TortoiseEcofin QuickTake Podcast

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Hello I am Matt Sallee, President of Tortoise.

Well January is in the books and midstream came out of the gates strong up 6% for the AMZ and 4% for the AMNA. What encouraging is this continues 2022's trend of being able to perform well even with oil falling 2% during the month. What's also interesting is midstream not only outperformed the S&P last year but did so with lower volatility. For full year 2022, midstream's beta to the S&P was only .7 and only .36 to oil.

Moving to the macro front, the International Energy Agency (IEA) is forecasting 1.9 million bpd of demand growth this year to 101.7 million bpd, the highest ever, led by China lifting Covid restrictions and a continued rebound in jet fuel. At the same time supply growth of 1 million bpd is not expected to keep pace with demand this year. Accordingly, the IEA expects oil prices to face upward pressure during the year as inventories draw. Beyond China demand, other key drivers include Russian barrels coming off the market and the absence of the 180M barrels released from the Strategic Petroleum Reserve (SPR) last year in the US. The counterbalance to a tight market is the potential for a recession which would reduce demand, all else equal. That said, in the case of a recession, I think energy equities, and midstream in particular, may prove defensive. Specifically, midstream is one bright spot in the market that will likely have earnings growth this year, plus leverage has been significantly reduced and now free cash flow is being used to repurchase equity and grow dividends.

Moving on, toward the end of the month earnings really started to ramp up for the quarter. Some key highlights include:

In oil field services, the big 3 have reported with SLB (previously Schlumberger) reporting revenue and margins which were the strongest seen since middle of last decade. Additionally, they expect international activity to accelerate through the next 5-7 years. Haliburton beat as well on strong margins and inline revenue. They boosted capital returns with a $250M Q4 buyback and 33% dividend boost. Looking forward they expect earnings to strengthen further in '23 and beyond. Finally, while Q4 was a little softer vs peers at Baker Hughes, they too pointed to years of underinvest amplified by geopolitical factors driving spare capacity to a point that will require years of investment to relieve.

On the producer side Chevron came out with a bang announcing a $75 billion buyback with an expected pace of $15B per year. However, their production guide disappointed at flat to '22 volumes due to slower Permian growth. Exxon is also pointing to flat year / year production, but Permian volumes will be up roughly 100,000 bpd. Another highlight is they achieved zero Permian flaring in Q4 and in my opinion this is essential for gas to truly be a decarbonizing tool.

The big 3 refiners, Marathon, Valero and Phillips 66 all reported with a miss from PSX in both refining and chemicals but a new $5B repurchase authorization. On the flip side both MPC and VLO beat and bought back tons of stock to the tune of $2.2B in Q4 at VLO and $700M in January alone in the case of MPC. MPC also added another $5B to their repurchase program.

In midstream Kinder Morgan kicked things off reporting a slight beat for the quarter driven by strong results in the nat gas segment offset by disappointing volumes in refined products. Additionally, the company increased the share repurchase authorization to $3B after now completing $1B. At their subsequent analyst day two key points include a 3.75x build multiple on the current project slate and that the balance sheet is now to a point where they can use some debt capacity for buybacks. MPLX also reported a strong quarter including $176M repurchased and announced they are also taking out $600M of preferred stock.

And in utilities and renewables, NextEra Energy Partners missed for the quarter but reiterated their guidance for 2023 and extended distribution growth guidance of 12-15% annually through 2026. At the parent, NEE, the quarter was inline but EPS growth of 6-8% was extended through 2026 on the heels of the Inflation *"Reduction"* Act.

Based off this early read it's worth noting that energy was the one part of S&P that had earnings growth last year. However, this year that may not be the case, especially for refiners who blew it out in '22. We believe upstream will fall into that camp as well at today's commodity price, but we will see how things shape up through the year. As mentioned before, the bright spot should be midstream where most names will likely see modest year over year growth. Bottom line it will be interesting to see how things evolve but I think the one thing we'll be able to count on is massive amounts of cash retuned to shareholders. I'll leave it there and 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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The **Alerian MLP Index** is the leading gauge of energy infrastructure master limited partnerships (MLPs). 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 (AMZ) and on a total-return basis (AMZX).

The **S&P 500® Index** is an unmanaged, market-value weighted index of stocks that is widely regarded as the standard for measuring large-cap U.S. stock market performance.

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