Tortoise Energy Podcast

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

Brian Kessens: Hello. I am Tortoise Managing Director and Portfolio Manager Brian Kessens with this week's QuickTake podcast.

Crude oil rallied 3% last week following news the spread of the coronavirus is slowing. That should stabilize current oil demand with increases going forward though 2020 crude oil demand growth will likely be impacted by 300-400 mbpd. Driving crude oil markets over the short term are discussions between OPEC and Russia about further curtailments in light of this demand. Higher crude helped broad energy move higher by 1.1% with midstream up one half of one percent last week.

Earnings were front and center last week.

The two largest Canadian pipeline companies reported. Enbridge earnings came in in-line and the company reaffirmed its 2020 cash flow growth rate of 5-7%, as Enbridge benefits from LNG pipeline options and continued natural gas demand growth. Speaking of LNG, Enbridge also announced the acquisition of the Rio Bravo pipeline from second wave LNG developer NextDecade. On its Line 3 replacement project, progress continues with the Minnesota PUC with more permit work remaining with the U.S. Army Corps of Engineers. TC Energy also reported in-line and increased its dividend 8%, with 8-10% dividend growth expected through 2021, and 5-7% thereafter. On the large Keystone XL pipeline project, an FID could be made as early as April. Regarding U.S. Northeast natural gas exposure, in light of an oversupplied market, TC Energy noted high producer utilization. The company also expects producers to grow production because of downstream connectivity to Gulf Coast markets and attractive pricing on its system.

Sticking with midstream, DCP Midstream reported a slight miss, though 2020 guidance initially appeared positive. Yet management guidance assumes commodity prices above current strip pricing. After adjusting, guidance is in-line with consensus 2020 estimates. Capex is forecast to decline over the next couple of years and the company is keenly focused on becoming more efficient in its operations. We'll be watching for how many costs can be taken out of the business over the coming quarters.

Antero Midstream also reported a slight miss due to lower gathering volumes, though reaffirmed 2020 guidance with its parent company, Antero Resources, expected to grow production 9% in 2020. 2020 capex is also guided materially lower year over year, down by 50%. For Antero Midstream, the health of the parent company remains the primary concern. The parent is well hedged for the next two years yet is taking steps to strengthen its balance sheet, notably with planned asset sales this year. Success there will likely be helpful for the midstream business too. Specific to the parent, its results were slightly below estimates due to lower production, partly due to the timing of well completions. Antero Resources continues to be disciplined with capex, lowering the 2020 guide by $25 million versus previous guidance.

Sticking with upstream, Occidental Petroleum announced 4Q production slightly ahead of estimates. The company also trimmed 2020 capex by $100 million and noted production growth will consequently be lower at 2% versus the previous guide at 5%. How did the market respond to more capital discipline yet lower production growth? After making the announcement, the stock rallied ending the week 2.7% higher.

Two large utilities reported last week. Exelon beat slightly for the 4Q on lower operations and maintenance expense and Dominion came in higher than estimates due to lower interest expenses. The project backlog for both remains robust at $26 billion each. That's driving EPS growth of 6-8% at Exelon and 5% at Dominion.

In refining, Marathon Petroleum announced there is significant interest in the sale of Speedway, its gasoline retail network, with total proceeds potentially hitting $20 billion. Following the sale, it remains to be seen how that capital might be returned to shareholders, and if that completes the company's strategic review, with the review of its midstream business, MPLX, still pending. Stay tuned.

Finally, there was some good news on the emissions front last week. After increasing the prior two years, the International Energy Agency (IEA) indicated carbon emissions from global power generation were unchanged in 2019 versus 2018, even though the world economy expanded 2.9%. Helping the cause were coal to natural gas switching, renewable generation increases, along with milder weather and lower economic growth in emerging markets. The U.S. had the largest decline in emissions, down 2.9%. The European Union also saw lower emissions, driven by natural gas producing more power than coal for the first time ever, with wind power nearly matching coal. Japan reduced emissions by restarting nuclear reactors. Emissions from the rest of the world did grow, with the majority of the growth attributed to Asian countries where coal-fired generation continued to rise. More work needs to be done for 2019 to be remembered as the peak in global emissions from energy-related emissions, yet there's real reason for optimism with coal increasingly replaced by cleaner natural gas and renewables.

This week, earnings continue in a big way. We'll continue to look for more management discussion about being disciplined with capital. And yesterday being President's Day and speaking of discipline, Lincoln said "discipline is choosing between what you want now, and what you want most." We most want improved shareholder returns and believe discipline will drive it.

Thanks for listening.

Narrator: 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@tortoiseinvest.com.

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