TortoiseEcofin QuickTake Podcast

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Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.

Thanks for joining us today on the Quick Take Podcast. I'm James Mick, Managing Director and Energy Portfolio Manager with Tortoise.

September certainly lived up to its reputation for midstream as it was once again a rough month. Historically September has been the second worst month of the year for performance and that seemed to fit the bill here. This current iteration was mostly driven by macro events, specifically a global and national rise in COVID-19 cases. Areas such as the U.K. and France saw surges in September. The U.S. has witnessed an uptick as well, but that should have been expected with kids returning to school. On a related and more personal note, I know my boys are excited to go back as this week will mark the first live school for them since March, albeit under a hybrid model, attending live about half the time and virtually the remainder. Such is 2020, which can't end fast enough.

Moving to the financial markets, let's start things off with performance for the week that was:

- On the commodity front, crude oil was negative, declining 7.6%, while
- Natural gas was sharply lower, as spot prices fell 26% on mild weather,
- Shifting to equities, the broader S&P Energy Select Sector Index® was negative, lower by 2.8%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were influenced by the commodities, falling 2.3%
- Utilities, per the Dow Jones Utility Index, were up nicely, a little over 3%
- And finally MLPs were more like utilities this week, as the Tortoise MLP Index® moved higher by 2.7%

Let's hit on a couple of macro events before we get into energy specific content.

The first of three presidential debates took place on Tuesday night. From most research I read, hard to say any minds were changed after the event.

However, President Trump announced a couple of days after that he and the First Lady had tested positive for COVID-19. No matter your political affiliation, I think we can all support a speedy recovery for the President and of course for all who contract the virus. That said, the news was not great for stocks as financial markets hate uncertainty and this is clearly an event with an uncertain outcome for the U.S. President. News over the weekend seemed to point to an improvement in the President's health, but reports have also been conflicting.

One last note on the election. No doubt traditional energy stocks have felt some pain at the thought of a Biden presidency. Yet, as my colleague Matt Breidert pointed out in a podcast a few weeks ago, yes policy influences, but economics ultimately dictate outcomes. Consider the long-run effect of coal losing share to natural gas and renewables, something I touched on in my last podcast at the end of August. Coal going from 45% to 20% of the generation stack since 2010 occurred during both democratic and republican led presidencies. Cheap natural gas prices as a result of technological evolution within shale oil and gas is the key driver of coal's demise. Add on the declining cost of renewables and you have a one-two punch Mike Tyson would be proud of. A Biden presidency does little to change the trajectory we have touched on so many times in this podcast and other communications with clients and investors; the electrification of demand will help decarbonize the energy sector while delivering more energy to a growing population. Supplying that energy will be renewables and natural gas, displacing coal.

On to company specific news for the week.

In E&P land, Devon and WPX announced a merger of equals on Monday. Technically Devon will be the surviving entity with a scant 2.6% premium to WPX holders as of the previous day's close, yet most of top management appears to be legacy WPX. This seems to fit the bill for what the market wants to see. Merger of equals, significant cost cutting going forward, lower leverage, scale in a particular area, in this case the Delaware side of the Permian and immediately accretive. The combined company will keep with Devon's current variable dividend structure, focusing on a fixed component with upside tied to free cash flow as opposed to production growth. To cap it all off, Devon and WPX were up 11 and 16% respectively on Monday. Hopefully this is a sign of things to come.

Within the majors, France's Total had their analyst day and it was chock full of good information. The tag line was simple, "More energy, less carbon". They talked about two different scenarios for world energy, Momentum and Rupture. Momentum involves 25% energy demand growth by 2050, with the key that while renewables and natural gas are strong, coal is hard to phase out in areas such as India and China. In Rupture, energy demand only grows 10% due to efficiencies, but coal almost disappears and natural gas remains key to ensure grid stability and flexibility. Total also referenced 10% plus per year growth in renewables between 2020 and 2030 with a company specific goal of growing its gross renewable portfolio from 5 gigawatts to 35 gigawatts by 2025.

Moving to midstream, just a quick note this week as Enterprise Products announced it had repurchased approximately $33M of stock during 3Q. While not a massive amount, it was great to see a restart of their program amid the pandemic and what we believe will be a trend with midstream companies over the next couple of years as strong free cash flow underpins the ability to return capital to shareholders.

On the utility front, NiSource held their analyst day this past week as well. They delivered a very positive message, with 10-12% rate base growth through 2024, translating to 7-9% earnings per share growth. Similar to other utility stories of late, NiSource intends to retire 100% of its coal generation by 2028 and replace primarily with renewables. Of course, in doing so, that will lead to a significant reduction in greenhouse gas emissions, to the tune of 90% expected.

One last item on the utility front as it was rumored that industry giant Nextera Energy was in talks to buy Duke Energy, in what would be a massive deal of two of the largest utilities in the U.S. Duke shot down the rumors for now, but it's no secret that Nextera is shopping for opportunities to buy a regulated business and impart their leading business model on another set of assets. More to come in this story would be my guess.

Finally, I wanted to note that we hope you were able to listen to our first educational series podcast with energy giant BP. That was released last week and is currently available on our website. This week we are teeing up another great podcast, with Enterprise Products Partners up next. Look for that later in the week.

With that, have a great week, stay safe, and we look forward to speaking with you again soon.

Thank you for joining us. And stay tuned for our next episode. Have topics you want covered or other feedback to share? Write us at info@tortoiseadvisors.com.

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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℠
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