TortoiseEcofin QuickTake Podcast

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Welcome to another TortoiseEcofin QuickTake podcast. Thank you for joining us. On this podcast, we highlight what happened in the energy sector during the month of June.

Hello, I am Tortoise Senior Portfolio Manager Rob Thummel.

February marked a significant uptick in the stock market, with a gain of over 5% for the S&P 500, representing the best monthly return for February in nine years. Energy infrastructure, as represented by the Alerian Midstream Energy Index also rose by 3%. However, crude oil and natural gas prices moved in opposite directions during the month, with spot oil prices increasing by 6% while natural gas prices dropped by 30%.

The rise in crude oil prices was supported by an IEA report indicating a decline in January global oil inventories to their lowest levels since at least 2016. Additionally, the IEA forecasted global oil demand growth of 1.2 million barrels per day in 2024, exceeding historical levels. Conversely, natural gas prices experienced a sharp decline due to unusually warm weather in the U.S. and Europe, leading to higher-than-normal inventories in both regions. The decision by many U.S. natural gas producers, including Chesapeake Energy, to reduce natural gas production by up to 20% in 2024 reflects the challenging conditions faced by the industry due to low prices. This reduction in production aims to mitigate the impact of low prices on profitability and stabilize the market by aligning supply with demand.

Despite the challenges faced by U.S. natural gas producers, low natural gas prices have benefited certain regions, particularly China. Chinese LNG imports reached record highs in February, increasing by 15% compared to the same period last year. The rise in imports can be attributed to several factors, including increased demand for natural gas in various sectors such as industrial and residential use, as well as favorable pricing conditions in the global market.

The fourth quarter earnings season wrapped up. Energy infrastructure companies reported record volumes transported and delivered 2024 outlooks. The companies provided optimistic outlooks supporting continued payment of high dividend yields generally ranging between six and seven percent as well as outlined dividend growth potential generally ranging between three and five percent. Some companies offered multi-year guidance, which was well-received by investors. But the outlook for the energy sector was best expressed by industry veteran and co-CEO of one of the largest energy infrastructure companies Enterprise Products Partners Jim Teague when he said: “we’re looking forward to the exciting opportunities and challenges for the next 25 years, as the world’s population, quality of life, and demand for energy reaches new heights. Put frankly, based on what I see in the future for energy, I’d give anything if I could turn the clock back and be 50 years old.” The future remains bright for the U.S. energy and energy infrastructure sector.

Another icon expressed an optimistic view of the energy sector. In his annual letter to shareholders, Warren Buffett highlighted the transformative impact of shale economics on U.S. energy production. Buffet specifically said “Hallelujah! – shale economics became feasible in 2011, and our energy dependency ended. Now, U.S. production is more than 13 million BOEPD, and OPEC no longer has the upper hand. Our country would be very – very – nervous today if domestic production had remained at five million BOEPD, and it found itself hugely dependent on non-U.S. sources.” Mr. Buffett’s comment related to oil but apply to natural gas and natural gas liquids as well. Shale economics have allowed the U.S. to become energy independent as well as become the largest exporter of energy in the world.

Switching news from the LNG sector, Shell annual Shell LNG Outlook 2024 projects strong global demand growth at a rate of over 6% per year through 2030. In addition, Qatar, the second largest LNG supplier in the world, announced plans for an 85% expansion of output by 2030 potentially looking to seize on President Biden's recent announcement to pause some U.S. LNG export approvals. Regardless, the U.S. is expected to remain the world's largest LNG producer in 2030 even with Qatar's expansion.

February also saw significant M&A activity in the energy sector. ChordEnergy formerly known as Oasis Petroleum announced plans to acquire Enerplus Corporation in a transaction valued at approximately $11 billion. The combined company will be one of the largest producers in the Bakken Shale region. In addition, publicly traded Diamondback Energy plans to acquire private operator Endeavor Resources for $25 billion. Endeavor is the largest and most coveted private operator in the Permian due to its sizeable acreage position. Post-transaction, Diamondback will be the largest pure-play Permian Basin operator once the Pioneer Exxon transaction is completed.

Speaking of Exxon, they threw a bit of a curveball in Chevron's potential acquisition of Hess announced last October. As operator of the of the coveted Guyana offshore oilfield, Exxon believes it has the right to acquire the Hess minority ownership stake. The crown jewel in Chevron's acquisition of Hess is its ownership stake in Guyana. Chevron interprets Exxon's rights under the joint operating agreement differently. This will resolve through negotiations and/or mediation if necessary but the outcome of these discussions could have far-reaching implications, potentially reshaping the global M&A landscape in the energy sector.

Thanks for listening and have a great day!

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.

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).

Liquefied Natural Gas (**LNG**) is a 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 its gaseous state, able to transport for much longer distances when pipeline transport is not feasible.

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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