# TortoiseEcofin QuickTake Podcast

March 15, 2021

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

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

What do Kelcy Warren and Beeple have in common? Both saw their net worth rise by over $69 million last week. Of course, Kelcy Warren is the founder of the midstream pipeline operator Energy Transfer Partners. The Energy Transfer stock price rose by approximately 4% increasing Kelcy's net worth by over $69 million while Beeple an artist named Mike Winkelmann sold a nonfungible token or NFT for $69 million last week increasing his net worth.

I will leave it to others to determine the value of digital assets like NFTs. I still believe in the value of long streams of cash flows from essential, physical assets. Others are in agreement with me as the Alerian Midstream Energy Index that is filled with free cash flow generating companies rose by 2.7% last week.

Energy companies are demonstrating to shareholders a commitment to generating a steady to growing stream of cash flows and returning that cash to the shareholders. Most energy companies are embracing the energy transition as well and the market has been rewarding these stocks.

Last week, it was Chevron's turn to showcase its commitment and plan for the energy transition at its annual analyst day. Chevron's main message was higher returns and lower carbon. The key highlights from the meeting include the following:

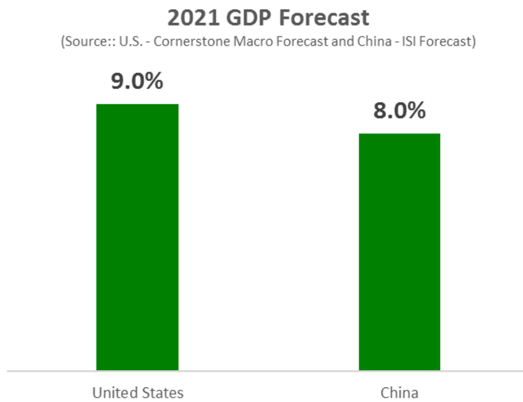
- First, a commitment to capital discipline resulting in higher free cash flow. In 2020, Chevron cut capital expenditures to $13 billion, a 35% reduction from its historical average of $20 billion per year. Last week, Chevron committed to a lower spending level through 2025. This results in the expectation of free cash flow growing at a compound annual rate of greater than 10% over the next five years.
- Second, Chevron indicated it intends to be a leader in advancing a lower carbon future. Chevron is guiding to a 35% reduction in carbon dioxide emissions per unit of production by 2028 led by large reduction in flaring. In addition, Chevron is investing in two energy technologies carbon capture and hydrogen as well as forecasting a 10 times volume increase in renewable natural gas production by 2025. Lastly, Chevron has committed to zero routine flaring across operations by 2030 in accordance with the World Bank initiative
- Lastly, the Permian Basin is important to Chevron. Permian oil production volumes are expected to decline in 2021, but Permian volumes are forecasted to increase in 2023 and beyond eclipsing 1 million barrels per day by 2025. By 2025, free cash flow from the Permian Basin is projected to be 3x higher than 2020 levels. This future volume growth in the Permian is a positive for many of the energy infrastructure oil pipelines that we invest in.

Shifting to some macro-related news. There were some interesting data points from the Energy Information Administration or EIA's short term energy outlook released last week. The EIA raised its U.S. GDP growth estimate to 5.5% in 2021, up from 3.8% the previous month. Also, the EIA forecasts 2022 U.S. GDP growth of 4.2%. The economic engine of the roaring 20's is heating up. The $1.9 trillion stimulus passed last week and possible COVID independence by July 4th could be the catalysts for economic expansion.

Several economists updated U.S. GDP forecasts for 2021. As shown in Figure 1 below, Nancy Lazar at Cornerstone Macro is forecasting a 9% year-over-year real U.S. GDP growth in the fourth quarter of 2021. This could be the strongest growth since 1959. Globally, ISI expects 8% real GDP growth in China. So the two largest economies in the world, the U.S. and China, could both grow by at least 8% year-over-year in 2021. The U.S. and the world will need a lot more natural gas, petrochemicals, and oil if economists' GDP forecasts are accurate. Clearly, this could be a strong tailwind for midstream energy infrastructure stocks as well.

The EIA forecasts global oil demand will rise by 5.3 million barrels per day in 2021, reaching the pre-pandemic levels of 100 million barrels per day by the first quarter of 2022. On the natural gas front, the EIA short-term outlook highlighted that the February natural gas withdrawal from inventory was the largest February withdrawal on record. Natural gas inventories are forecasted to exit winter at the end of March 13% below normal levels. A growing economy, increasing commodity demand, and declining inventories are all positives for the outlook for oil and gas prices and the energy sector. The only disappointing note in the EIA report was that coal use for power generation is forecasted to increase in 2021 and 2022 and as a result U.S. carbon dioxide emissions will increase.

**Figure 1**




With U.S. gasoline consumption approaching pre-pandemic levels, I am keeping an eye on gasoline inventories that are 6% below last year levels. It is likely that gasoline consumption rises throughout the summer, so U.S. refiners would need to refine higher volumes of oil to boost gasoline production. This would increase refined product volumes transported by many of the pipelines that are part of the U.S. infrastructure network.

Lastly, in company specific news, last week Canada energy infrastructure operator Inter Pipeline suggested shareholders reject Brookfield Infrastructure Partners hostile bid to acquire the company. Inter Pipeline management believes that its nearly completed Heartland Petrochemical Complex, its largest growth project in history, will be a step change in cash flow starting next year so superior offers or other alternatives may emerge.

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.**

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 basis (AMNA) and on a total-return basis (AMNAX).