TortoiseEcofin QuickTake Podcast

April 26, 2021

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 Senior Portfolio Manager with TortoiseEcofin.

With the weather turning nicer here in Kansas, it's been great to get outside and watch my boys play soccer and baseball. In typical Kansas fashion though we had a snow storm on Tuesday and then hit over 70 degrees during the weekend. You better like all four seasons, sometimes in the same week, if you choose to live here. Speaking of seasons, we had an earnings one just launch for the quarter. And speaking of launches, major league soccer kicked off with Sporting KC getting an opening season win. And speaking of winning, the Kansas City Royals are in first place in the central division and second overall in the American League. It's only April you say? Yes, but in the last full MLB season, the Royals finished a whopping 48 games out of first place in the American League, so we'll take anything we can get at this point!

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

- On the commodity front, crude oil was modestly negative, with spot prices falling over 1.5%, while
- Natural gas was stronger on weekly storage numbers, as spot prices increased 4.2%,
- Shifting to equities, the broader S&P Energy Select Sector Index® was a laggard amongst S&P sectors, dropping 1.7%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers IndexSM were worse, declining 2.1%
- Utilities, per the Dow Jones Utility Index, couldn't buck the trend, falling 59 bps
- And finally MLPs, as represented by the Tortoise MLP Index® were an outlier to the positive side, moving higher by 1.7% for the week

Source: Bloomberg

With Earth Day on Thursday, President Biden commenced the Leaders Summit on Climate, where 40 nation's leaders joined virtually to discuss plans to keep the world on the 1.5 degree Celsius path in terms of warming. Prior to the meeting, Biden announced a new U.S. target for CO2 emissions, with a reduction of 50-52% by 2030 from 2005 levels. This compares to the previous target issued under the Obama administration of 26-28% by 2025.

This sounds daunting, yet a couple of banks had some quick hit thoughts that the power sector, which accounts for approximately 30% of U.S. CO2 emissions, could see a reduction of between 60 and 70% just by simply eliminating coal from the generation stack between now and 2035. That would assume a relatively constant natural gas share with renewable gains making up the difference. Recall, coal represents about 20% of the generation stack for power as of 2020. Frankly the details from the Biden plan are pretty lacking at this point, but certainly carbon capture and sequestration was mentioned several times.

Speaking of carbon capture, or CCS, if you are a regular listener of this podcast you have no doubt heard us espouse on this pretty consistently of late, including 4 of the last 5 podcasts. The reason is just that is makes so much sense. Along those lines, ExxonMobil had a big announcement, proposing a $100 billion dollar CCS project along the Gulf Coast, specifically in the Houston Ship Channel. The project would capture CO2 from the various industrial facilities, petrochemical plants, and refiners and then store it in the Gulf of Mexico deep below the sea bed.

Per Exxon, the plan has the potential to capture 100M metric tons of CO2 annually by 2040. That's the equivalent of taking 1 in every 12 cars off the road. Clearly no indication yet of anything occurring, but it would take both private and public companies as well as government support. Certainly worth considering the proposal in one of the most heavily industrialized areas of the entire United States.

A couple of other quick hit news items:

- Crude oil faced pressure due to a surge in cases in India and the potential impact on demand, as well as the ongoing discussions between the U.S. and Iran on lifting sanctions
- A U.S. House panel passed a bill that would declare OPEC a cartel and would have implications for the producer group
    - Note this has come up several times in years past and has never gone anywhere
- Magellan Midstream Partners sold a 25% interest in their Pasadena marine terminals for an implied 12x multiple…pretty attractive
    - We anticipate at least a portion of those proceeds to go towards stock buybacks
- Finally, Western Midstream Partners announced a distribution bump of 1.3% for 1Q 2021
    - Western stated a goal of distribution growth of 5% annually, combined with substantial debt pay down, achieving a leverage ratio below 3.0x by 2025
    - By our math, the company would still retain significant cash flow after all that to annually buy back stock as well, in essence a trifecta of returning capital to stakeholders

To wrap up the week, we did have some heavyweights announce earnings for the quarter. I'll hit three specifically with a few notes on each.

On the midstream front, Kinder Morgan knocked it out of the park for the quarter with a massive $1B beat in EBITDA, driven by positive implications from Winter Storm Uri. The beat was approximately 55% above consensus expectations and while it was one time in nature, it provides substantial ability to delever even faster than expected. On the negative front, Kinder did ultimately guide down a bit for 2021 earnings after netting out the storm benefits. This was primarily due to volumes not being quite as robust as expected in the planned recovery. Still plenty of time in the year however to see volumes return.

On the utility front, giant Nextera Energy reported a slight beat, which is pretty much expected by investors. MLP Nextera Energy Partners also had a very solid quarter and announced an acquisition of wind assets from Brookfield for $733M.

On the refinery front, Valero Energy reported and had a nice beat on refining volumes beating expectations and exceedingly strong renewable diesel margins. In fact, Valero spoke a lot about renewable fuels as well as the new CO2 project they are anchoring with Blackrock and Navigator, which I discussed about a month ago.

Finally, all three of the big oil field services companies announced earnings and the sustainability theme was present in all three, including discussions about hydrogen, carbon capture and geothermal.

The next few weeks will be busy as earnings kick into high gear, so stay tuned for more in the coming weeks.

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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The Dow Jones Utility Average is a stock index from S&P Dow Jones Indices that tracks the performance of 15 prominent utility companies traded in the United States.

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℠
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(NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

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