TortoiseEcofin QuickTake Podcast

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Given the ever changing global landscape, I expected more movement in stock prices last week. Yet the S&P 500 ended unchanged and midstream companies faired only a hair better, higher by just less than 0.2%. That said, oil did fall meaningfully, by over 12% and that put some pressure on broader energy which declined 2.4%.

Specific to oil, prices continue to be volatile following many up in the air variables, including: the escalation and de-escalation in Ukraine, OPEC+ rhetoric, SPR releases, discussions with Iran, and now China's COVID lockdowns which are expected to crimp demand marginally, at 200 mbpd this year. Specific to OPEC+'s meeting, it lasted 12 minutes and as expected, there will be a continuation of OPEC+'s policy to increase supplies by 400 mbpd in May, though they're currently producing about 1 million bpd less than their quota, leading to big questions about the amount of available spare capacity. And finally, the US announced a 1 million bpd release from the Strategic Petroleum Reserve (SPR) for 180 days, along with other IEA countries that will detail plans this week. While a big number, the announcement was met with skepticism because (1) there's a logistical cap on releases at about 500 mbpd and (2) the reserves would need to be replaced at some point in the future. No surprise that on the announcement, current prices were weaker yet longer-dated prices increased.

LNG construction and contracting activity is really accelerating with four announcements last week as the US will play an outsized role in the EU's pivot away from Russian natural gas. First, Tellurian told its EPC contractor to begin construction at its Driftwood terminal signaling confidence that it would reach a Final Investment Decision (FID) in the near-future. Second, Energy Transfer's Lake Charles project secured two 20 year contracts, though not from Europe, but rather China. China may be recognizing that it will be tougher to compete for spot molecules going forward. Third, Sempra announced an agreement with Total to take one-third of its production at the proposed Vista Pacifico plant. And finally, NFE detailed its Fast LNG approach that takes up to 70% less time to develop and at a fraction of the cost. How? By building offshore liquefaction terminals and using storage vessels instead of land-based storage. Exciting times in LNG to say the least.

Magellan Midstream held an analyst day, emphasizing their stable, low risk assets. Magellan's assets include a majority that are refined product pipelines. Given the growth in electric vehicles, management discussed this risk at length. With aggressive EV adoption assumptions, US refined product demand is expected to be fairly stable through 2030. Note about 40% is distillate (or diesel and jet). And beyond 2030, Magellan is confident they can raise tariffs to offset any demand destruction given the average tariff today is just 4 cents per gallon. Management also discussed priorities for free cash flow with distribution growth taking the lead yet also including share buybacks. That is a consistent message from most midstream management teams.

Speaking of buybacks, Hess Midstream repurchased $400 million of stock last week, in conjunction with a $250 million secondary offering by Hess Midstream affiliates. That is a strong way to close out first quarter buyback activity. We are anxious to see other amounts during earnings calls over the coming weeks where we expect activity stayed elevated following healthy repurchases in 4Q.

Speaking of the end of the first quarter, for energy stocks 1Q was nothing but outstanding from a returns standpoint. Broad energy leaped nearly 39% with MLPs improving about 19% and broader midstream higher by almost 24%. While energy fundamentals were good to start the year, the war in Ukraine and shift in priority to energy security highlight how important the US oil and natural gas industry is to the world economy. That's an importance that will only grow. Yet we think energy is still underappreciated by investors, and will only come to be better understood through time and the consistent generation of significant cash flow by the sector.

This week brings a lighter calendar as the second quarter gets underway. Yet the fluidity of current events leaves biased to expecting change and in constant consideration of second and third order impacts. We'll be back again next week to report on it all. 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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