December 13, 2021

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.

I'll kick it off with a couple highlights from the Energy Information Administration latest short term energy outlook.

- They made a small reduction in Q122 oil demand related to the latest COVID variant but full year demand still projected to be right at all-time highs of 100.5 million bpd
- In the US they group is calling for a 400,000 bpd, or 4%, increase in US crude production by Q4 2022 vs the current level
- Finally they expect a 17% year over year increase in LNG exports to 11.5 billion cubic feet per day – wow!

These expectations support our view that utilization of existing US energy infrastructure will continue to increase next year at a rate that allows cash flow growth but will minimal investment supporting returns on capital invested

On the company news front, it was a big week for guidance.

On the company news front, Kinder Morgan issued 2022 guidance ahead of their meetings at an industry conference. The highlights include,

- 5% increase in recurring EBITDA largely in line with the street
- $1.3B of growth capital down significantly from recent years
- Strong shareholder returns from $1.11 per share dividend and up to $750M of share repurchases
- An expected 4.3x debt to EBITDA at year end 2022; below their 4.5x target

This update was well received by the market in particular related to the buyback which is quite a bit higher than most investors, including ourselves, were forecasting.

Another energy infrastructure bellwether, Enbridge hosted an analyst day and shared its most recent outlook. Key points for me are,

- 9% growth in 2022 EBITDA which is pretty remarkable off of a $14B+ baseline supported by $10B of investments placed in service in 2021
- 5-7% annual per share cash flow growth for the next 3 years and a 3% increase in the 2022 dividend
- Plans for up to $1.5B of share repurchases on top of a robust project backlog to drive future growth

Enbridge has also been a leader on the sustainability front and gave investors plenty of color on their future low carbon investments. One such negative carbon project was the announced MOU with Capital Power to create a carbon capture and storage hub in Alberta where ENB will provide transportation and storage of CO2 from Capital Power's Genesee Power Plant along with other C02 emitting facilities in the region. This is just one example but the company plans to spend up to $1B / year on renewable power along with identifying dozens of potential carbon capture, over 10 hydrogen and over 60 potential renewable gas projects along its existing asset footprint. This provides visibility to years of growth investments compatible with decarbonizing the energy systems.

Last up Pembina also put out 2022 numbers. Quickly on this name, EBITDA guidance was in line with street expectations but the capex forecast came in lower at $650M. As a result the company is going to have more free cash flow than most had forecast and the company is giving top priority to buybacks targeting $200M adding to the $2.25B I mentioned previously from ENB and KMI. Kudos to all three names - focusing on buybacks delivers such obvious compounding accretion to cash flow per unit I simply don't understand the companies that aren't giving it priority.

Along with buybacks another critical component of the go forward plan for any midstream name is a credible environmental strategy and I'll tell you why. A couple of weeks ago I attended Goldman's Sustainability forum and found one of their key takeaways as particularly relevant for energy. They stated that ESG focused investors are beginning to shift their focus from consensus winners where returns have been phenomenal in recent years and instead looking for environmental improvers or "transition" companies. They highlight the importance of transparency from companies combined with engagement from investors which is becoming a key area of focus rather than an exclusion strategy. This is exactly how Tortoise views the opportunity to tackle emissions. Despite the most robust EV adoption scenarios gasoline demand only makes of 25% of oil use and other uses generally don't have viable alternatives. The outlook for natural gas demand is even more robust so we believe it is critical for us as investors to work with our portfolio companies to deliver the energy the world needs but do so with ever improving emission profiles in the future. This is currently taking place through electrification of operations from renewable power, additional monitoring equipment and better maintenance practices, greater mixes of low, no or even negative carbon renewable fuels in the existing assets provide years of visibility to new growth opportunities and better environmental footprints.

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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