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.

Relative to earlier in the fourth quarter, last week offered comparatively little by way of stock price direction, with both the broader market S&P 500 and the Alerian Midstream Index down about one half of 1%. Broad energy as measured by the S&P 500 Energy Sector Index was a little worse, off by just shy of 2%. Maybe we have some near-term certainty as the markets settle on a 50 bps interest rate hike at the December Fed meeting, the midterm election outcome is known, and we're mostly through 3Q earnings.

Crude oil did move lower, by 7%. Covid cases in China rose to a high last seen in April, a potential global recession, and the looming G7 Russian oil price cap all weighed on the commodity last week. Nice to see midstream not really follow crude oil down. Maybe that's because the fundamentals are so favorable, but I'm getting ahead of myself.

There were two notable industry conferences last week. First, in Dallas on midstream, sentiment remains positive with a supportive energy environment for pipelines as some infrastructure constraints present both marketing and debottlenecking opportunities. Capital allocation remains in focus with flexibility preferred on debt pay-down, dividend growth, buybacks, and even potential capex for high return, low risk projects or energy transition like carbon capture and storage. Also, there was a lot of discussion about energy's position in the geopolitical uncertainty, supply restraint from US producers, and the advantage that the US energy complex holds above all others.

And second, in south Florida on utilities, there was a mix of headwinds and tailwinds. First, there is earnings pressure in 2023 following inflation, higher interest rates, and customer bill pressures. Nonetheless, for those utilities with strong balance sheets and constructive regulatory environments, there is potential rate-base growth from renewables and electrification. In 2023, look for asset sales to accelerate as companies want to strengthen balance sheets and fund new capex without tapping the public markets.

Upstream M&A continued with Diamondback Energy, ticker FANG, once again a buyer. FANG this time is acquiring Lario Permian, a company with acreage in the Permian's Midland basin. Price is $1.6 billion, with financing split nearly 50/50 cash and equity. The assets are near FANG's legacy footprint so there are obvious synergies, and at a 3.3x 2023E EBITDA multiple and 21% free cash flow yield at strip pricing, the transaction is accretive on the key metrics. Following, Diamondback says there aren't many more oil deals left to do in the Permian. It seems more of a buyer's than a seller's market, so I expect we'll continue to see more.

In LNG news, Williams and Sempra entered into a nonbinding natural gas agreement where Williams will materially enhance its 'wellhead to water' strategy by 1) supplying 500 mmcf/d of natural gas to Sempra for LNG feed gas, 2) committing to 3 mtpa of offtake over 20 years from Sempra's Port Arthur and Cameron LNG export terminals, and 3) forming a JV to own the pipeline assets feeding the two facilities. Williams intends to market the LNG supply to international customers under firm sales agreements. Already a leader in domestic natural gas transportation, this is Williams first foray internationally.

And regarding the Freeport LNG facility that remains off-line after an explosion back in June, the company indicated all reconstruction work is expected to be complete by the end of November, with initial production targeted for mid-December. Further, 2 Bcf/d of production is anticipated in January with full production of 2.1 Bcf/d utilizing both docks commencing in March. As reminder, Freeport capacity is just under 20% of total US LNG capacity. Implications of the outage are lower US natural gas prices all else equal as more natural gas will stay domestic. It is not all bad for Europe either as LNG spot prices are weaker versus summer levels following high inventory levels in Europe currently and milder temperatures.

In a blast from the past, there was a dropdown transaction last week with NextEra Energy Partners announcing the acquisition of just over 1 gigawatt of long-term, mostly wind, contracted renewable projects and a wind portfolio from its parent company NextEra Energy. The assets have a remaining contract life of 15 years with an average A+ rated counterparties. With a total purchase price of $2.3 billion and financing partly through a 7% preferred return security, the EBITDA multiple is reasonable at 10.5x. Accordingly, the company continues to expect 12-15% distribution growth through at least 2025. With the parent company continuing to develop renewable assets, expect the dropdown strategy to continue.

This week is a short one for markets with Thanksgiving on Thursday and an early close on Friday. Safe travels to the many of you on the road and in the air over the coming days. We appreciate you listening to us and are grateful for your trust in us. Hope you have a Happy Thanksgiving!

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.

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.

Liquefied Natural Gas (**LNG**) is natural gas that has been cooled to a liquid state for shipping and storage - the volume in this state is about 600 times smaller than in it's gaseous state, able to transport for much longer distances when pipeline transport is not feasible.

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 basis (AMNA) and on a total-return basis (AMNAX).

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.

Producers = Tortoise North American Oil & Gas Producers Index℠ 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.

The S&P 500® Index is a market-value weighted index of equity securities.

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