TortoiseEcofin QuickTake Podcast

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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.

We hope all the mom's out there had a Happy Mother's Day. The weather forecast here turned sunny and milder which felt more mother-like, warm and comfortable. That's also how energy turned out last week with the sector posting good returns during an earnings filled period last week. While the S&P 500 experienced significant volatility, ending the week more or less where it started, broad energy surged over 10% with midstream improving by almost 5% and MLPs by 4%.

Energy commodities helped with crude oil higher by nearly 5% and natural gas in the US leading the way, up 11%. Continued deliberations within the EU about banning Russian oil and an as expected OPEC+ meeting with their steady approach to increasing production left crude higher, though concerns about lower demand remain from China's strict COVID policy. Mother nature and strong LNG demand resulted in natural gas settling in at over $8 per mmbtu.

As mentioned, earnings reports were in full force last week with energy companies showing good results with a focus on returning more capital to shareholders through higher dividends and share buybacks.

In upstream, EOG Resources committed to a formulaic approach to returning cash to shareholders, one of the last large independents to do so. EOG plans to return at least 60% of its free cash flow to shareholders through a base dividend, special dividends and buybacks. Elsewhere, other producers followed through on higher dividends. Note the dividend yield from Pioneer Natural Resources is now near 12% and Devon Energy is over 8%. Some of these are special dividends, yet with commodity prices expected to remain elevated, the dividends should be sustainable.

In midstream, there were several beats and upward guidance revisions with management teams mostly optimistic around volume growth and asset utilization. To the extent companies beat, higher spreads, commodity prices, and volume trends in the Permian were likely the reason. The only area volumes were notably weak was the Bakken in North Dakota, yet this was due in large part to rough winter weather. On capex, incremental projects tied to well-connects and processing were announced, along with export infrastructure to move more volumes toward the Gulf Coast. Large scale projects continuing to be suppressed. Companies continue to generally prioritize distributions and dividend growth with a desire to return to pre-COVID levels. Though it was also good to see companies execute on their share buyback programs. So far in the quarter, we calculate buybacks total $762 million with one company yet to report. That puts us slightly ahead of pace to reach our full 2022 estimate of $3 billion of repurchases.

There was one notable energy transition project announcement last week. EnLink and Occidental Petroleum executed a letter of intent to develop a CO_2 sequestration hub along the Mississippi River corridor. The concept would use EnLink's existing pipelines along with some newbuild to transport carbon from industrial emitters to Occidental's sequestration facility. Both companies have been out front with their CO_2 capture and sequestration efforts. We're encouraged to see their leadership.

Finally, on LNG, demand over the long-term continues. Last week, Energy Transfer signed two more contracts for its Lake Charles facility. That brings total contracted LNG to over 5 mtpa or about one-third of what is needed to be fully contracted. Energy Transfer indicated it expects to be able to reach FID on Lake Charles by year-end. We see little reason not to expect nearly weekly announcements for additional LNG contracts signed by proposed LNG facilities.

This week, earnings in the energy patch largely wrap-up. On the macro, look for the market to partly take its cue from updated inflation readings per the PPI and CPI. 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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Midstream = The Alerian Midstream Energy Index® is a broad-based composite of North American energy infrastructure. The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basas (AMNA) and on a total-return basis (AMNAX).

Broad Energy = The S&P Energy Select Sector® Index is a capitalization-weighted index of S&P 500® Index companies in the energy sector involved in the development or production of energy products.

Producers = Tortoise North American Oil & Gas Producers IndexSM
The Tortoise North American Oil & Gas Producers IndexSM is a float-adjusted, capitalization weighted index of North American energy companies primarily engaged in the production of crude oil, condensate, natural gas or natural gas liquids (NGLs). The index includes exploration and production companies structured as corporations, limited liability companies and master limited partnerships but excludes United States royalty trusts.

MLPs = The Tortoise MLP Index® is a float-adjusted, capitalization weighted index of energy master limited partnerships (MLPs). The index is comprised of publicly traded companies organized in the form of limited partnerships or limited liability companies engaged in transportation, production, processing and/or storage of energy commodities.

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