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 Matt Sallee, Energy Portfolio Manager at Tortoise.

The big development coming into the week was resolution of the OPEC disagreement that occurred at the July meeting regarding United Arab Emirate's (UAE) base production level from which the curtailments are applied. Reflecting the investments in expanding capacity in recent years, the UAE's base level was increased but in order to appease the broader group base levels were also increased for Saudi Arabia, Russia, Kuwait and Iraq for a combined 1.6 million barrels per day starting in May of 2022. As part of the modification, the group will start increasing production 400,000 bpd on a monthly basis in August until a total of 5.8 million barrels is brought back by September next year. Based off demand forecasts from various reporting agencies, this likely keeps the market undersupplied for the balance of 2021 and early 2022 moving into a slight surplus later next year. The bottom line: absent some major change in either supply or demand, the market is probably going to be tight keeping prices robust especially given an Iran nuclear deal that looks to be slipping away vs getting closer. Tough news for all those hitting the road for summer vacation.

Shifting gears, the energy industry continues to take on more energy transition opportunities, some of the noteworthy developments last week include:

- Chevron (CVX) and Cummins (CMI) announcing an MOU for a strategic alliance to develop business opportunities in hydrogen as a transportation fuel and leveraging Cummins' electrolyzers at CVX's domestic refineries.
- Exxon (XOM) and Shell (RYDAF) developing 5-6 million tons of carbon capture by 2030 in Scotland which is over 50% of the UK's targeted 10 million tons of CCUS by that date.

Q2 earnings kicked off last week as well with updates from Halliburton, Kinder Morgan, NextEra and others. Here's some highlights across the value chain:

- In oil field services, Halliburton (HAL) management believes we are in early stages of a multiyear up-cycle in activity after several tough years and significant right sizing in 2020 which sets up the company and the industry at large for pricing power and margin expansion. The company is currently at 100% utilization of available frac capacity and low-emissions equipment demand is particularly strong allowing for acute pricing power for these assets. Confirming what I've heard elsewhere, they pointed to private operators increasing drilling and completion activity while public E&Ps are holding the line.
- Moving to midstream, Kinder (KMI) posted an overall positive update with the headline being an increase to full year guidance. 2021 EBITDA expectation was increased a further $100M over a previously increased number. This is partially due to the Northeast gas storage acquisition but also refined product volumes are running better than expected and, of course, they didn't have $70 oil in the budget. There was a lot of focus on the recently acquired renewable gas business and while small today they see significant investment opportunities and growing demand. The main disappointment from my perspective is the lack of emphasis placed on share repurchases from management. Where the stock is trading this results in a low teens cash flow yield for every share purchased. I find it hard to believe there are capital projects that produce a risk adjusted return that is competitive with that but that's an outsider's prospective.
- Finally in the downstream, NextEra (NEE) reported a good quarter and reaffirmed full year EPS guidance and a 6-8% growth rate through 2023 while confirming they expect to be in upper end of this range. They are also selling 590 megawatts of wind and solar assets to NextEra Energy Partners at a 12.5x cash flow multiple.

Circling back around, I mentioned Kinder's refined products segment performed well in Q2. Related to this, Bloomberg had a story last week on gasoline consumption. Effectively demand is running in line with 2019 levels in major consuming countries including the US, most of Western Europe, South America and India. On that point, I find it remarkable that India is running at that level after recently coming off a vicious wave of the virus just a few months ago. And in real time data, the US department of transportation reported recent vehicle miles traveled is running above 2019 levels.

Contrasting this, Mercedes vowed to spend nearly $50B to electrify its lineup over the next decade. I think it is going to be fascinating to watch the rollout of electric vehicles and their adoption rates relative to gasoline vehicles and how this impacts gasoline demand in future years. Rest assured, we are laser focused on these developments and will modify portfolios as needed going forward.

And hot of the press, in a story we've been following in recent weeks, Inter Pipeline announced their board is no longer recommending the Pembina acquisition offer and is open to engaging with Brookfield so we will have more on this situation in the coming weeks.

I'll leave it there for now. 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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