Tortoise QuickTake Podcast

May 7, 2024

Welcome to the Tortoise 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.

Let's begin with recent performance. After the strong first quarter, energy beat the S&P 500's down 4% in April. The broader S&P Energy Select Sector Index® finished down just less than 1%, Exploration and production companies, as measured by the S&P Oil & Gas Exploration and Production Select Sector Index were off just over 2%, and finally midstream, as measured by the Tortoise MLP Index was down half of 1%. All the while, crude oil slipped $1 per barrel, with natural gas improving to just over $2 per mmbtu, ending at $2.03 after being below $2 for the better part of the first quarter. Producer natural gas curtailments of 2 Bcf/d are starting to make an impact.

A lot of first quarter earnings announcements the past two weeks. What have we learned? Producers continue to favor strong balance sheets and returning capital through dividends and share buybacks. They also demonstrated discipline on capex and production guidance. Natural gas producers, most notably EQT and Chesapeake, even extended curtailed production to better balance supply and demand, aiming to shrink inventories to more normal levels. Helping keep capex in check, drilling and completion efficiency gains from longer laterals, simultaneous fracs, and equipment high-grading are the gift that keeps on giving toward strong well productivity. And with an eye toward M&A, many are feeling more comfortable with it after the FTC gave the go-ahead for Exxon to acquire Pioneer Natural Resources last week.

Midstream companies seemingly did a good job calibrating 1Q weather events because results consistently were to the high end of expectations. Notably, natural gas storage infrastructure benefited from volatile prices and the fact that new storage has not kept pace with growing production. There should continue to be a good opportunity to improve long-term contracts while adding storage in selective locations. On 2024 guidance, outside of Oneok, taking up annual outlooks didn't get any takes as many noted it's still too early in the year yet. Capex budgets were generally maintained, with a handful of new projects announced that were already in original guidance. The projects are focused on expanding Permian natural gas and NGL infrastructure. Share buybacks have been strong so far, eclipsing $1.5 billion, though to be fair $1.2 billion came from LNG leader Cheniere Energy alone.

In downstream, refiners experienced softer margins yet see resilient gasoline demand and still managed to return significant capital to shareholders via the dividend and share repurchases. The three largest refiners alone bought back nearly $4.5 billion in shares. Utilities consistently beat in 1Q despite unfavorable weather (remember it was warm). The reason was non-heating demand was strong. Most reaffirmed 2024 guidance, with Artificial Intelligence driven data center expected power needs the key discussion item.

On that note, James introduced Artificial Intelligence and its role in energy on last month's podcast, and AI remains topical. I suspect when a word cloud is computed at the end of earnings season for all energy companies, AI will top the list. That's because new data centers require an enormous amount of power, three times more than existing data centers due to better chip technology. And globally, we're adding a new data center every three days. If just 40% of the new US power demand in 2030 is met by natural gas generation, we'll need an estimated 6-8 Bcf/d of additional natural gas, or 8% more than 2023 domestic natural gas demand. And that number may be conservative given data centers' constant, 24/7, 365 days per year requirements that renewables will struggle to meet given their intermittency issues. What makes it great for natural gas infrastructure, is that this is domestic, demand pull growth in natural gas, with high quality counterparties that need to make this happen now. Speed is really of essence given the first mover benefits and national security implications. It is clear AI will become a routine podcast topic as natural gas has a big role to play here given it is abundant, reliable and relatively cheap in the US.

Looking ahead this month, we'll finish up first quarter earnings results and then hit the conference circuit, when the Energy Infrastructure Council's annual conference will take place in the back half of May. Expect a lot of discussion around AI's impact on energy demand, capital allocation, and production growth. We're excited about what the future holds for each. Thanks for listening and putting your trust in us.

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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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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The S&P Oil and Gas Exploration and Production Select Industry Index is comprised of stocks in the S&P Total Market Index that are classified in the Global Industry Classification Standard oil & gas exploration & production sub-industry.

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