TortoiseEcofin QuickTake Podcast

September 13, 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.

I would like to start by recognizing this past Saturday as the passing of two decades since the horrible events of 9/11/2001. In 2018 we took a family trip to New York City for Spring break. While there, we visited the 9/11 Memorial and museum. All I can say is, if you haven't been, that alone is worth the trip. It is incredibly moving and reinforces the sentiment, "never forget". On a far lighter note, the NFL kicked off its season and it was thrilling to see. The Chiefs are looking to make it three straight Super Bowls, so hopefully they can stay healthy and reclaim the Lombardi Trophy. A good start with a week one win in the books.

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

- On the commodity front, crude oil was up marginally, with prices rising 62 bps, while
- Natural gas continued its surge, trending higher by 7.2%,
- Shifting to equities, the broader S&P Energy Select Sector Index® finished in the red, lower by 1.7%
- Exploration and production companies, as measured by the Tortoise North American Oil & Gas Producers Index℠ were also lower, down 1.4%
- Utilities, per the Dow Jones Utility Index, underperformed as well, declining 1.6%
- And finally MLPs, as represented by the Tortoise MLP Index® were also weak, falling 2.5% for the week

Circling back to commodities, natural gas managed to continue its recent surge. As Rob touched on last week, international prices remain exceptionally high. Low inventory levels in Europe are pushing prices higher to incentivize imports there. However, Asian prices have been higher still with demand pulling shipments to the Far East, exacerbating the problem for Europe. LNG exports out of the U.S. are maxed out, but it is driving prices higher domestically as supply has not budged. The result was a front-month futures price that closed over $5 per mmbtu on Thursday, the first close over $5 that I could find since February of 2014. Keep in mind, it's only September, which is not supposed to elicit these types of prices. With a cold winter, we are almost assured of seeing higher prices, potentially in the double digit range, albeit likely on a temporary basis.

Enbridge Inc. delivered the only acquisition activity for the week, with the announcement of the purchase of the Moda Midstream assets in the Gulf Coast. In the $3 billion dollar acquisition, Enbridge acquires the largest crude oil export facility in the U.S. in Corpus Christi, Texas. There were some other assets as well, including a 20% interest in the Cactus II crude oil pipeline. In an interesting ESG spin, Enbridge plans to build a 60 MW solar farm next to the terminal to power the location, with the objective to be 100% net zero scope 1 and 2 emissions at the facility over time.

On the energy transition front, Schlumberger announced its New Energy team made an investment and collaboration agreement with EnerVenue and its nickel-hydrogen battery technology. Chevron was in the news several times, with three separate announcements, including a collaboration with Caterpillar on hydrogen, pursuit of sustainable aviation fuel with Gevo and incremental CNG fueling stations with Mercuria. If you feel like you have heard us talk about Chevron and energy transition in this podcast before, you are exactly right. They have been incredibly active in this area and we fully anticipate that continuing.

Shifting gears, the Producer Price Index was released for the month of August. It once again came in quite strong, up .7% versus expectations of a .6% increase. This brings the year over year change to +8.3%. You may be wondering, while that is interesting, why are you bringing up the PPI index? Well, it happens to be very key for pipelines, specifically those of the liquids variety, such as crude oil and refined product pipelines. Liquids pipelines subject to the Federal Energy Regulatory Commission's index tariff system are allowed to increase tariff rates annually by the change in the PPI plus a fixed constant.

At present levels, pipeline tariffs would increase by over 9%. That's a pretty nice uptick that allows for solid growth in EBITDA by simply raising prices. The increase is meant to cover rising costs, but so far companies have stated costs are not increasing at the same rate as the revenues would rise. A nice tailwind for the sector to be sure.

Finally, I wanted to hit on capital allocation. Those two words are THE buzz words within energy and more specifically midstream. This past week we had two companies that prioritized returning capital to shareholders in an "all of the above" manner. We've talked in the past about Western Midstream returning capital to stakeholders by paying down debt, increasing distributions and buying back stock. Enter two more companies into this club that we feel will grow in membership as we progress through the next 12-15 months.

First up Williams Companies. Having achieved balance sheet leverage metrics consistent with its targets, Williams announced a $1.5 billion stock buyback program on Wednesday. The program represents about 5% of the market cap of the company. Management intends to continue growing its dividend as well, hitting the trifecta of returning capital in a variety of forms.

Next up was Cheniere Energy. Laying out a comprehensive plan of attack, Cheniere initiated a quarterly dividend with intentions to grow said dividend in the mid-single digit range annually, guided to continued debt pay down, and resumed its share repurchase plan. Management outlined its goal to generate $10 billion dollars of distributable cash flow through 2024, including a run-rate DCF of $15-$17 per share on a long-term basis. The $10B breaks down as roughly $4B for debt pay down, $1B in dividends, $1B in share repurchases, $2B to fund organic growth of the Corpus Christi stage 3 expansion, leaving $2B unallocated for use in debt or share buybacks.

These are just two more companies within midstream executing on a new mantra of returning capital to shareholders. It can't be said enough the complete 180 degree transition these companies have undergone.

In total, we are now up to 17 midstream companies with stock buyback programs, a number that is almost certain to continue to grow as we embark on 2022.

With that, have a great week 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.

The producer price index (PPI) measures inflation from the perspective of costs to industry or producers of products.

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.

The S&P 500® Index is a market-value weighted index of equity securities.

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℠

The Tortoise North American Oil & Gas Producers Index℠ is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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