Tortoise QuickTake Podcast

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Hello, I am Matt Sallee, President of Tortoise

Returns across energy infrastructure were strong again for May with the AMNA up 4% despite softening crude prices during the month and the S&P utility index was up a blistering 9% on an improved load growth story. On the midstream front I think some of the continued resilience is attributable to fund flows which were nearly $400M for the month on top of over $500M in April and over $100M in March, a nice trend.

Despite the last 3 year's midstream returns, valuations haven't really moved up simply looking at EV / EBITDA multiple due to growing EBITDA and shrinking debt and share counts. The multiple remains around 9x, roughly in line with the average since end of 2020. This is approximately 1 standard deviation below the 20-year average.

On the macro front markets enjoyed some positive news mid-month as CPI came in below expectations and showed some relief for the first time in 6 months. Similarly, the year over year number was the slowest growth in 3 years. That said it didn't have much of an impact on forward rate expectations which have dropped from the expectation of 6 Fed rate cuts to between 1 and 2 since the start of the year.

With Q1 earnings season now behind us I'll cover some key themes picking up from where Brian left off last month. Starting upstream oil producers generally posted solid results with strong oil production while sticking within capital budgets proving they can continue to improve drilling efficiency which is remarkable. In particular, several oil producers beat production estimates for the Permian. This is in contrast to the gas producers who are slowing activity or even curtailing volumes in response to very low prices. As a result, gas production is down 5 bcf/d or about 5% YTD in the US.

Midstream companies posted another good quarter on strong volumes and in some cases marketing opportunities. Several companies beat for the quarter and Oneok even raised guidance which is rare after only one quarter in the books. More on this in a minute but it is becoming increasingly clear that gas demand and volume are going to benefit from new power demand on top of an already robust outlook tied to LNG. Similarly the outlook for refined product demand is improving with EV adoption running well below estimates from just a year or two ago and OEM pivoting somewhat from EVs to back to hybrids and internal combustion powertrains.

For utilities year over year earnings growth was generally around 10% boosted by customer growth and weather that was warmer than normal but less though than Q1 last year. Also, it is starting to become apparent that electrification and data center demand is likely to drive significant load growth and stretch the grid. Add to that continued coal plant closure and rapid renewable build out and the call of gas fired generation is rapidly accelerating. To that point, roughly 15 gigawatts of new capacity has recently been announced across several utilities.

Continuing that trend one clear winner of tightening power markets are the independent power producer or IPPs. These are the unregulated power companies that benefit directly from higher power prices especially when combined with low gas prices which fuels much of their generation. It's a small universe of a handful of companies but each of them absolutely blew away analyst estimates for earnings and cash flow. Despite a massive run YTD these names still have big free cash flow yields and continue buy back large amounts of stock. Fun fact one the names, Vistra, is up more than NVIDIA so far in 2024 and their 3-year returns are equal at 90% annualized. Also interesting is like new gas capacity, the group has some nuclear capacity and is expanding at existing plants and even considering bringing some retired nukes back into service. Interesting times in the power market

Midstream consolidation is maintaining steam with bolt on acquisitions by Energy Transfer, Kinetik, MPLX and PSX. The deals were each slightly over $500M except the ET purchase of WTG Midstream for $3.25B. Consolidation was one the key themes at the EIC conference which we recently attended. Next, in a closely watched vote Hess shareholders approved the takeover by Chevron despite an ongoing dispute between Chevron and Exxon over rights to the Guyana field, Hess's crown jewel, which led some the company's largest shareholders to abstain from the vote. Not to be left out of the game Conoco announced the acquisition of Marathon Oil for just over $20B as the two have significant contiguous acreage in the Bakken and Eagleford.

I'll leave it there for now, 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 **Consumer Price Index** (**CPI**) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

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 Utilities Select Sector Index** is a modified capitalization-weighted index. The Index is intended to track the movements of companies that are constituents of the S&P 500 in the utility sector (as defined by the Global Industry Classification Standard).

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