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 wild week as inflation and associated economic concern continue to escalate building up to the much-anticipated FOMC meeting where rates were increased 75 bps as expected following the prior Friday's super-hot CPI report. This initially led to a rally, but things turned south as the market digested the data. The Fed statement and associated speech turned decidedly more hawkish and the median dot forecast now suggests significant additional rate increases to 3.75% in 2023. The bottom line is the market got crushed and the S&P is down 12% over the last 8 trading days and energy is has done even worse. Why was energy underperforming over the last week? I think there are a few reasons:

- First massive YTD outperformance leading some to lock in the only gains in the portfolio
- Next, noise from Washington including export bans and excess profits tax…which by the way if you want the industry to produce more, maybe don't threaten it
- And finally, of course, recession concern; that said, I think if anything is going to do ok in a recession near term it would be energy;
  1) the world is completely undersupplied and getting it's worse,
  2) even during covid our portfolio posted flat cash flow year-over-year and,
  3) energy is the one part of the S&P where earnings are growing and at an accelerating rate - revised up 40% this year…oh and it's the cheapest sector in the index.

Speaking of the economy, one other item to highlight was May PPI which came in +.8% sequentially. PPI is used in setting regulated oil pipeline tariffs and if PPI were to simply stay flat from here for the rest of 2022 oil and refined product pipelines under the FERC indexing would increase rates over 13% next summer on top of a massive increase this summer per the calculation. Inflation based tariff or contract rate increases are typical for midstream companies which is why they tend to be a great source of inflation protected income.

Shifting to the oil market, a few key reports were recently released from OPEC, the IEA and the DOE. Highlights include:

- US oil production is back over 12 million bpd, a level not seen since April 2020
- OPEC production fell in May by 176K bpd despite their goal of adding 400 mbpd; the group is now producing more than 1 million bpd below quota
- Finally, the IEA expects 2023 oil supply to continue to struggle to meet growing demand further exacerbating the already extremely tight market

Moving to the natural gas macro picture, in our last weekly update Brian Kessens discussed the explosion at Freeport LNG where the company initially indicated the facility would only be down for a few weeks. In a more recent update they now expect the facility to be down for repairs for at least 90 days and won't return to full service until late this year. U.S. gas plunged nearly 20% on the news while European gas increased a similar amount. Obviously not the news the market wanted when already dealing with an incredibly tight supply situation.

In company news, Targa is acquiring Lucid Energy from Riverstone and Goldman for $3.5B funded with cash on hand and debt. I won't bore you with all the details but the deal was cheap at 7.5x cash flow with big growth to bring the multiple down further and despite funding with no equity Targa expects to exit the year at 3.5x leverage. Plus, the customer list is a who's who of the Permian including Chevron, Conoco and Exxon so the transaction checks all the boxes but M&A makes me nervous, I'd rather see our portfolio companies grow within their existing asset footprint and return excess free cash flow to our investors though buybacks and dividends.

Next up, Continental founder Harold Hamm made an unsolicited offer to its board proposing to take the company private for $70 cash per share. The offer is a 9% premium to the prior day's close but shares immediately traded through the offer and closed over $74 suggesting the market believes a higher price will be required to consummate a deal. The market value of publicly held shares is about $4.5B and the company has guided to generating $4.5B of free cash flow this year. In other words, with Hamm's already significant ownership he can finance the deal with debt and then pay back all that debt within about 12 months.

A couple other quick news items before I wrap up:

- EnLink Midstream announced its CEO, Barry Davis, will retire and be replaced by Kinder Morgan veteran Jesse Arenivas who was responsible for Kinder's C02 and Energy Transition groups signaling ENLC's strategic direction going forward.
- Finally, Cheniere announced a $350M share repurchase made directly from Icahn Enterprises funded with cash on hand under its $1.0 repurchase plan. Midstream management teams – there's the playbook.

I'll leave it there for now, have a great week.

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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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).

The **PCE inflation rate** is the Personal Consumption Expenditures Price Index. It measures price changes for household goods and services. Increases in the PCEPI warn of inflation while decreases indicate deflation.

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 Index℠
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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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