# TortoiseEcofin QuickTake Podcast

June 1, 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.

Let me start off by providing a recognition of Memorial Day and specifically for all those who lost their lives protecting our freedom as well as our constant efforts at life, liberty and the pursuit of happiness. With several family members currently serving, or having served in the military, it will always be a reminder of fellow Americans that have made the ultimate sacrifice. On a lighter note, another school year came to a close for my two boys as summer break kicks in today. I remember fondly those days of little responsibility and only worrying about a summer job and when my next baseball game was. Oh to be young. Bringing it full circle to energy, with schools finishing up, we are anticipating what could be a record summer driving season in the U.S., as families satisfy the itch to get out and travel again.

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 spot prices increasing 4.1%, while
- Natural gas was also in the green, as spot prices rose 1.4%,
- Shifting to equities, the broader S&P Energy Select Sector Index® was essentially flat
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers IndexSM improved 1.9%
- Utilities, per the Dow Jones Utility Index, struggled to an S&P 500 sector worst -1.23%
- And finally MLPs, as represented by the Tortoise MLP Index® were modestly negative, moving lower by 47 bps for the week

The E&P world had a big M&A deal last Monday morning, with Cimarex and Cabot Oil and Gas announcing a merger of equals on Monday. Both of these companies are very well run, low levered, free cash flow generators. Yet they operate in discrete areas, with Cimarex primarily in the Permian and Cabot in the Marcellus. As a result, the synergies are not exactly robust, with $100M anticipated, primarily due to lower G&A. From the investor reaction, most were disappointed, as the stocks finished down between 5 and 8%. From Cabot's perspective, the deal makes sense, they needed to diversify and/or increase their inventory backlog. From Cimarex's perspective, most were puzzled. While Cabot is exceptionally well run and a free cash flow machine, many felt Cimarex was well positioned to receive a nice premium takeout offer from a larger player and combining them with a 100% natural gas focused company in a rising oil market didn't sit too well.

On the positive side, we end up with a company that will remain exceptionally well positioned to deliver free cash flow to investors. They are opting for a base line dividend, pro forma at about 2.8%, and a variable dividend on top of that to be paid quarterly based on results. This could prove to be quite attractive. Cabot stockholders would also get access to Cimarex's tax losses to offset expected future taxable income.

In other news, Democratic senator Michael Bennett from Colorado and Republican senator Rob Portman from Ohio introduced a bipartisan bill labeled the Carbon Capture Improvement Act. This would further benefit the ultimate uptake in carbon capture and storage technology, something we continue to preach here on our podcasts.

Across the pond, a bit of strange news as Shell lost a lawsuit in Dutch court brought by several groups in 2019, including the Dutch branch of Friends of the Earth. The court ruling instructs Shell to reduce emissions by 45% by 2030 with 2019 as a reference point, compared to its current goal of 20% emissions reduction by 2030, with 2016 as the reference point. Note Shell's current plan calls for a 45% reduction by 2035 based on the 2016 reference point. A couple of interesting notes here:

- One, Shell is already actually one of the most forward looking and thoughtful energy companies when it comes to the energy transition, including a goal of net zero emissions by 2050
- Two, Shell plans to appeal the court's decision
- Three, it's not clear what this actually means in several respects
    - I.e. does it include assets outside of the Netherlands?

 

- How are the emissions measured?
- Is this enforceable and in what way?

Bottom line, Shell has embraced energy transition and we don't see that changing, regardless of the outcome of the aforementioned case.

In proxy news, it was noted that 61% of Chevron shareholders voted against management and in favor of the company reducing scope 3 emissions, which are those from its customers. We also voted for the company to reduce scope 3 emissions, with the goal of better disclosure and investment in the energy transition. Note, this does not mean a stoppage of oil and gas supply, simply that areas such as hydrogen, renewable natural gas, renewable diesel and carbon capture need to play a bigger role going forward. Chevron has arguably been the most adverse to change amongst the majors, so maybe this is the impetus needed.

Finally, in widely reported news, ExxonMobil shareholders voted to put at least 2 new members on XOM's board from activist Engine No. 1 LLC. The other two nominees were still too close to call. The two that were elected are actually former refinery execs, including Greg Goff, who ran Andeavor Refining, prior to its purchase by Marathon in 2018. We have known Greg for years and he was an excellent CEO during his tenure.

What's likely being misread is the intent of Engine No. 1, which is not to cause a wholesale makeover in Exxon's business, similar to European counterparts such as BP and Shell, but instead for them to prepare for the coming energy transition. On that front, we would argue that due to recent investor demands, Exxon has made several improvements. The last couple of earnings calls have highlighted XOM's carbon capture plans and views on hydrogen and biofuels. Additionally, the company created a Low Carbon Solutions business. Of course these remain nascent at present, so the ultimate outcome is still to be determined.

On that front, the pressure for more and better disclosure on emissions and plans for reducing them, along with ways to participate in the energy transition are all positives in our view, and continue the themes we have been espousing for some time.

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 **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).

The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

**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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