

March 7, 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.

Russia again dominated the news flow with disturbing developments and images of the impact of the war on Ukrainian civilians. Related to this, energy prices continued to escalate last week leading the IEA (International Energy Agency) to announce a coordinated 60M barrel release with half coming from the US and the balance from IEA members in Europe and Asia. This is a big headline but the impact, if any, is likely to be temporary as it only moves barrels from one place to another and the bigger risk for Europe, in particular, is the natural gas supply where prices are much more elevated, ranging between \$200-400 per barrel equivalent in recent days.

Last week, industry conferences were hosted by both Credit Suisse and Morgan Stanley and the first big point is they were held in person! In terms of the key themes with the invasion of Ukraine and its impact on Europe's energy supply, a key focus was the value of secure domestic based energy although companies remain hesitant to increase investment due to a combination of incredibly high cost of capital and an uncertain regulatory environment. Further, a lot of discussion focused on how we can expand our supply of energy to the rest of the World. Unfortunately, there isn't a significant impact that can be made in the short term given existing export terminals are running near capacity but perhaps this will serve as a wakeup call that the challenges building new infrastructure have gotten completely out of hand and it's time to consider the global geopolitical ramifications to stifling development of US energy. We have gotten some recent evidence of production growth within the US, specifically the Permian, to offset a lack of supply elsewhere across the globe. For example, during Chevron's (CVX) analyst day they guided to a companywide production CAGR of only 3% over the next 5 years; however, they plan to double their Permian basin production by 2030. Exxon (XOM) also hosted an analyst day last week and they too emphasized new production out of the Permian with 70% growth in the area over the next 5 years while at the same time pulling out of their Russian investments.

Sticking with these two companies, in addition to new US supply, both reinforced a couple other key themes we've been pushing including increased returns to equity owners and investments in renewable fuels. On the first point, Chevron increased their buyback guidance from \$4B previously to \$7.5B per year. Meanwhile, Exxon also recently instituted a \$10B equity repurchase program. We applaud both companies and, generally speaking, we believe equity repurchases are the #1 way for energy (including midstream) companies to increase their equity market return.

Regarding renewable fuels, 3 key points to hit:

- Monday, Chevron announced an agreement to purchase Renewable Energy Group, one of the largest biodiesel producers in the US for \$3B in cash. This supports Chevron's broader plan of producing 100,000 bpd of renewable liquids like diesel. To put this in perspective current total renewable diesel capacity is 50,000 bpd in the US according to the EIA (Energy Information Administration).
- Next Exxon announced a \$15B capital plan devoted to biofuels, carbon capture, hydrogen and the like.
- Lastly, Marathon and Neste (not the chocolate company) are forming a joint venture (JV) for the conversion of the existing Martinez, CA refinery to produce renewable diesel. Honestly, I was pretty surprised to see that Marathon wants to partner on the existing conversion project of their refinery but along with putting in \$1B in cash, Neste brings extensive renewable diesel expertise and feedstock sourcing capabilities which are increasingly important as the US ramps supply of these fuels. The bottom line is renewable fuels are small in the overall market today, but the growth has potential to be extraordinary

I'll finish up on the midstream front. In a transaction valued at \$11.4B Pembina and KKR will form a joint venture combining their Western Canada processing businesses and the joint venture simultaneously to acquire Energy Transfer's processing asset in the region. This transaction has several positive aspects, in my view.

- It demonstrates the industry rationalizing assets to increase capital and operating efficiency
- Pembina will receive \$700M in proceeds to be used for debt reduction and a \$150M share repurchase
 - This is incremental to the existing \$200M planned repurchase for this year

- An estimated 7% accretion to Pembina leading to an incremental 3.6% increase in their dividend
- And a 10.7x sale multiple to ET a roughly 3 turn premium based off our model.

For a company like Energy Transfer whose shares are down 46% over the last 5 years underperforming the midstream market by about 8%, per year, the way to fix your problem is sell assets at significant premium to your market price and buy back stock. I'll finish up on that thought. 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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