TortoiseEcofin QuickTake Podcast

November 16, 2020

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.

This past week led off with human ingenuity at its finest and ended with a tradition unlike any other, the Masters Golf tournament. Sandwiched in between were a ton of meetings and several wild swings in the stock market. On the sports front, the Chiefs had a bye, providing an extra week of preparation as they look to avenge the season's only loss when they travel to Vegas to face the rival Raiders. We found out school for December will go back to virtual only for my boys, due to the rising COVID case growth, which is disappointing yet understandable. Finally, we are close to the holiday season and while this one will be different than probably any I have experienced, we hope you find a way to enjoy it safely.

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

- On the commodity front, crude oil was up nicely, with the futures contract increasing 8%, while
- Natural gas was also higher, as the front month contract increased 3.7%,
- Shifting to equities, the broader S&P Energy Select Sector Index® was awesome, higher by 17%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were even better, rising just shy of 18%
- Utilities, per the Dow Jones Utility Index, beat the S&P, up 3.7%
- And finally MLPs were right in between as the Tortoise MLP Index® moved higher by 12.3%

It wouldn't be right if we didn't start off with the week's biggest news that hit on Monday morning, Pfizer's announcement of positive data regarding its vaccine for COVID-19. Pfizer press released that its vaccine candidate, which is messenger RNA based, had greater than 90% efficacy in preventing COVID-19 as witnessed in its phase 3 trial. The strong efficacy rate was a big bonus for the vaccine and certainly higher than most anticipated. The result was a stock market surge, with beaten down energy companies leading the charge, along with commodities such as crude oil. The value trade was on and stocks levered to a reopening of the economy were high flyers. Most of this was likely a short squeeze, but we saw some follow through the next day as well. There's a lot to be done here on the vaccine front, needless to say, but score one for human ingenuity and it couldn't come at a better time as the shot in the arm, no pun intended, is what energy markets needed.

With some luck, there could be deliveries to front line workers as early as the next few months as Pfizer noted it expects to have over 50 million doses available in 2020 and over 1.3 billion in 2021. What's great is that progress is not stopping on other vaccines either, providing more opportunities to 1) increase the number of doses available worldwide and 2) increase the chances that one or more of the vaccines are truly effective against COVID-19 over a larger sample size. A dose of reality hit later in the week as markets trended lower with continued case growth causing various locales to institute forms of lockdowns across the U.S. and the world. Hopefully more good news on the vaccine front is on the way over the next several weeks.

It was a busy week on the conference front as earnings are generally over at this point with just a few still trickling in. The utility industry took center stage as its annual EEI conference went virtual with a ton of meetings. We had several team members attending and came away with the following takeaways.

- M&A activity was a hot topic
  - This actually has been in two forms
  - One, divestitures of non-regulated businesses to become more pure play
  - Two, acquiring regulated businesses in full, notably NextEra, which has been rumored to buy several different utilities

- Another big topic was the continued push for renewable growth to further decarbonize
  - It was noted that coal retirements could be accelerated even more
  - Another aspect of this is the desired improvement in ESG, which helps attract incremental investors and within the utility space, has led to higher valuations
- Finally, the local gas distribution companies have been hit hard this year due to the tie in with fossil fuel natural gas
  - Many felt the negative trading and sentiment was way overdone, especially considering the regulated nature of the cash flows
  - That said, some felt geography would matter as northern exposure would be better

Another interesting conference was hosted by Goldman Sachs, labeled Carbonomics, which brought together 30 different CEOs and policymakers highlighting their strategies to decarbonize the economy. In essence, the conference tone and ideas were similar to those laid out by the companies we have interviewed in our educational series on the global disruption of energy. A few things stood out to me specifically from the conference:

- Clean hydrogen continues to be a major talking point for many companies, including most notably those in Europe, where there will be government policies to support the buildout
- Carbon sequestration was also a topic and generally believed to be fully necessary to achieve net zero carbon in a cost efficient way

As I mentioned before, earnings were generally complete, but we did have a few left to report. That included a large MLP, Western Gas. If you have listened to any of these podcasts recently, you are probably very familiar with our refrain regarding free cash flow and for companies to return capital to shareholders, in particular via stock buybacks. Well, Western Gas hit on several key points, including becoming the 10th midstream company overall and the 6th since the start of the 4th quarter to announce a buyback program. In their case, a $250M program, starting immediately. That wasn't the only good news out of WES however, as they had a massive beat on EBITDA for the quarter, raised 2020 guidance and managed to have 2021 guidance above the Street as well. Maybe most impressive though, 2020 guidance is now actually AHEAD of where it was pre-COVID. Think about that for a minute, despite a massive 25% run here in the last week, the stock still remains down 34% YTD, despite having guidance that is now above pre-pandemic levels. Yes, the massive negative returns of midstream remain hard to fathom.

Finally, I just want to highlight a great podcast as part of our energy disruption series that was posted on Thursday of last week with Spanish utility giant Iberdrola. It's one more podcast in the ongoing series. I would note as well, while all of these are part of a series, they can certainly be listened to on a standalone basis.

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@tortoiseecofin.com.

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