TortoiseEcofin QuickTake Podcast

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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

It was another crazy week of volatility as the market struggles with Fed's rate path, inflation and geopolitical risks. Specifically on the Fed and inflation, the CPI print came out a red-hot 8.3% bringing a 75 bps rate hike back into the conversation. So at the halfway point through the month, the old "Sell in May" adage seems to ring true with the S&P down 3.5% and the NASDAQ down over 4%. In fact, the only safe place to be it seems is energy with the S&P energy index up 7% and Alerian Midstream index up 2% respectively month to date.

So why is energy doing relatively well? I think this is driven by the fact that fundamentals seem to matter again. In an environment where most of the broad market is seeing earnings power erode, one bright spot is energy earnings. On that front we had a few remaining portfolio companies report last week. In midstream, Western Gas (WES) added to the deluge of beat and raise reports from our portfolio companies. The also announced a host of new contracts and raised capex slightly as a result. However, the capex increase was less than EBITDA bump so free cash flow will be higher than initially expected while increasing the long-term earnings power of their business. Another highlight is the retirement of $500M of senior notes shaving another ¼ turn off their debt to EBITDA metric. For the balance of the year, we expect the company to shift excess cash flow back to share repurchases. Kinetik Holdings was the other midstream company reporting which put up an inline quarter but also pointed to full year results exceeding the high end of prior guidance implying greater than 15% growth year over year. Similar to WES, they announced some additional commercial agreements supporting future growth and announced reduced debt through the redemption of 10% of their existing Series A preferreds.

On the Waste to Energy front we had reports from Archaea, a renewable gas producer, Aemetis, a producer of various biofuels and Vertex, a used motor oil processor and recycler. Starting with Archaea, the quarterly results were below expectations as production volumes hurt some optimization activities at its largest facility. However, this was overshadowed by an increase in the development backlog from 38 to 88 projects from a recent acquisition as well as a joint venture with Republic Services to develop RNG facilities at their landfills. As a result of the increase in project backlog, the company bumped its estimated long-term earnings potential by 50% to $600 million per year. For Vertex, the quarter came in ahead of expectations as their recently acquired refinery ran at a better than expected utilization. Looking forward, they issued inaugural guidance for 2022 and 2023. The acquisition makes this year's comparability not meaningful but for 2023 management's estimate is more than 30% over consensus. Lastly, for Aemetis they continue to make progress on their dairy RNG project expecting to bring on 5 additional digesters by the end of the year. While this is behind the previous schedule, they also have announced nearly $7B of offtake agreements for renewable fuels so I think the value proposition is fully intact despite recent volatility in the stock.

Finally in renewable and power earnings, Constellation beat quarterly earnings but oddly did not take up their full year number. However, they did bump next year's outlook by 4% and the name appears to well-positioned in a world trying to balance decarbonization and energy security. Next up, Fluence who provides industrial strength energy storage had a mixed report with strong new contracting offset by a slower project ramp due to supply chain issues. Finally, Algonquin Power reported an inline quarter but slowed dividend growth to 6% from the historical 10% rate which is disappointing.

Beyond earnings, news continues to come in fast and furious on the LNG front with the latest development coming from Venture Global who announced a sales and purchase agreement (SPA) with Exxon on Tuesday and followed it up with another SPA with Petronas on Wednesday. Additionally, New Fortress announced a binding agreement with a Dutch energy company to charter a floating storage and regasification unit to facilitate LNG imports to the Netherlands.

I leave it there for now, 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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