

January 31, 2022

**Welcome to the TortoiseEcofin QuickTake podcast. Thank you for joining us as we provide timely updates on the market.**

Hello I am Matt Sallee, President of Tortoise

Well there was no shortage of excitement in financial markets last week and volatility showed up ready to play another week. The key items causing concern remain Federal Reserve trajectory and further escalation of the situation in Ukraine. On the latter the Pentagon said Monday the US has 8,500 troops on heightened alert in the region along with other NATO forces which have already built up along the border so we will be watching that one closely. Regarding the Fed, as expected they left rates unchanged last week while pointing to a March rate hike but also commented the inflation picture has heated up since December. The bottom line is it was another choppy week with the S&P managed to eke out a small gain while midstream energy (AMNA) added another 2.5% to its YTD tally.

On the earnings front the key name to highlight was NextEra Energy. For starters CEO, Jim Robo, announced his retirement. He is extremely well regarded in the industry including at our firm so we are sad to see him go but the company has a very deep bench of talent and the very capable University of Missouri alumnus John Ketchum will take over. Ketchum's previous role was CEO of NextEra Energy Resources, their renewable energy division so he is a logical choice to take over. On the numbers front, the company extended its 6-8% EPS growth target through 2025 while pointing to the top end of the range. Much of this growth will come from their nearly 17 gigawatt backlog of renewable development projects. So despite the leadership change, in our view, the outlook is still bright.

There wasn't much in the way of midstream earnings to cover last week but lots of companies declared dividends which is a little more fun these days compared to the last few years. We previously talked about Targa who after right sizing their balance sheet grew the dividend to 3.5x their previous level. We had another nice one last week with Energy Transfer increasing the dividend 15% as they are now within their target leverage range. In addition, they plan to increase the dividend to pre-pandemic levels which is an additional 75% above the current level while maintaining leverage at the 4.25x target. In addition to those names, Western Gas, Enterprise and Hess all announced dividend increases so far. It's nice to see some dividend growth along with what we expect to be a big year for share repurchases.

On the renewable fuels front some positive updates came from renewable natural gas producers, Clean Energy Fuels and Archaea Energy. RNG is an area where we see tremendous growth coming from a combination of extraordinary project returns on the supply side and exponential demand growth as consumers look to decarbonize their gas needs. First, Clean Fuels put out EBITDA guidance through 2024 that was roughly double Wall Street estimates driven by the supply side. On the demand front, Archaea announced a new 20 year offtake agreement with Canadian utility, Fortis for 7.6M mmbtus of RNG. To put that number, and the growth, in perspective it is more gas than Archaea produced for all of 2021 and about 10% of the total US RNG market. Additionally Fortis plans for 75% of its 2050 gas to come from RNG. This demand from just one utility would be twice the entire current US supply! Shout out to my friends at US Capital for those stats.

Last but not least, Kinder Morgan hosted an analyst day where they highlighted the continued recovery in volumes across its asset footprint and growing acceptance that energy transition is going to take a long time and lead to periods of volatility. Over the last few years commodity volatility associated with energy transition has bode well for storage assets where KMI has an enormous footprint. Speaking of energy transition they highlighted the ability of their existing assets to transport renewable fuels with little or no modification. They are also a leader in midstream energy transition investments with 25% of their project backlog for renewable fuels led by their renewable natural gas business. One part of their business where they've historically gotten a lot of pushback is the oil production assets but with oil at \$90 they are feeling pretty good about it recently.

A fun fact here but the last time oil was \$90 was 2014; the Royals made the playoffs for the 1<sup>st</sup> time in 30 years, Pharrell's "Happy" topped the Billboards and midstream energy traded at a 15x forward EBITDA multiple which was a 5x premium to the S&P500. Roll the tape forward and I'm honestly not real sure what Pharrell is up to but the Royals have missed the playoffs 6 straight seasons but midstream did outperformed the broad market last year for the first time in 5 years. Now bear

in mind I've called 5 of the last 1 bull markets for midstream but with record inflation, record energy demand, capital discipline, buybacks and a now 4 turn discount to the S&P500 my odds just might be improving.

I leave it there, 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](mailto:info@tortoiseecofin.com).**

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