TortoiseEcofin QuickTake Podcast

October 19, 2020

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

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

Market performance all in all last week was mixed. Crude oil and the S&P 500 were higher by less than 1%, with midstream energy down 0.3%. Broader energy was a notable outlier, being the weakest by about 2%. Supporting crude oil, there was a sizeable draw for crude oil, gasoline and diesel, with diesel inventories falling the hardest at over 7 million barrels. The diesel drop is a good sign as diesel inventories have been the most stubborn since the COVID-19 outbreak. Crude oil continues to remain in the low $40s and appears likely to stay there with Saudi Arabia and Russia continuing to discuss restraining supply until COVID-19 recedes.

In M&A last week, ConocoPhillips is reportedly in discussions to acquire Concho Resources. The deal would enhance ConocoPhillips' Permian exposure while leverage would likely stay at less than 2.0x debt / EBITDA. On the heels of the Devon Energy and WPX Energy merger announcement last month and the Chevron and Noble Energy tie-up over the summer, this deal would continue the trend of upstream consolidation.

There were a few developments in the regulatory house. First, Enbridge's Line 3 replacement project received a positive recommendation in Minnesota from the administrative law judge. This is constructive and keeps the project on a path where construction could begin at the start of the New Year. Secondly, FERC issued Equitrans Midstream's Mountain Valley Pipeline project notice to proceed on pipeline construction. The pipeline can now complete 10 miles of the remaining 35 miles of construction left to complete. That announcement was followed by a circuit court announcing a temporary stay pending review on the use of Nationwide Permit 12 to use for water crossing permits, not entirely unexpected. Given the regulatory ying and yang, we expect pipeline completion in mid-2021.

Schlumberger started earnings for energy companies last week with a slight beat on cash flow estimates. The world's biggest service provider indicated it is targeting end of 2021 for earnings to return to 2019 levels, noting the near-term recovery remains fragile due to potential waves of COVID-19. In North America, Schlumberger pointed to a modest uptake in activity to start the fourth quarter. That's consistent with what we've seen in the rig count which has now moved higher for five consecutive weeks.

This week, earnings continue in a big way, with the world's largest utility, NextEra Energy, among others reporting. And Kinder Morgan will kick off midstream earnings on Wednesday. For midstream this quarter, we expect improved pipeline transportation volumes in 3Q, and partly because of the aforementioned rig activity, constructive volume outlooks. Additionally, we believe the trend of cost cuts and lower capex will continue. Finally, debt markets for midstream companies are healthy at least in part due to management teams directing cash flow to debt pay-down. That probably continues yet expect to see a mix of some share buybacks as well. The vast majority of companies are free cash flow positive in 2021. Between distributions, debt pay-down and share buybacks, it does not have to be an either – or question, but some form of all of the above.

We continue our Energy Evolution education series later this week where James Mick interviews Whitney Stanco of Washington Analysis about the upcoming election. And then as a reminder, the following week we'll talk with NextEra Energy – different, in that this will be a live only call on October 28th. You won't want to miss it.

Thanks for listening.

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@tortoiseecofin.com.

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