Tortoise QuickTake Energy Podcast

July 15, 2019

Welcome to the Tortoise QuickTake 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.

Last week we released our Halftime Analysis of the U.S. Energy Sector. The complete report is available on our website at www.tortoiseadvisors.com. The highlights of the report are as follows. First, the energy infrastructure sector and utilities are leading the charge in terms of performance across the energy sector. Energy infrastructure extended its lead last week rising by approximately 1% and is now up over 22% year-to-date. In general, yield-oriented equities are performing well given the sharp decline in the 10-year Treasury yield. Oilfield services stocks are the laggards in 2019 as the sector remains challenged by declining revenues and eroding margins. Second, OPEC has set the stage for stable oil prices for the remainder of 2019 and the recent rise in natural gas prices provides a positive commodity backdrop for the second half of 2019. Third, short-term fundamentals point toward higher U.S. energy production that positions the U.S. as a net energy exporter by the end of the year. Lastly, the energy sector is in the beginning stages of building a mountain of free cash flow over the next several years. We believe this will become more evident in the second half of the year and investors will reap the rewards tied to a basic fundamental premise that has driven the stock market higher for years - that is rising cash flow.

Three topics to highlight this week.

First, we believe that increased U.S. LNG exports to China will be one of the headlines when a final trade deal with China is reached. Why? China needs to reduce carbon emissions and the best way to do that is to reduce its coal consumption that currently represents 58% of China's energy supply. China has set a goal to increase its natural gas mix that currently represents 7% of energy supply to 10% of Chinese energy mix by 2020 and 15% by 2030. What does mean in terms of new natural gas supply? Over the next 12 years, China potentially needs to source 60.2 billion cubic feet per day of natural gas. For perspective, today U.S. natural gas shale fields produce a little over 65 billion cubic feet per day. The magnitude is so large because China's population is over four times the size of the U.S. yet China's natural gas consumption today is less than one-half that of the U.S. So, where will China get is natural gas from? Domestic production within China from conventional sources will grow slightly. A common question we get is what is the potential for shale gas in China? Shale gas production is focused on the Sichuan Basin located in southwest China. This basin is 89 thousand square miles compared to the Marcellus Basin in the U.S. that is 104 thousands square miles. The early returns on shale gas drilling have not been good as a result international major energy companies like BP, Royal Dutch Shell, Exxon and ConocoPhillips have quit exploring for shale gas in China due to high costs and low returns. This is why we think U.S. exports of LNG to China will be a significant component of the trade deal. We don't believe that China will be able to meet its natural gas demand with domestic sources alone. We forecast Chinese LNG demand will be 4x current levels by 2030. China is preparing for more LNG imports as the Ministry of Transport plans to quadruple import capacity in the next two decades from 19 terminals receiving 8 billion cubic feet per day to 34 terminals receiving up to 30 bcf per day.

The second topic to discuss is an extension of the first as it relates to U.S energy exports. Last week, Enterprise Products Partners announced additional expansion projects at the Houston Ship Channel. These projects increase Enterprise's capacity to export liquefied petroleum gas, propylene and crude oil. In fact, Enterprise forecasts that by 2025 exports of U.S. crude oil will increase from three million barrels per day today to eight million barrels per day.

The last topic relates to the results of the intense proxy battle between the Rice team and existing management over the board and management of EQT Corporation. Shareholders overwhelmingly elected the Rice Team nominated directors. The Board then appointed Toby Rice as President and Chief Executive Officer of EQT Corporation replacing Rob

McNally. Rice has initiated its 100-day plan with a goal of increasing free cash flow by $500 million equating to a free cash flow yield of 19%. At Tortoise, we continue to support acceleration of free cash flow for all stocks in the energy sector.

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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