT is the largest natural gas producer in the U.S. While there are no barbarians at the gate, there are brothers in the board room. Since last December, Toby and Derek Rice also known as the Rice Brothers have offered several suggestions to the EQT management team. Last week, EQT responded with its plan to increase shareholder value. The plan identified $100 million of annual reductions in administrative and well development costs as well as a search for a Chief Operating Officer and the creation of an Operating and Capital Efficiency Committee comprised of certain members of the current Board of Directors. In response to these actions by EQT management, the Rice Brothers declared they will be asking EQT shareholders to reconstitute the Board and insert Toby Rice as CEO. This lays the groundwork for an old-fashioned proxy battle over the next several months. Stay tuned for this one.

Last but not least 16,246 is a measurement in feet. At this point in the earnings season, oil field services companies have provided the most insight as most energy companies have not reported earnings yet. In its fourth quarter earnings call, Schlumberger, the worlds largest oil field service provider, highlighted that they drilled the longest lateral well ever in the Permian – a 16,426 feet lateral. That is over 3 miles. Pretty remarkable in my opinion. However, the results from the two oil field service heavyweights Schlumberger and Halliburton have raised more questions than answers. Both Schlumberger and Halliburton experienced revenue declines and operating margin degradation in the fourth quarter. In addition, both cited an uncertain oil and gas producer spending outlook for 2019 given the recent oil price volatility. Lastly, both highlighted the need for international, non-OPEC oil and gas producers to make additional investments that are critical to maintaining current production levels due to the last four years of underinvestment.

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.

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.

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