TortoiseEcofin QuickTake Podcast

November 30, 2020

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

Hello I am Matt Sallee, Energy Portfolio Manager at Tortoise.

Last week started off with something we can all be thankful for. It was the 3rd straight week of positive vaccine news as AstraZeneca joined Pfizer and Moderna as the latest company to announce positive trial results which showed their vaccine to be highly effective. The company expects to supply hundreds of millions of doses by Q1 next year and 3 billion by the end of the year. In related news speaking on the Sunday morning news circuit the prior week the head of U.S.'s Operation Warp Speed, Dr Moncef Slaoui, stated U.S. vaccinations against Covid-19 will "hopefully" start in less than three weeks with an expected 20 million vaccines available in the U.S. in December with an additional 25 million per month after that. Furthermore, the group projects we will have reached 70% herd immunity by May. You may be wondering who the heck this group is since it sounds like a line from the classic 80s movie, Spaceballs, but fear not it is a highly credible partnership between the CDC, Department of Health and Human Services, the Department of Defense and others with a mission of delivering 300 million vaccine doses starting in January 2021.

As expected this set off another great day in the rotation into the reopening trade benefitting midstream which returned nearly 5% on the news. And despite gaining over 20% for November, the Alerian midstream index is still down 23% YTD with cash flows down less than 5% in 2020 which leads me to argue there is still plenty left in the tank.

Wall Street is beginning to take notice as well. Recently Goldman Sachs, Credit Suisse and EvercoreISI all upgraded the energy sector expecting it to outperform driven by some of the same catalysts we have been calling for. Specifically improved capital allocation shifting from capex to shareholder returns, low expectations after extended poor performance and, most recently, vaccine optimism. Additionally Bank of America gave the sector the highly coveted "double upgrade" going straight from under to overweight. Next up, both JP Morgan and Citi published pieces over the prior weekend calling for midstream in particular to re-rate higher though year end. And last but not least even long time bear, Michael Blum at Wells Fargo just as of today's recording published a bullish 2021 outlook.

In midstream news one headwind that has been on investors' minds is contract risk from producer bankruptcies. Last week Williams announced it had reached a global agreement with Chesapeake during their restructuring process with several key points:

- Chesapeake (CHK) will pay all pre-petition and past due receivables
- Chesapeake (CHK) will not attempt to reject gathering agreements in the Eagleford, Midcon or Marcellus
- Williams (WMB) will reduce its gathering fee in the Haynesville in exchange for ownership of 50,000 net mineral acres in the area CHK isn't developing which WMB plans to sell to a 3rd party who will
- Finally, Chesapeake (CHK) will also enter a long term agreement for capacity on the Transco pipeline

The agreement is not yet approved by the bankruptcy judge but we think it likely will be and view this as a positive as it removes uncertainty.

A couple items on the energy evolution front. First, Canadian renewable power company, Boralex, announced an agreement to purchase a controlling interesting in seven U.S. solar projects for $216.5 million. These are operating assets commissioned between 2014 and 2017, so pretty early in the operating life, and have long term power purchase agreements with a remaining average life of 21.5 years. The off-takers are high quality including subsidiaries of Southern Company, Edison International, City of Palo Alto, University of California among a couple others and the net capacity of the acquired assets is 118 MW. The assets will be financed with 75% debt and are expected to generate $15M of EBITDA or 3% accretion to 2019 cash flow. Needless to say the market for high quality contracted renewable assets is strong.

Another interesting development was Sempra's announcement of a hydrogen blending project at its SoCalGas and San Diego Gas and Electric subsidiaries. The pilot project will use hydrogen produced from renewable power during times when generation exceeds load and blend it into their existing natural gas distribution network. The plan calls for an initial 1% blend but over time may increase to as much as 20%. In the company's plan to decarbonize its pipeline network this pilot will complement the previously announced plan to blend 5% renewable natural gas by 2022 growing to 20% by 2030.

One item that we are watching real time is the ongoing OPEC meeting where the market is pricing in an extension of the current output curtailments which at this point has not been reached so stay tuned. 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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