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.

Last week energy outperformed again though virtually all indices ended in the red following another hot read on inflation. The S&P 500 ended off over 5% with the Alerian Midstream Energy Index falling just over 3%. The S&P 500 energy index, dropped less than 1%, outperforming the broader S&P 500 by 400 bps. As a result, energy now represents over 5% of the index for the first time since mid-2019. Many analysts pointed to the breach of the key 5% psychological milestone that is making energy increasingly hard to ignore.

Crude oil finished in the green after OPEC, commodity analysts and major trading houses warned prices are likely to increase over the summer due to a lack of production and refining capacity. OPEC's efforts to add supply are "not encouraging" according to the UAE energy minister, who noted OPEC is currently producing at levels 2.6 million bpd short of its aim.

Natural gas was higher on the week too after forecasts are indicating a hot June across the country. Yet there was price weakness on Wednesday as a direct result of a hiccup in US LNG exports. Freeport LNG reported a small explosion at its facility on the Texas coast. The Freeport liquefaction plants have a capacity of 2 Bcf/d, representing 17% of total US LNG export capacity or 4% of the global LNG market. Freeport estimates the facility will be off-line for at least three weeks. All else equal, US natural gas storage should increase by 40 bcf given the downtime, a reasonably significant number since US storage is 340 Bcf below the 5 year average. No surprise international LNG prices spiked after the reported outage.

LNG agreements stayed the course last week with two more contracts. First, Energy Transfer inked a deal with China Gas to supply 0.7 million tons per annum (or mtpa) over 25 years. First deliveries are expected in 2026. Energy Transfer opening an office in Beijing in 2019 looks like it's having a lot of merit. For its Lake Charles LNG facility, Energy Transfer's long term contracts are now up to 6.0 mtpa, significant progress toward the 11 mtpa of capacity for two LNG trains. Given current contracting momentum, we expect an FID on Lake Charles late this year.

Second, Equinor agreed to buy 1.75 mtpa of LNG from Cheniere Energy over 15 years, starting in 2026 before reaching the full amount in 2027. Interestingly, half of the volume is subject to Cheniere reaching an FID beyond seven trains at Corpus Christi. Sounds like another train is possibly in the cards for Cheniere.

And keeping up with CO2 projects at EnLink, last week Honeywell and EnLink announced they will together develop carbon capture solutions for CO2 emitters along the Gulf Coast. Similar to other deals, EnLink will use its extensive pipeline transportation network. EnLink also agreed to capture, compress, and sequester CO2 at its Bridgeport processing plant for BKV, a natural gas producer in North Texas. Note this is the second carbon capture announcement for the Bridgeport facility.

Takeaways following recent energy conferences. First, supply of labor and materials remains tight for oilfield services. A producer deciding to add a rig today would likely not see first production until June of 2023. Second, oilfield services cost are higher by 15-20% this year, and will likely see another 10-15% increase next year. Still expectations are that US production grows 900,000 bpd this year and 600,000 next. Finally, no one is seeing any sign of significant demand destruction yet. Look out when China reopens.

One producer acquisition last week. Devon Energy is buying Williston Basin assets from RimRock Oil & Gas for $865 million. The assets are contiguous with Devon's existing footprint, and according the company, the transaction was done at just 2.2x cash flow, with a free cash flow yield greater than 25% assuming strip pricing.

Following, Devon intends to increase its fixed dividend 13%. Great income considering Devon's indicative yield is already 6.9%. Expect more asset deals across the producer sector if there are synergies and if seller prices remain this attractive. Putting this together with conference takeaways, acquisitions are a faster way to grow production than versus the drill-bit.

This week, NextEra Energy is holding an analyst day on Tuesday. We'll look for an update on solar and wind development, along with progress on storage projects from the country's largest utility. The Fed meets as well and the expectation is we'll see another 50 bps rate hike, though the window is open for 75 bps. I'd expect investors to be measured in putting capital to work until the Fed announcement. 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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