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.

Hello. I am Tortoise Managing Director and Portfolio Manager Rob Thummel with this week's TortoiseEcofin QuickTake podcast.

The recent strong performance of the energy sector continued last week with both the energy sector and the midstream outperforming the S&P 500. The Alerian MLP Index rose by 9% last week and is up over 45% during the fourth quarter. You might be thinking - did I miss my opportunity to invest? My answer is no and here is why. The midstream energy sector still offers investors a dividend yield of approximately 9% while trading at a cash flow multiple that is below historical norms. But in my opinion, the most compelling attribute of the midstream sector is the free cash flow yield that hovers around 8% in 2020 and is expected to grow by almost 50% to approximately 12% in 2021 and 14% in 2022 according to analyst expectations. Investors are beginning to reward the midstream sector that is delivering a free cash flow yield in excess of the 5% free cash flow yield available if you are investing in the S&P 500. The higher free cash flow yield for the midstream sector is a function of stable, consistent operating cash flows enhanced by declining capital expenditures.

The energy sector likely got a little boost from the decisions made at last week's 180th meeting of the OPEC Conference last week. 23 countries met virtually to assess the global oil markets and determine the path forward for OPEC+. The decision – an increase of oil production by 500,000 barrels per day starting in January 2021. In addition, OPEC+ will hold monthly meetings to assess whether to increase or decrease production based off the health of the oil market. During the press conference, Saudi Arabia's Minister of Energy suggested that OPEC+ will act like a central bank adjusting oil production up or down as market conditions warrant. What this says to me is that OPEC+ wants to maintain stable oil prices through the end of the pandemic and wants to avoid the price collapse that occurred earlier this year. What does this decision mean for the U.S. midstream infrastructure sector and its investors? Stable oil prices improve energy sector sentiment allowing investors to evaluate the sector based on its fundamentals.

Probably the biggest news from last week was the return of McRib. Yes, after an eight year hiatus, the McRib is back. This does have some relevance for the energy sector. One of the ingredients in the McRib is azodicarbonmide a chemical compound that is also used in yoga mats and other foamed plastics. Don't worry the chemical is fully approved for use in food by the U.S Food and Drug Administration. Maybe the return of the McRib is why Exxon conveyed such a positive outlook for its petrochemical facilities in a press release last week. As you know, petrochemical facilities produce the building blocks for many consumer products that we use every day including food additives like azodicarbonmide. Now I hope I didn't ruin your lunch but I probably already have but I'm sorry.

Last week, Exxon also laid out capital spending through 2025 with annual spending roughly 33% lower than 2019 levels. Chevron also announced its capital budget through 2025 with annual spending 27% below historical levels. It is good to see two of the largest oil and gas producers in the world re-affirming their capital discipline commitment through the middle of the decade. Decisions like these from oil and gas producers will help midstream companies deliver more free cash flow back to the investor.

Shifting gears, I wanted to provide a quick update on the global LNG market. Throughout the summer you heard about cancelling of U.S. cargoes due to low demand. Today, the global LNG market is much stronger. Last week, LNG spot prices in Asia reached their highest levels in nearly two years due to lower available LNG supply from Australia and Qatar. In the U.S., LNG exports are at record highs after experiencing a lull during the summer. The largest U.S. LNG exporter Cheniere is likely benefiting the most from current LNG market condition.

To finish up, Magellan Midstream Partners priced bond deal last week. It was a $300 million deal with a coupon of 3.95%. In addition, investor demand for Magellan's notes was strong as the deal priced above par at 109.678%. What garnered my attention was the maturity date. The senior notes come due in 2050. It doesn't appear that bond investors have concerns about Magellan's terminal value. In addition, Magellan's equity trades at a 9% dividend yield so almost a 500 basis point spread of risk premium for the equity relative to debt holders. This spread is much higher and wider than historical averages.

Those are the highlights from last week. Thanks for listening. We will talk to you next week.

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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The **Alerian Midstream Energy Index®** is a broad-based composite of North American energy infrastructure. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basas (AMNA) and on a total-return basis (AMNAX).

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℠
The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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