TortoiseEcofin QuickTake Podcast

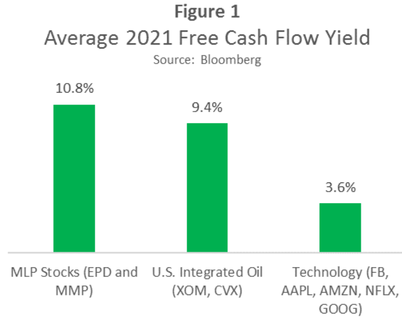
August 2, 2021

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.

The first week of the Olympics has been exciting to watch especially the U.S. women's soccer quarterfinal match. Fortunately, the week of earnings in the energy sector didn't produce a lot of drama or unexpected finishes which is a good thing. Where the energy sector scores its highest marks in the competition for capital is cash flow generation. As illustrated in Figure 1 below, based on Bloomberg data, the average 2021 free cash flow yield of the two largest MLPs (Enterprise Products and Magellan) that reported earnings last week is almost 11% compared to a 9% average free cash flow yield for Exxon and Chevron that also reported last week. These cash yields are more than double the free cash flow yields of the FAANG (Facebook, Apple, Amazon, Netflix, Google) stocks several of which traded down after reporting earnings last week.

Figure 1



Related to the earnings season, U.S. oil and gas producers have entered the era so appropriately labeled by EQT management, who is the largest U.S. natural gas producer, as the sustainable shale era that includes free cash flow generation, balance sheet strength, the pursuit of net zero emissions and returning capital to shareholders. These characteristics apply to energy infrastructure operators as well. Not included in the new era is increased capital investment. Energy investors have no tolerance for increased capital investment right now. We want dividends, buybacks, lower debt, and reduced emissions. Any hint of even a slight increase in capital investment by management teams is resulting in a decline in the company's stock price – see Exxon and Enterprise post-earnings stock charts from last week as a example.

Earnings in general have met expectations. What we learned from Magellan Midstream and Valero's earnings is that gasoline and diesel volumes are back approaching or exceeding 2019 levels. A few oil and gas producers like EQT caught investors off guard with hedges that have resulted in lower revenues due to lower realized prices than current spot prices. The highlight of earnings season so far has been petrochemicals results. A best-ever petrochemicals quarter drove a quarterly earnings beat for Exxon. Enterprise set a record for propylene production in the second quarter. Petrochemicals needs to be renamed essential materials as these products called ethylene, propylene, butylene are the basic building blocks for consumer products that are benefiting from strong global GDP growth in 2021.

To wrap up, I also want to highlight a couple of positive emission related announcements from energy infrastructure companies reported last week. Enbridge announced a partnership with three other parties to explore carbon capture and sequestration opportunities. As North America's largest energy infrastructure operator, Enbridge is a leader in the energy transition investing in wind and solar facilities, hydrogen, renewable natural gas, and carbon capture investments and earning an A MSCI ESG rating. In addition, Enbridge is reducing its own emissions by increasing the use of solar power to operate liquids pump stations and gas compressor stations.

Also last week, crude oil pipeline operator Plains All-American released its 2020 sustainability report highlighting a 20% decrease in its Scope 1 and 2 GHG emissions since 2018. Lastly, natural gas pipeline operator Williams Companies also released its 2020 sustainability report highlighting that since 2012, Williams has reduced reported methane emissions from natural gas processing plants and transmission compressor stations by more than 58% while throughput from these facilities has increased by 27%. Williams set a near-term goal of 56% absolute reductions in GHG emissions from 2005 levels by 2030. Natural gas is a reliable fuel source and emits about half as much carbon dioxide as coal. It was disappointing to see that the G20 could not agree to a phase out of coal last week as Reuters reported that China and India could not commit to a phase-out by 2025.

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).