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Welcome to the TortoiseEcofin QuickTake podcast. I'm Brian Kessens, senior portfolio manager and managing director. Thank you for joining us as we provide timely updates on the market.

The tragic Russian invasion of Ukraine and the West's response dominated market movements last week. For the first time since 2014, crude oil moved to over $100 per barrel and at one point European natural gas prices jumped 50%. Both moderated as it became clear last week that Russian energy exports were not a target of sanctions, with WTI crude oil ending the week at $92 per barrel, 1.7% higher than where it started. Now, with sanctions ratcheting higher over the weekend, energy exports are likely to be at least modestly impacted. For oil, the second most impactful event last week were nuclear discussions with Iran where a deal could be close according to representatives in Vienna.

For weekly performance, broad energy moved up 1.4%, with midstream increasing 2.2%. Despite the market volatility, the broad market was little changed, the S&P 500 increased just less than 1%.

The war in Ukraine is beyond awful and our concern lies with the people impacted. Energy is essential to everyone's daily lives, and the war is certain to change energy flows. Russia currently provides the world significant energy, as it exports 5% of the world's crude oil, 7% of natural gas and in particular supplies Europe with about 30% of its natural gas needs. For the US, the war highlights the importance of US oil and especially natural gas not only domestically, but globally. Given the aforementioned, the war presents a big energy challenge for Europe. Recent Russian pipeline shipments were around 6 billion cubic feet per day below the 5 year average with LNG imports, including from the US, making up the majority of the shortfall. The Nord Stream 2 pipeline from Russia to Germany would have provided additional supply to the area,but has been put on hold indefinitely as a result of sanctions. Going forward, we expect Europe to continue increasing renewable energies and LNG, while shrinking dependence on Russian gas. In the meantime, higher commodity prices and greater dependence on US energy supply for the global market is expected to benefit US energy companies.

While war dominated, there were a mountain of earnings reports last week.

In upstream, companies reported strong earnings year over year following higher commodity prices. No surprise. Additionally, producers continued to tout 'maintenance mode' on production and a strong commitment to capital discipline with a formulaic capital allocation approach focused on returning free cash flow to shareholders. Some examples: Occidental Petroleum announced a $3 billion stock buyback with targeted 2022 completion while boosting its dividend to $0.13, from the prior $0.01 quarterly payment. EOG declared a $1.00 per share special on top of its $0.75 regular dividend, with Coterra Energy declaring a variable dividend of $0.41 and a 20% increase in its base dividend. On the natural gas side, Range Resources authorized a $500 million share repurchase program.

In midstream, a couple takeaways from earnings. First capital expenditures moved slightly higher versus expectations for this year, though the nature of capex is much different from historical investment. These projects are focused on completion in less than 12 months while offering high returns. They include renewable focused initiatives, along with well connects and processing plants that support higher customer activity. These are not multi-year, new long-haul takeaway pipelines. Secondly, following the achievement of leverage targets, the priority of capital return is shifting to dividend and distribution growth, while companies maintain active share buyback programs. For example, last week Western Midstream increased its regular dividend 53% and established a $1 billion share buyback program expected to be completed through 2024.

Regarding LNG, Cheniere Energy, the largest US LNG exporter, also reported last week. Both its Sabine Pass and Corpus Christi LNG export terminals experienced very high levels of utilization due to high margins, with the largest historic spread between US export costs and international prices. With Russian gas reliability falling, the EU will pivot away from it with Cheniere an obvious potential direct beneficiary. Germany already committed over the weekend to build two LNG import terminals, “quickly”. For Cheniere, the Corpus Christi stage III FID seems a foregone conclusion. Further, the company raised its 2022 EBITDA forecast by 20% and remains focused on returning capital thru debt pay-down, a dividend, and share buy-backs.

Back to commodity prices, the Biden Administration remains concerned about inflation and the high price of oil and its consumer impact. With limited options, the Administration is considering another coordinated release from the Strategic Petroleum Reserve (SPR). Both Japan and Australia indicated they’re willing to participate if other IEA member countries do so. Look for this action, yet to be clear, oil supplies have not been disrupted and continue to meet current demand.

This week fourth quarter earnings reports largely wrap-up. There are two energy in-person conferences that we’re excited to attend, the President speaks on Tuesday with the State of the Union, and OPEC+ meets on Wednesday where the group is expected to continue with its current plan for April, another 400K bpd increase. That said, the Russia – Ukraine developments and implications remain fluid and will continue to be the key market driver.

In times like these, we remind ourselves the market implications of the conflict are far outweighed by the toll on Ukrainians. Our thoughts and prayers, and hearts go out to those whose lives have been turned upside down by the war. 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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