12/30/21: Online Chat Transcript

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Roger Conrad
1:57

Hi everyone and welcome to our final CT online webchat for 2021! Hard to believe another new year is upon us. Thank you for joining us today.

As always, there is no audio. Just type in your questions in the Q&A box and Elliott and I will answer them as soon as we can concisely and comprehensively. We will email you a link to the complete transcript of this chat after we sign off, which will be when all the question in the queue have been addressed, as well as those we received via email.

We'll start by uploading answers to emailed questions received prior to the chat:

Q. I have life subscriptions to both CUI and The REIT Sheet and have the following questions:

• What percentage of a typical portfolio could/should consist of REITS? Do you have any suggestions or guidance?

• Of the 80+ coverage universe in the REIT Sheet, you do not include **Easterly Government Properties** (NYSE: DEA) or **Arbor Realty Trust** (NYSE: ABR). Is there any reason for this? Could you offer any guidance for these two? Is there a possibility for inclusion for these two?

• Is there a possibility for separation of the text/narrative portion of the REIT Sheet from the universal coverage portion of the advisory as you do in CUI ?

Thank you for your many years of sound advice. I have truly prospered. --**John R**.

A.Hi John.

Thanks for your kind words. I have picked up coverage of Easterly and it is listed in the data bank at the end of the current REIT Sheet, which hopefully you've received by now. I rate it a buy up to 23 for yield as well as the stability of its portfolio of US government agency-leased buildings. I have not done so with Arbor to this point. One reason is I already track a number of mortgage REITs and I'm particularly high on them as a sector despite their high yields. An exception would be KKR Real Estate Finance Trust, which actually has a higher yield than Arbor and a strong parent backing it up. Arbor's dividend is growing, which is a plus. But the nature of M-REITs is they're a black box—they can do well for a long time and then very poorly with almost no warning.

Generally speaking, no one sector should make up more than 20 percent or so of a balanced and diversified portfolio. In the case of REITs, we're really talking more about a form of corporate organization than a specific business, so investors
can go higher if spread around different sectors. But anyone who does that should be pretty sure about the underlying business of what they're buying, so as not to become overexposed to the same risks.

As for formatting of the REIT Sheet, I will see what's possible. It is quite long with the table, and I realize it can be a strain on anyone printing it out. Thank you for the suggestion.

Q. In his 04 dec alert "The Enable Midstream Sale Closes, Now What?" Roger wrote, "I initially recommended Centerpoint's now converted preferred in June 2020 for two reasons...." Where can I find that recommendation? Thanks—**Bur D.**

A. Hi Bur. I made the initial recommendation of the Centerpoint preferred in an Alert dated June 10, 2020. You can find the piece by clicking on the "Alerts" tab on the Conrad's Utility Investor website, scrolling to the bottom of the page, clicking on the number "2" and then scrolling down again.
2:01

Alternatively, you can type "Centerpoint" into the box with the magnifying glass in the top right-hand corner of our Home Page. The box is colored white and is labeled "Economy, Stocks, Expert Analysis." You can also search any other company I've tracked over the first 101 issues of CUI—as well as Alerts and other content. It's part of your membership to CUI.

Q. This is for Thursday's Chat. Roger: Any thoughts on the future value of **Exelon Corp's** (NYSE: EXC) breakup next year--i.e. what are the pieces worth separately? Thank you again for all you and Elliot do for subscribers. --**Bill G**.

A. Hi Bill. I think the two halves of Exelon will be worth north of $60 a share in the relatively near-term, and possibly as much as $100 in the longer-term depending on future US policy regarding nuclear power. For those who aren't familiar, the two parts will be a (1) multi-state regulated utility that keeps the Exelon name and should be priced in the low to mid-40s soon after separation, and (2) a primarily nuclear power generation company with a large retail arm that should initially be worth at least $15 to $20 per current share.

With New York regulators approving the separation, this deal should have no problem closing in Q1 2022 as planned. One reason Exelon shares have done well this year—including an end-year rally—is investors are realizing the nuclear/retail company is a viable entity after Illinois passed sweeping decarbonization legislation. The company has also been moving toward participating in development of small-scale nuclear plants that could one day replace the aging larger ones in its fleet.

Admittedly, my answer here is speculative. The biggest variable is where the overall stock market will be when the split is consummated, but energy prices and political developments could also play a role. But I'm comfortable holding through the split, and that despite this year's gains for Exelon shares the sum of the parts will wind up worth more than the current whole is.

Q. Hi Roger. I'm just wondering if there was an Edison Electric Institute (EEI) conference report from this year's November event? Thanks—**Dan E.**

A. Hi Dan. I did not attend EEI in person this year, so I did not produce a report as I have in past years. I did review the conference presentations, including those by the individual companies that attended. It's definitely not the high-quality experience being there is. And I look forward to when the event returns to pre-Covid format that allows the degree of interaction it has in previous years. But I did nonetheless pick up some interesting insights, which I share in the individual company "Comments" section of the December issue Utility Report Card.

Q. I'm retired and need safe, reliable income. I'm going to increase my position in either **BCE Inc** (NYSE: BCE) or **Verizon Communications** (NYSE: VZ). I have chosen BCE unless you change my mind. BCE has a nicer dividend. BCE probably has a chance at better dividend growth. Perhaps the VZ dividend is "safer" …better payout ratio? Which way would you steer me…have good base positions in both. --**David O**.

A. Hi David. As I hopefully indicated in the December issue of CUI, I view both of these companies as very cheap stocks paying high and safe dividends and offering significant upside in 2022—especially as 5G uptake accelerates.
BCE has increased its dividend at a faster rate than Verizon the past couple years. And given that Verizon is likely to be focused on paying down debt as well as returning capital to shareholders the next couple years, that could be the case in 2022 as well as 2023. On the other hand, BCE is priced in and pays dividends in Canadian dollars, which I believe will be a positive next year but could also add volatility.

In any case, both of these companies are Conservative Holdings in CUI in good stead. I like them both and see no problem investing in either at this time. If you're interested in how other analysts see them, BCE has 6 buy recommendations versus 10 holds and 1 sell among analysts tracked by Bloomberg Intelligence. Verizon's numbers are 9 buys, 21 holds and 1 sell—so there's plenty of room for sentiment to improve on either.

Q. Hi Roger- happy and healthy holiday wishes to you. I'm very curious to hear your thoughts about the recently announced **AES Corp** (NYSE: AES) acquisition of Community Energy. So far, I haven't found any announced details on the purchase price, or how soon the deal would contribute to earnings. But the first corporate announcements emphasize it's a big expansion of the renewables project pipeline. How big is the acquisition relative to AES's existing businesses? Any idea if the deal impacts AES efforts to improve credit ratings? Sincerely. —**Dan N.**

A. Hi Dan. So far, that's pretty much all the information on this deal that's been released to the public. It is a big deal for AES' own efforts in this business, though as management also pointed out in the primary press release it signed power sales agreements for 4 gigawatts of capacity this year and already has a new projects pipeline of 40 GW.

Those numbers would seem to indicate this is an incremental rather than transformational expansion. And that increases the odds the acquisition adds to earnings without meaningfully increasing financial risk, including AES' eventual upgrade to investment grade by Moody's from the current Ba1 with positive outlook.

Bottom line is based on what we currently know, I see this as positive for AES—both because it brings more business now and because Community Energy Solar developed roughly 5% of utility scale solar built in the US to date, which means potential servicing revenue as well. And I continue to rate the stock a buy up to 28 for those who don't already own it.

Q. Hi Roger. I wanted your opinion on **Enel Chile** (NYSE: ENIC) now after the country's elections. I'm trying to decide whether to take the loss to offset gains or to hold. Thanks--**John M**.

A. Hi John.
The victory of the left in Chilean elections has at a minimum increased regulatory uncertainty in that country. The record of such governments is they ultimately don't bring as much anti-investor intervention as is initially feared. And in this case, it would seem to be very much in the new administration's interest to keep Enel Chile's 64.1 percent owner and ultimate parent **Enel SpA** (Italy: ENEL, OTC: ENLAY) investing in renewable energy resources—given its goal of cutting emissions and limited options for getting that done. That doesn't mean they won't act otherwise. But the gigawatt of solar, wind and storage Enel announced in late November is a big deal. And from its current level, there's a lot of political risk reflected in Enel Chile's share price.

On the other hand, I would also argue Enel SpA shares are also reflecting political risks that have very little potential to really undermine profitability—even if Chile goes to far as to threaten nationalization of Enel Chile. And they would definitely get a lift if Chile proves as I expect to be less of a real risk for a company investing in renewable energy.

I have a buy up to 3 for Enel Chile on that basis. But it is difficult to see it reversing this year's losses quickly and Enel SpA offers much the same upside from better news in Chile without the direct risk. One strategy for those interested in taking a tax loss could be to switch to Enel SpA, which is a member of our Aggressive Holdings.

Q. What do you think of **Brandywine Realty Trust** (NYSE: BDN)? And what's your best value pick for REITS right now? —**Eric**

A. Brandywine isn't one we currently cover in The REIT Sheet, though we certainly could pick it up in the future. Briefly, it's an office property company that's seeing the pressures of that sector, with "core" portfolio just 90.2% occupied (91% a year ago) and 92.7% leased and flat year-over-year FFO/share. They did see some uptick in rents in Q3 for both renewals and new leases, the payout ratio is manageable at 55.9% and they were able to hold 2021 guidance after Q3 results—though that seems to depend on being able to boost occupancy. Interest expense was reduced by -6.9% and the balance sheet is still rated investment grade (BBB- stable outlook from S&P).

Finally, they've also been able to continue with some development efforts. That would all seem to imply the current dividend level can hold, though it's also noteworthy that it was not increased the past two years. But my main question with REIT--and with a few rare exceptions all office REITs now--is what kind of impact the pandemic will have on office rents and occupancy, meaning how much businesses will now allow working from home and therefore downsize their common spaces when leases expire. There will be a need for office space. But I also think we're going to have to see downsizing and consolidation of the current number of players—some relatively favorably with M&A but others by reducing CAPEX and dividends. So this is a sector I'd tread with care.

As for a top value pick in the REIT space, I had several in the most recent REIT Sheet, which we sent out just before Christmas. But one I think is worth a look is KKR Real Estate Finance Trust, which highlight in that issue and have just added to a list
of top picks. The chief appeal is the 8% plus dividend. But I also like the deep expertise KKR provides as the parent company, which makes me less concerned about what I believe is the chief drawback of all mortgage/loan focused REITs—we're never going to know what's inside them at any given time.

Jack A.
2:26
Hi:

What is the best way to leverage a pure play in the predicted increase in the price of WTI? What are your thoughts about UCO as an investment?........... My thoughts are that picking a particular stock leaves us vulnerable to company specific developments, and, so far, the midstream names have not followed very well with the increase in the price of WTI................ Also, besides PXD,

what other oil companies have hedges expiring soon and can give us the best leverage to an increase in WTI?
Thank you

Elliott Gue

2:26

We have recommended UCO as a trade on a few occasions in EIA's sister publication *CT Trader*. It's a good way to establish a leveraged position in oil itself (rather than energy stocks). The main downside to UCO is the tracking error issue, that stems from the way UCO tracks DAILY changes in the price of WTI. This isn't a major problem provided your holding period is 3 to 6 months or less. In another sister publication to EIA, *Income Options*, we're currently trading oil via call options on USO, which is another way of getting leverage. As for energy stocks, midstream names aren't a great way to play oil itself because, while we like many of them as investments, most don't benefit directly from a $10/bbl increase in oil prices. If you want to play oil itself via energy stocks, you're much better off going with an E&P like PXD or you could look at an ETF that tracks the producers broadly -- XOP is one we've recommended for trading in the past.

As for hedges, PXD is the biggest beneficiary in the portfolio right now and last time I looked it really was a standout in the industry in terms of upside leverage to oil prices in 2022...I have it on my to-do list to review the E&Ps' hedge books when we start getting updated data in January.

Eric

2:31

Why is KMI increasing their debt:EBIDTA ratio projection for year-end 2022 and is that the reason the stock has fallen since earnings release?

Roger Conrad

2:31

Hi Eric. I think what Kinder is saying is that they're not counting on a repeat of the windfall they received from Winter Storm Uri last year--which delivered a major one-time lift to EBITDA in 2021. They did use a portion of that money to make two acquisitions that will raise EBITDA going forward--the Stagecoach Pipeline system in the Northeast that they can integrate with existing assets, and Kinetrex--which gives them a major presence in renewable natural gas and potentially hydrogen. They also used free cash flow to continue to reduce debt, which has helped lock them in a solid BBB credit ratings with stable outlooks from S&P, Moody's and Fitch. As a result, they will remain comfortably within their debt/EBITDA target range.

I've said Kinder's weak performance since late October when they released Q3 earnings is basically for the same reason other midstream stocks have slumped--it's clear the volumes recovery is taking longer to materialize than it has in previous energy cycles.

Continuing on Kinder, we believe we will ultimately see the volumes recovery. But in the meantime, this company has clearly adapted its financial policies to the current environment of tepid volumes, which continuing to position itself with acquisitions/expansion to take advantage of a return to higher volumes. It may take a bit more patience to wait for the payoff. But I have no problem continuing to recommend this stock for a high and growing dividend now and big capital gains later.

Buddy
2:33
Is EIA being merged in the Capitalist times? The monthly EIA chat seems to be history and there isn't an EIA December issue. What's up?


Elliott Gue
2:33
No, Capitalist Times is the publishing firm Roger and I founded about 9 years ago, so it's the parent company of all of the publications we publish. EIA is an independent publication and will remain so. We've historically hosted chats for EIA as well as some of our other publications (including Conrad's Utility Investor). This month, given the holidays, we have just merged the chats into a single chat in an effort to ease scheduling issues. Earlier this week, we sent out a detailed alert with our updated outlook for commodity prices (oil and gas) and we're planning another issue for the first few days of January.

Buddy
2:37
What is the outlook for FTI? They seem to be signing some significant contracts, yet the stock is trading at its long-term low. Is there some significant upside eventually with this stock?


Elliott Gue
2:37
Eventually I think FTI is a good name. However, they're basically an offshore play and it often takes a few quarters for offshore activity to turn up after the rest of the services space has started to see cyclical improvement. So, we continue to like SLB on the services side right now and

that's already recommended in the portfolio. BKR is a second name I'm watching in services -- we wrote it up a few issues ago but haven't yet added it to the portfolio.

Eric
2:39
Thanks for all you've done this year! For fresh money, do you favor large integrated oil producers, E&P, midstreams, downstream or renewable sectors?


Roger Conrad
2:39
Thanks Eric. I hope by now you've had a chance to read the [Energy and Income Advisor Alert] Elliott wrote and we published earlier this week. It's a great macro discussion for energy. And we'll be paring it with an issue on our top 6 energy picks for 2022 early in January.

Our view is that there are bargains in every sector, which is why we have representatives from all in the Model Portfolio. Producers will see a big benefit from continuing high oil and gas prices, which will continue to lift free cash flow allowing them to cut debt and start returning a lot more cash to shareholders in 2022 (some already are doing so including portfolio picks EOG, Pioneer and others.

Midstream companies have lagged because we've yet to see a real volumes recovery as we have at this stage of previous cycles. We see them as attractive for yield now and cap gains for the patient.

Jeff
2:43
Elliott, what do think about VNOM


Elliott Gue
2:43
We like VNOM. They're a royalty and mineral interests play focused on the Permian Basin and they were created by **Diamondback** (FANG), which is a quality producer in the region. Like all variable dividend/distro plays, you have to be prepared for dividends to take a big step back when oil prices get hit but we have the stock as a buy under $25.

Eric
2:51
I still don’t get how IEP yields 16% and people aren't jumping all over it, what am I missing? The dividend looks like it’s been pretty stable for quite a while too.

 Roger Conrad
2:51
There's clearly a great deal of skepticism Icahn Enterprises will hold the quarterly dividend of $2 per share--I would argue the current betting is for at least a 50% cut next year. Obviously, a lot is within management's discretion, and like all private capital entities, it's often difficult to get a real read on what's inside. Financials are also usually not particularly helpful--since there's a loss of 47 cents for the first nine months of 2021 and at least nine different businesses and three investments that have a significant impact on results. EBITDA has also been extremely volatile--$715 million for the first nine months of the year versus a loss last year. Dividend payments were more than three times that.

Icahn does have levers to pay to come up with the dividend payments near-term--notably asset sales. And the $75 per share hostile takeover attempt on Southwest Gas proves again it's never a boring company to hold. But neither should IEP be considered a typical LP/REIT, or an income investment.

Icahn Enterprises is a bet on Icahn, period.

Jeff
2:52
Elliott, what is your opinion on PXD, EOG and CEQP
 Elliott Gue
2:52
PXD and EOG remain two of our favorite E&Ps and both are recommended in the model portfolio. I'd argue PXD is the highest quality US shale producer (there are a couple of other legitimate contenders) and I think the market underappreciated the dividend potential in 2022, particularly as hedges roll off. They've now paid out two special dividends $1.51 and $3.02 in addition to their regular quarterly payout that's now been raised to $0.62. I think they could pay out 10% or more of the current share price (about $180 to $190) in 2022. EOG is a quality producer...frankly, I do wish they'd adopt a similar cash flow return methodology to PXD, but I also like their natural gas exposure which puts the name "over the top" in terms of recommending it in the portfolio. CEQP has a solid yield 9%+ and has made some smart acquisitions this year -- I think they've adapted well to volume declines across some of their assets.

Ed O.
2:56

What is your opinion on Chevron ...has a good yield ....and recommended by many services

 Elliott Gue

2:56

We like Chevron though our top pick in the model portfolio among the supermajors right now is **ExxonMobil** (NYSE: XOM). XOM has a higher yield than CVX at this time plus we really like the way management invested in new low-cost plays straight through the downturn, which is setting them up particularly well to benefit from what we believe will be a multi-year upcycle for oil and gas. The market appears to be beginning to recognize this -- XOM is up about 55.6% in 2021, a little over 10 percentage points more than CVX.

Don C.

2:59

Roger/Elliott--for decades, I have read about how a rise in interest rates hurts utilities as their financial structure allows them to have significant debt relative to companies in other industries. With interest rates at historic lows, did some of your recommended utes lock into low-term financing at low rates? If so, will this insulate them somewhat if Jay Powell & Co. truly have multiple rate increases in 2022 and beyond?

Thank you so much for all that you do for subscribers.

 Roger Conrad

2:59

Thanks Don. I think any company that uses a large amount of debt finance is at risk to an increase in interest expense the next several years. But regulated utilities in general do enjoy several layers of protection against the risk of higher rates this time around. First, they continue to take advantage of generation-low borrowing costs to lock in lower rates for longer. Look for more on what individual companies are doing in the January issue Utility Report Card comments--where I'll be updating how companies stack up on Quality Grades.

Second, regulators adjust utilities' return on equity/rate base to reflect changes in interest rates. That's had a negative impact for several companies recently--notably Pinnacle West in Arizona. But provided utilities have support of regulators, rising rates would push ROEs higher over time.

A third level of protection for regulated utilities against rising interest rates is the fact that there are few major ongoing construction projects that require more than 3 to 5 years (tops) to complete. In fact, most of what we see now can be sited, permitted, built and fully financed within 12 to 18 months. And often utilities recover the entire investment in rates as incurred. That greatly cuts the risk that companies will be caught out with much higher financing costs than anticipated, as was the case during the 1970s when so many were building nuclear and coal plans.

Bottom line, I think the risk of rising interest rates to utility businesses is greatly exaggerated. And the arguments rely too heavily on the economics of the 1970s and 80s, which have changed greatly. The key challenge for companies is the same as it ever was--keeping the support of regulators for plans. That's not given. But companies that achieve it will be in good shape going forward.

Barry B.
3:05
I have been reading that oil production in this country is expected to rise 900,000 BBLS/day in 2022. Do you agree with that prediction and if so, what impact will it have on prices?


Elliott Gue
3:05
I suspect US oil production will rise in 2022 and 1 million bbl/day +/- seems like a decent forecast. However, even at 1 million bbl/day of growth US oil production would still be well below the 13 million bbl/day peak reached in early 2020 and the key point is that US producers aren't really drilling aggressively given soaring oil prices. Instead, as we noted in this week's issue, they're focused on free cash flow, paying dividends and paying down debt and I suspect that'll continue through next year. We continue to believe that OPEC+ will manage production as demand continues to recover next year, keeping supply growth lower than demand growth, so we see no issue with the global oil market absorbing additional US barrels without a major price impact. Longer term, the collapse in global investment in new oil and gas projects since 2014 is the main issue facing the industry -- unless investment in new production picks up soon, global oil production could fall on the order of 20 to 30 million bbl/day by 2030

Even with OPEC+ maxxed out and US shale growing again, it will be difficult to offset declining output from those older wells.

Jack A.
3:11
An analyst on CNBC has chosen PSX as an energy play... What are your thoughts about PSX as an investment?. Also, considering the hostility in the present administration towards expanding oil exploration and production, how much increase in production volume do you think is possible that could benefit both KMI and EPD?

Thank you

 Roger Conrad
3:11
Hi Jack. Phillips 66 (NYSE: PSX) is basically the downstream half of pre-split ConocoPhillips--and will soon re-absorb the midstream assets spun off to Phillips 66 Partners LP in a takeover. PSX is not a producer of oil and gas as COP is. As a result, it's had to cut its expenses including CAPEX to deal with reduced output from E&Ps, though downstream operations have seen a solid recovery particularly from gasoline demand. I think the dividend increase announced in October and payable earlier this month is a sign they have adapted their financial and operating strategy to the current environment--which means the dividend and balance sheet should be secure.

Like Kinder Morgan and Enterprise Products Partners, I would argue PSX shares have been held back this year by the lack of guidance for a real recovery in midstream volumes, which has disappointed investors. I do think time is very much on its side for one--since the longer we go without, the higher oil prices are likely to rise and the greater the incentive will be to increase production. And for all its public hostility to long-term US reliance on oil and gas, the Biden Administration is going to want to see more production now, since the alternative is much higher heating bills and prices at the pump. Bottom line--we still see it as a matter of when not whether volumes will recover, and midstream companies prosper. We do plan to add PSX to our coverage universe probably under midstreams in the near future.

Michael L.
3:18
Elliott,

This is a follow up to my previous question regarding the producers. With WTI in the 70s, what will it take to get the share prices of these companies to move further up? Quarterly reports that reflect increased profits at this price for WTI, shareholder friendly moves (special dividends, buybacks, etc)? Thanks!

 Elliott Gue
3:18
In the short-term shares in producers are leveraged to the price of oil -- most names peaked in late October/early November when the price of oil peaked. The pullback has been pretty mild with S&P 500 Energy down about 10 to 11% and the XOP ETF down about 18%. And, of course, energy is still the best-performing sector in the S&P 500 up 54.11% year-to-date with

basically one more trading day to go. So, I think one thing you're seeing in both oil and energy stocks is an end of year effect. Simply put, if you're a hedge fund or institutional investor who has been long/overweight oil and energy stocks, you were sitting on some pretty substantial gains in October -November and you probably wanted to lock those in before year-end, so you can send your investors a nice year-end statement with lots of big, green numbers in it. Certainly, we can see that in the data on oil futures commitments, where there was substantial profit-taking in November/early December. I believe that sets us up for a rally into early 2022 in

both oil and energy as these same investors buy the dip and reestablish positions. Fundamentally, I see other catalysts including more special dividends/buybacks to be announced in their upcoming Q4 reporting season. Since many oil companies use their Q4 calls to announce their guidance for the year ahead, I think they could be particularly important as drivers for these stocks. One more thing to watch would be a spike in oil itself, which I believe is a growing upside risk as it appears that omicron is having only as modest impact on demand while OPEC+ is running out of spare capacity.

Eric
3:23
Which 2-3 midstreams have the best stock appreciation prospects over the next 12 months?


Roger Conrad
3:23
Hi Eric. I've actually highlighted three for our Six Top Picks for 2022 issue of Energy and Income Advisor, which we intend to publish in early January. But I really think all of those we feature in the Model Portfolio and High Yield Energy List have the potential to at least double once a real midstreams volumes recovery gets underway. I continue to believe we need to be wary of the smaller midstreams like Sprague Resources LP--which in fact I'm putting back on the Endangered Dividends less than two months after its most recent dividend cut. But the large and diversified players we've been recommending have adjusted their financial/dividend policies to an environment of more tepid volumes than we've seen at this stage of previous energy price cycles. So, we can hold them with confidence in their dividends and balance sheets until we do get that volumes recovery.

Sohel
3:23
Does an increase in crude prices as you expect in 2022 help or hurt refiners like VLO? Would also appreciate your read on prospects for VLO in 2022. Thanks for all your information and guidance.

 Elliott Gue
3:23
Refiners, unlike most other energy groups, do not benefit from rising oil prices. Refiners like VLO buy oil to make gasoline and diesel, so rising oil prices = rising costs. However, there are many offsets...the most important is that I believe oil prices will remain elevated in 2022 due to a combination of supply and demand drivers. Rising energy demand does benefit refiners because consumers don't really use oil they use gasoline, diesel and jet fuel. So, my sense is that refining margins rise in 2022 to mid-cycle levels and that implies significant upside for VLO and others in the group.

Sandyw
3:29
Thanks for your lifelong consistency. Trustworthy. What do you think about RIO vs BHP

 Roger Conrad
3:29
Thanks Sandy. We appreciate that. We have favored BHP Group over Rio Tinto, in large part because its enterprise is currently more focused. But they are quite similar actually as businesses and are treated very similarly by investors. And while BHP's current yield is slightly higher than RIO's at the moment, I would argue that's not really significant now since both companies set payouts in line with profit guidance--and we're not going to see that until next year. Bottom line is we like both BHP and RIO for long-term investors. Though shares will be volatile from quarter to quarter, they're actually the lowest risk stocks you're going to find in mining--which is now especially interesting as a bet on batteries.

John C..
3:37
HASI. Is it worth investing in at today's price and considering the recent downturn in "green" stocks? What can we look for as far as safety and future dividend increase?

Would appreciate comments on Devon Energy and PSX at current levels

Thank you

 Roger Conrad
3:37
Hi John. I sold Hannon Armstrong Sustainable Infrastructure Capital earlier this year from the CUI Aggressive Holdings. My thought then was that this was a well-run company with strong finances and tapped into the trend of rising spending on renewable energy and energy efficiency projects--but that the shares had been bid up to an unsustainable price in the low 70s and were due a sharp correction. As it turned out, I was right on both counts. But after a strong growth year and now trading in the low 50s, I think it's again a buy. This is a company that's proven it can increase profitability by adding scale. And I think its best days are ahead. We may in fact come back to it in CUI for 2022.

I discussed PSX in an earlier question. My view is it's probably a buy in the low 70s where it trades now, but only for patient investors since we don't really know when we'll see that volumes recovery. As for Devon, it's benefitting from higher prices for oil and gas, and a buy up to 40 in our E&P and Services coverage universe--though we favor the producers in the Model Portfolio.
Jeff
3:38
Hi Roger,
 Roger Conrad
3:38
Hi Jeff. Thanks for joining us.

John C..
3:45
hello,
I may not be able to make the chat but would like thoughts on a couple subjects:

Any names that you feel have run up to the point that it is a good idea to take some/all off the table?

As a retired individual, my priorities are for income and capital preservation. thus my interest in essential services. I would also like to have a portfolio that leans toward "set and forget it" with only occasional need for me to review/adjust/rebalance. My questions:

a) general guidance on this need (as I imagine many other subscribers may be in a similar boat)
b) any sense you might offer re: what percentage such a portfolio should devote to various

sectors such as utilities, energy, real estate, etc

Also, EOG resources - thoughts on this name?
Thanks


Roger Conrad

3:45

Hi John. We don't see any of our Energy and Income Advisor portfolio names as being over-extended at this time, especially those that have pulled back since announcing Q3 results like the midstreams. I did make a few switches in the High Yield Energy List the past few weeks, mainly to get higher yielding names in there. But at this point, energy looks like one of the few sectors with a great deal of upside in 2022, despite the gains we saw in 2021 and to a lesser extent in 2020 following the February/March crash--which in retrospect was the bottom for this energy cycle.

As for utilities and essential services, it's remarkable that the majority of this year's gains in the Dow Jones Utility Average have come this month. But as I wrote back in November, this is a sector where business growth has actually caught up to bull market pricing. And I think there's real potential for the buying momentum to extend into 2022, as investors leave higher priced fare.

There are a number of stocks rated "sell" in our various coverage universes--EIA, CUI, REIT Sheet, etc. And these are good places to take money off the table. But by and large, I feel good about the ability of the Portfolio stocks we have in these services to generate average annual total returns of 10% plus over the next five years from their current prices--given their business prospects.

Getting to the other part of your questions, we generally advise keeping specific sector exposure to 20% or less of your portfolio. However, it's also true that essential services is a broad category and the stocks we hold in the CUI Utility Report Card coverage universe behave differently from each other in different environments. The same is true of REIT Sheet companies since REIT is now better thought of as a form of corporate structure rather than only a way to hold conventional real estate. And my coverage universe there includes names that could be associated with tech/growth as well as value/income. Bottom line is to know what you own.

If you are interested in a service that puts all sectors ahead in a managed portfolio format, I would like you to check out my CUI+Plus service, which holds stocks across all dividend paying sectors and also advises weightings/numbers of shares to own. Call Sherry at 1-877-302-0749 if you want to find out more.

As for EOG, we continue to hold it in our Model Portfolio and rate it a buy up to 100. We expect to see higher oil and gas prices push up free cash flow further in 2022--$5.4 bil is the company's current guidance and is almost 4 times dividends paid this year including the $3 per share special cash payouts. With this company rated A- with a stable outlook and seeing no real balance sheet pressure, that should mean even more generous dividends/share buybacks in 2022, and bigger gains for the stock.

Sheldon
4:03
Hi Roger,

Would you take a loss in Magellan and reinvest the proceeds into TC Energy? They seem to be similar companies.

Also, would you take a loss in Nabors? If so, are there any recommended replacements.

 Roger Conrad
4:03
While e can't provide personal advice in our advisories. I can say that selling stocks that are underwater since entered is a good way to shelter capital gains, which many of us have this year. And as I've said in several answers during this chat, midstream companies like **Magellan Midstream Partners** (NYSE: MMP) and even **TC Energy Corp** (TSX: TRP, NYSE: TRP) while in the black this year have been relative outperformers, as investors have been disappointed in the rather subdued guidance for volumes at least for the next few quarters.

That said, I don't see MMP and TRP as being that similar, despite being considered midstreams and operating high quality businesses with strong balance sheets. Differences start with TRP's far greater size and diversification--it has renewable energy investments as well, while Magellan is pretty much focused on crude oil and refined products pipelines. TRP is also far more geographically diversified, with assets serving both US and Canadian basins. And its dual-listed in Toronto. That means TRP is priced in and pays dividends in Canadian dollars.

If one were to sell MMP and buy TRP, one would probably get the benefit of any midstream rally we see as well as the benefit of a tax loss. I also think it's likely the 30-day wash rule will probably pass before we see a big midstream recovery, though equally we could see a rush into midstreams in January from bargain hunters. As for Nabors, we've rated it a hold recently and believe in general that service companies will do better at a later stage of the cycle when activity picks up and rates start to rise. The stock is up at bit more than 40% this year, so I guess a loss depends on when it was purchased. Our favorite services company, however, is **Schlumberger** (NYSE: SLB), which we continue to rate a buy up to 42.

Fred

4:09
Is your opinion of FANG similar to Viper

Elliott Gue
4:09
Yes, it's definitely a quality name with good assets. We have PXD in the portfolio, but I'd put FANG in a similar class as PXD.

Michael L
4:13
Elliott, is PXD still your favorite/most leveraged name in the producer space? Thanks

Elliott Gue
4:13
It's definitely one of my favorites. I would say that I think OXY is probably more leveraged in that if oil prices behave as I expect they should be in a position to pay down their debt to target level next year and could then initiate a larger dividend. I think that could be an upside catalyst. What I'm saying is that I think PXD is the better company but in a bull market for oil OXY would probably rally more.

Dan N.
4:17
Hi Roger & Elliott- I'm interested to hear your opinions on the relative values and attractiveness of major US midstream players EPD, KMI and ET, and why valuation of ET looks to be so out-of-step with its peers. Is ET really as cheap as it looks and generating as much steady cash flow as appears? Even setting aside the Uri storm windfall, it looks like a huge discount in the shares.

I see this morning the headline that ET will owe over $400M to WMB for the aborted merger, which follows other recent headlines for a recommended $40M penalty, a $4M penalty, a $2M penalty… is this discount mostly from a reputation for being a uniquely bad actor? Do you think this reputation is deserved and/or justifies the discount?

Thanks and happy New Year!

 Roger Conrad

4:17

Hi Dan. Thanks for those well wishes. For a company that's expected to generate almost $8 billion in free cash flow this year and roughly $6 billion next, even the recent fines for alleged operations violations and now the busted Williams Companies' (NYSE: WMB) merger are not a particularly tough blow, though obviously management would prefer not to pay them. And given the lack of movement in the shares today, this was not a wholly unexpected outcome of this long-standing case either. In fact, it's actually removed some long-standing uncertainty that may be helping ET stock today.

Rather, the big news the past couple weeks for the company is successfully closing the Enable merger and apparently better than expected results exporting ethane to Asia at the Nederland facility--twice last year's volumes and far better prices. Also, the sale of units to former Enable owner Centerpoint and the latter's immediate sale of a good chunk of them has apparently been absorbed successfully by the market.

Bottom line: Despite these setbacks in the courts and with regulators, I think the stars are aligning for ET's business and share price to have a big year in 2022.

Jason

4:25

Do you ever short stocks? If pressed, what are some candidate shorts you might consider now?

 Elliott Gue

4:25

We rarely recommend shorting stocks in Energy & Income Advisor (EIA) or in our other long-term services -- we have, from time to time, used inverse ETFs to hedge our exposure in these services. We do recommend shorting stocks in our trading service, CT Trader and/or buying inverse ETFs. In our options trading service, Income Options, we also frequently recommend trading the downside in stocks and or indices. We don't really see a lot of short candidates in the energy patch right now -- in both CT Trader and Income Options we have played the downside in natural gas prices over the past 2 to 3 months, but as I outlined in our issue this week, we think gas is close to a low and we're exiting those positions for a profit. In CT Trader we recommended shorts in ARKK some time ago (at higher prices) and in Income Options we've been trading several names on the short side of late including retailers like **Foot Locker** (FL), **CarMax** (KMX) and **Academy Sports** (ASO). Also calendar put spreads in SNAP.

Jeff
4:26
Happy Holidays, Could you give me your opinion of 2022 on KMI, AWK, and SJI? SJI was in the portfolio then a sell and now I see it has a buy under price.


Roger Conrad
4:26
Hi Jeff. I swapped **South Jersey Industries** (NYSE: SJI) for **Atmos Energy** (NYSE: ATO) at the beginning of 2021 in the Conrad's Utility Investor Portfolio, because I saw ATO having better growth prospects with less risk and selling at a similar price. As it turned out, SJI has returned about 26% this year while ATO's is 22 percent--so not much difference, even though Atmos wound up facing a much greater challenge in Winter Storm Uri in Texas. I continue to believe ATO is the higher quality company and that SJI faces additional risks from regulators in New Jersey as well as unregulated operations. But at this point, both still look cheap and SJI is a buy up to 25, while ATO is up to 105.

I have talked a bit about Kinder during this chat. Bottom line is I think the company is well-run, financially strong, pays a safe and rising dividend and is well positioned for an eventual volumes recovery--a buy up to 22. American Water Works is a very high-quality water utility but also quite expensive at 43 times expected next 12 months earnings and a hold on that basis.
Hans
4:28
Elliott, I still have ENLC (at a loss) I know it is a midstream company, but what is your outlook hold on or invest in something else


Elliott Gue
4:28
ENLC isn't one of our top midstream picks right now. Last time we wrote it up, which was some time ago, we had it as a hold. Generally, though, we'd prefer exposure to other midstream names.

Jeff
4:30
Roger, what’s your outlook for ORAN as it relates to dividend safety and potential growth?

 Roger Conrad
4:30
I think the dividend is actually safe and well covered by free cash flows, and I consider Orange SA a buy up to 16 for its NYSE-listed ADRs. The company remains a likely merger candidate despite pulling out of negotiations with Vodafone earlier this year. But even without a formal union, I expect the company to pursue more consolidation of assets--with Spain being a good example as a market with too many competitors to encourage needed network investment. European telecoms like their US counterparts are very cheap right now as investors appear to have given up on 5G offering any real growth. I think 2022 will be the year when that starts to show up in earnings and I look for Orange and others to post solid gains next year after lagging in 2021.

Maverick
4:32
Good afternoon. I'm a recent subscriber that wants to thank you all for the quality of the issues and for taking the time to do a Live Chat like this.

 Roger Conrad
4:32
Thanks Maverick. We appreciate that. I've said before that Elliott and I get a lot from the questions and comments in these chats. And this one--our last for 2021--is certainly no exception so far.

Maverick
4:35
Any thoughts on **American Electric Power** (AEP)? Curious as to why this is not a covered name. Thank you.

 Roger Conrad
4:35
I do track American Electric Power in Conrad's Utility Investor in the [Utility Report Card](), which you can access from the website. I have covered it literally since I started advising in this sector,

which dates back to the late 1980s. On a general note, I like the direction management has taken the company--toward regulated businesses with rate bases transitioning toward lower CO2 emissions and growing to lift earnings and dividends. I believe the current price is a bit more than we should pay but recommend the stock up to 85.

Lee
4:36
Gentlemen, thanks again for your wise counsel. I wish you would explain once again the tax consequences of selling and MLP that has been held over many years. I know the cost basis is reduced with each distribution…. beyond that it gets pretty murky for me.

 Elliott Gue
4:36
Thanks for the comment. Basically, as an MLP unitholder you are allocated a portion of the profits and losses generated by the MLP over the course of the year. Some of the money you receive is taxed as ordinary income, while some is a return of capital and is not immediately taxable. The return of capital portion reduces your cost basis in the MLP. Then, when you sell, you are subject to recapture -- the difference between your original cost and the adjusted cost basis is taxed at ordinary income tax rates, while the rest of your gains would be taxed at capital gains rates. MLPs include all the information you need to know in the tax packets they send out usually in the first quarter of the New Year.

Jeff
4:40
Elliott, how safe do you feel the dividend is in ET?

 Elliott Gue
4:40
On their last call they were talking about potential dividend increases next year as they get their debt metrics down to the target range. I suspect they have plenty of cash to cover their payout in 2022 barring any "Black Swan" type events, the question is more about how fast they can bring down their debt and start to grow the distro again.

Mark
4:42

Hi Roger, What effect, if any, do you think the Fed's suggested rate 3 increases in 2022 will have on value of the midstream players and in particular ET, KMI, and EDP. Will this create downside pressure oil and demand and MLP volumes. Thanks Mark


Roger Conrad

4:42
Hi Mark. I don't think that even more than three Fed rate increases would have much if any real impact on our recommended midstreams' profitability in 2022. For one thing, all of them are now generating free cash flow after all CAPEX, debt service and dividends--so they haven't been and aren't likely to be accessing capital markets. Even refinancing isn't a great risk, since they've been active pushing out maturities as well as paying off debt with free cash flow.

I suppose it is possible that the Fed would raise interest rates to the extent that they crater the economy as the Volcker Fed did in the late 1970s/early 80s. But inflation isn't yet running anything close to a level that would require that degree of action. And the Fed in recent years has always pulled back before triggering anything catastrophic for the economy--which is really what it would take to depress midstream volumes meaningfully from what right now are still bottom of the cycle levels.

A really severe overall stock market selloff would be a risk to equities across the board, including the highest quality midstreams like Kinder and Enterprise--as well as very cheap but more challenged midstreams like Energy Transfer. But at this point, these companies are still trading at bear market valuations and have adapted their operating and financial policies to bottom of the cycle conditions.

Sandyw
4:46
Can we still get the 15% tax taken from Canadian returned? What's the form required?


Roger Conrad

4:46
It's a Form 1116--you file it with your US taxes and receive a credit for it. Same applies to all foreign investment withholding tax.

JT
4:49

Do you have a rating & buy up to price on Stag Industrial RE IT?


Roger Conrad

4:49

Stag Industrial in in my REIT Sheet coverage universe. If you're not a member, I invite you to check it out by calling Sherry at 1-877-302-0749 anytime between 9 am and 5 pm ET, Monday through Friday. Industrial REITs in general have been a hot part of the market, so it's important not to pay too much. But I believe this is a high-quality company with a safe dividend that should be increased at a low single-digit percentage rate early in 2022.

BKNC

5:04

Hi Roger. Thanks for all your help. AGLXY really took a dive last year. How do you feel about it going forward? I have been reluctant to add to the position, but it obviously could go a lot higher if it starts to move again. It's hard to have a read on it being an Australian stock. No idea if the government will stop destroying their electric provider.


Roger Conrad

5:04

Even AGL Energy appears to have caught a late December bid, though not nearly enough to erase what now looks like about a 45% loss for the year. I rated it hold for much of 2021 precisely because I though we collectively held enough of it at CUI, and that remains my view. I do continue to believe that when this company formally separates the two pieces will be worth considerably more than the current share price. And that transaction still appears on track to close by the end of AGL's fiscal year (June 30, 2022). The retail unit will at that time be the leader in the sector in Australia, as well as a leading provider of distributed energy and renewable energy. The generating unit, which appears to have a negative value in AGL's share price, will still be the country's leading power producer with assets that are absolutely essential to Australia's economy--so obviously won't be worthless. That said, my current intention is to keep the stock a hold until we get closer to the split and we see more details.

AGL has a lot of potential but also carries a great deal of risk--and there's no point in sinking more into it when there are other attractive stocks.

BKNC

5:10

Curious about REITs. I think many companies will consider not upping their leases for business property. Conversely, I can see the data centers and medical properties doing well. Do you believe there are certain segments of the REITs which look good for 2022 and others to avoid?


Roger Conrad

5:10

Yes, absolutely. As I answered in a question about office REIT Brandywine earlier in the chat, I am advising caution for most office REITs--with the exception of those that occupy obviously growing niches like leasing to Lifesciences business or that operate in regions/cities likely to see a big comeback in 2022.

Data centers remain in high demand. And in fact, one of my REIT Sheet recommendations **CyrusOne** (NSDQ: CONE) has handed us a windfall profit by attracting a takeover offer from a consortium led by private capital firm KKR. I've now rated it a sell, as it trades right at the takeover price. My main reservation about most data center REITs is very high prices. But I have identified some worth buying in the current REIT Sheet.

Bottom line: I see big potential returns in selected individual REITs in 2022--but risk in others that makes wise selection very important. Another sector I'm cautious on: Senior's housing, which I believe has suffered significant reputational damage from the pandemic and is due for consolidation.

If you're interested in my view on REITs--including in depth advice on an expanding universe of 80 plus in my databank, then please do call a Sherry at 1-877-302-0749 9-5 ET, M-F--and we'll be happy to give you a look at what we do.

Fred

5:18

I appreciate your insights. What is your opinion of Delek Partners and are their better investments in Eastern Mediterranean Natural Gas Discovery and Exploration?


Roger Conrad

5:18

Hi Fred. We're not aware of Delek Partners or its parent Delek US Holdings having any investment in the eastern Mediterranean, or exploration and production anywhere. The parent is basically a refiner with operations in Texas, Arkansas, and Louisiana, while Partners basically owns pipeline assets the parent uses.

If you are interested in the eastern Mediterranean specifically, you can get pretty good exposure with super oil **Chevron Corp** (NYSE: CVX), which last year acquired major player Noble Energy at a heavily discounted price. Its assets there are already helping deliver rising output at a low price and there's plenty of room for further expansion, as Israel and its neighbors look to boost output of gas to serve supply hungry Europe. Chevron has had a good year in 2021 but is still a buy up to 125.

Fred
5:23
Do you have an opinion on Desert Mountain Energy?


Roger Conrad
5:23
It's not one we've covered to date. We do believe there will be a time in this energy cycle when developmental companies like Desert Mountain will be in significant demand--and all aspects of helium/hydrogen are potentially interesting. On the other hand, this company has never had real earnings and has bled cash for its entire history. It's a quintessential penny stock--if you buy in, be prepared to lose 100%.

Sohel
5:30
Hi Roger, Thanks for hosting these chats. incredibly useful! I notice you added BSM to the high yield list. Could you explain the rationale, and also does it come with a K-1? Additionally, could you comment on BGR BlackRock Energy and Resources as investment for a retired investor


Roger Conrad
5:30
Black Stone is an LP, so you should receive a K-1 as you would with any MLP. My rationale for recommending it is basically that the companies drilling on its lands (royalties are 87% of total Q3 output) are likely to increase output going forward, that realized selling prices are going

markedly higher from the $38.61 per barrel in Q3 as lower cost hedges are replaced by higher cost ones, that the company's own production and realized selling prices will increase in tandem, and that management will share the wealth with investors has higher dividends. Distributable cash flow of 34 cents per unit covered the 25 cents per unit dividend by a 1.36-to-1 margin even at that low level of realized selling prices in Q3. A doubling of realized selling prices would arguably produce DCF north of 70 cents per unit and commensurate dividend growth. Basically, Black Stone is an already high yielding leveraged way to bet on oil prices at least staying in the neighborhood of current levels in 2022. I rate it a buy up to 12.

As for **Blackrock Energy & Resources Trust** (NYSE: BGR). it looks interesting as a closed end fund trading at a sizable discount to net asset value. But it's important to note the monthly distribution was more than twice the current level as recently as February 2020. CEFs that cut usually have a tough time getting back to premiums from discounts. I would also argue that this fund holds basically high-quality big energy producers, with Chevron number one at 12.5% as of the end of Q3. My view is you could own the best of these in your own account, not pay the expense ratio and not have to own the whole portfolio.

Sohel
5:40
Pipeline stocks have recommended for a while, but they continue to languish or in fact fall. Aggressive positions like PAGP and ET and even "Safer" ones like EPD. They don't seem to rise with oil but do fall with it. What will drive the recovery? What is your outlook on these and other MLPs in 2022?


Roger Conrad
5:40
First, thank you for those kind words attached to your previous question Sohel. We appreciate your participation as well. My opinion on why midstream companies have generally lagged this energy cycle upturn so far really hasn't changed over the past few months. That's mainly that companies like Enterprise, Plains, Energy Transfer and others are not guiding to a volumes recovery anytime soon. Disappointment in guidance is in my view clearly what's behind the selloff we saw in November and early December for midstream stocks. And the selloff accelerated when oil and gas prices retreated, as investors I think rightly perceived that would only make producers more conservative with their CAPEX going forward--which in turn would continue to hold back volumes.

The saving grace for the best midstreams is they have clearly adapted financial policies including dividends to a continued environment of tepid volumes. But really until producers take up their output and volumes recover to where they've been at this stage in previous cycles, I think midstream stocks will continue to lag--and we'll have to continue to be patient on them.

Clint

5:43
I have EPD as my primary "safe" MLP. I'm looking to add a position in a more aggressive MLP with hopefully higher income and capital appreciation potential later in the cycle. I'm looking at Energy Transfer and Plains. I would appreciate your thoughts on these two or another MLP.


Roger Conrad
5:43
Hi Clint. We are in the process of putting together a more portfolio-focused issue of Energy and Income Advisor to pair with the commodity price update Elliott just wrote and we posted as an Alert for readers earlier this week. That will include our six top energy stocks for 2022--which I can tell you will include 3 midstream focused companies. Enterprise and the more volumes sensitive Energy Transfer and Plains are very cheap stocks and the underlying businesses have adapted to the current low volumes environment. I think this is a good time to add to all three. But again, I will have 3 additional midstream picks for you in the upcoming EIA issue.

Guest
5:47
What are your opinions on AR and BSRTF? Both seem interesting for the volatile part of a portfolio.


Roger Conrad
5:47
Antero is a natural gas producer and so has benefitted from the increase in gas prices this year--though the exact amount has been muted by the company's aggressive price hedging. My view is this company is best off merged with a neighbor, with EQT Corp (NYSE: EQT) the obvious possibility. But at this point, our view is you're probably better off with another player. We track Antero and Antero Midstream in our E&P and MLPs/Midstream coverage universes, respectively, which can be accessed on the EIA website.

As for BSR REIT, it's not one I currently cover in the REIT Sheet, though I will take a look. At this time, my preferred pick in the Canadian multi-family space is still Canadian Apartment.

Jeff
5:49
How do you feel the mid streams will do this year and which ones do you like the best? I own EPD, ENB, ET and HESM

 Roger Conrad
5:49
Hi Jeff. I've answered quite a number of questions about my outlook for midstream--so I won't repeat my earlier answers other than to say we like all of these stocks. All of their dividends are safe, their balance sheets are strong and they're all in line for big gains when volumes to recover to a level that's more normal for this stage of the energy price cycle.

bob
5:53
Hi Elliott & Roger. I have followed your advice for years & has been very profitable. Thank You! Is it possible for 'the REIT Sheet' to get its own website? Maybe, expanded coverage & more updates? I do understand there is a lot to keep up with your publications, but it doesn't hurt to ask. You guys give very sound advice.

 Roger Conrad
5:53
Hi Bob. I am expanding the REIT Sheet coverage universe slowly but surely by adding more names, many from suggestions offered by members--so please do feel free to pitch a few names to me when you can. Just drop an email at service@capitalisttimes.com.

The full REIT Sheet with its coverage universe is published every three months, which corresponds with when companies release their quarterly earnings--and which are a key part of my analysis. But I do send out updates the other two months, including advice on what to do with recommendations and other key developments I think are worth bringing to your attention.

I believe we are going to post past issues and the coverage universe going forward, probably using the CT website. In any case, thanks for your suggestions and your confidence in us.

Guest
5:57
Hi Roger and Happy New Year ... what on earth is going on with ET? It just seems to be getting weaker and weaker. Is it time to bail? And, AT&T ... should we still be holding this?????

 Roger Conrad
5:57
I've answered quite a few questions on why midstream companies have been weak in Q4--which basically boils down to investor disappointment with the outlook for volumes that ultimately drive revenue and cash flow growth and remain at depressed levels for this cycle. Energy Transfer LP is no different than any other midstream company in that regard. But again, the important thing here is to have patience--they've adapted to the low volumes environment as a business which means the dividend is safe. And when we do get that volumes recovery, I think ET easily doubles from here.

As for AT&T, I'm rating it a hold presently as I believe the sum of the parts post Warner spinoff will be worth considerably more than the current price. The spin is still likely to take place in Q1 2022--so we most likely won't have to wait a lot longer to see if I'm right. But for fresh money, Verizon, BCE and Comcast are much better buys now.

Guest
5:59
Oh ... and Roger .. could you please make the REIT sheet downloadable? I keep losing the headings and having to scroll up to see them. It's most annoying. Thank you

 Roger Conrad
5:59
Thanks for your interest and your suggestion. We'll see what we can do.

Ron
6:04
EPD MPLX ET OKE. Very little or no dividend growth for the last 2 years. How about 2022?

 Roger Conrad
6:04

Hi Ron. Considering what happened to the North American energy sector the last couple years, any dividend increase at all has been a sign of real resilience. MPLX has only recently resumed payout growth--in addition to a special cash dividend--which is a real sign it has turned the corner as well. Again, for midstream share price gains and more robust dividend growth really do boil down to getting that volumes recovery. But my view remains that we will see it if we're patient. By the way, ONEOK has returned better than 62% year to date, ET 42%, MPLX 50% and even EPD 20% this year--pretty good returns even if dividend growth has been held back.

Howard F
6:05
Hi Roger and Happy and Healthy New Year


Roger Conrad
6:05
Thank you Howard. The same to you!

Howard F
6:10
I am at big time losses on MMP, ET, TBS what is your advice sell or hold


Roger Conrad
6:10
I'm not sure what TBS is, **Telephone & Data Systems** (NYSE: TDS) is an Aggressive Holding in Conrad's Utility Investor and has returned 13.5% year to date--not huge in a year when the S&P 500 is up 28.8% but a big time outperformance of the sector--and I think with a lot of room to run in 2022.

I've talked about Magellan Midstream, which has returned around 16% this year as well as ET at about 42%. And what we need for a lot more than that is a recovery in midstream volumes. I can't provide individual advice about taking losses for tax purposes--but a lot of us do have gains this year to protect and in my view a midstream recovery is going to take some time still. MMP has returned to modest dividend growth this year by the way and I expect ET to do so in 2022.

Tom L
6:11
Roger,

Thanks for your continued great work in the utility space. For new money, how would you rate AGR vs AQN?


Roger Conrad

6:16

I like both Avangrid and Algonquin at their current prices. I think heading into 2022, Avangrid probably faces more headwinds--mainly New Mexico regulators' rejection of its merger with **PNM Resources** (NYSE: PNM) and what it plans to do about that, as well as the ballot rejection in Maine of a powerline to run from Canada. Both could make it more difficult for the stock price. But shares are strong since mid-December and the offshore wind projects mean the stock should be a major beneficiary of any warming up of investors toward renewable energy. Algonquin also has key regulatory approvals pending for acquisitions--AEP's Kentucky Power and American Water Works' New York properties. I also expect to see dividend growth slow from 10% plus to upper single digit percentages. But the yield is also a bit higher than AGR's, which has not been raised since July 2018. Bottom line: I would split the difference.

Don R

6:20

Happy Holidays.   Thoughts on SOHO now with the Covid spike.   How about CWCO as a water play.   And what is it going to take for KMI to finally move up near your buy up to target.


Roger Conrad

6:20

I think Sotherly has been doing enough right to still rate a speculative buy at 3 or lower, as I indicated in the most recent REIT Sheet. We're not likely to see a dividend next year, but neither is one priced in. I like Consolidated Water as a buy up to 14, though like SOHO the shares are taking a pandemic related hit as tourism to the Caribbean is likely to suffer. I think there's enough here to sustain the company though, as it's been proving resilience the past few years. As for Kinder, again it's going to take building evidence of a volumes recovery to lift the shares meaningfully, as is the case with midstream stocks overall. But the company has adapted to low volumes--so we're safe being patient.

Tom L

6:24

Roger, In your CUI+ portfolio changes that came out this week, I was surprised that you did not include any additions to the real estate sector, recognizing the portfolio does include MPW. Your rationale for leaving out a REIT?

 Roger Conrad
6:24
Hi Tom. As you can see from the selections, this portfolio places a very high premium on diversification. So, I generally do not recommend more than one of a particular sector. That includes utilities, a sector I've arguably been familiar with longer than I have with REITs--since the mid-1980s. I do currently have two big pharma stocks, so I wouldn't rule out having two companies with a REIT form of organization at some point. But at this time, I saw more value--again given that this is a managed portfolio based on having a set amount to invest rather than just a list of recommended stocks--by adding representatives of other sectors.

Don
6:27
Is it time to tax loss T and RDSA and swap to VZ and CVX
 Roger Conrad
6:27
Hi Don. I haven't advised selling AT&T or Shell in our advisories, so I can't give personal advice on tax loss selling either name. I can say that I rate AT&T a hold because I believe the component parts are worth more than the current price, and because I don't believe it's worth sinking any more money into until we get more information on what the split will look like. And I do favor Chevron, ExxonMobil and TotalEnergies to Shell--which is still suffering from paying too high a price for BG in the previous decade. I also prefer Verizon to AT&T--all the 5G upside without the transaction risk.

RBB / Robert Blum
6:31
Since there is a lull in the presentation, would you provide a thumbnail sketch of GMRE (Global Medical)? Also, are there any good, reliable informational sources (money banking, economics) that you guys may suggest (such as G Gammon or M Maloney). Appreciate your down-to-earth, substantive presentations (via chats and newsletters) and hope that you guys (+ Sherry) will continue to have a safe and happy holiday prior to the start of another twisted year. Thanks again. Take care.

 Roger Conrad

6:31

Thanks Robert. Lifesciences are an attractive area of the REIT universe, nursing facilities/retirement homes not so much and I think investors really are fully pricing in a recovery that is unlikely to happen based on the numbers we're seeing. I will look at Global Medical REIT for possible future inclusion in the REIT Sheet. But at this point, I prefer something like Alexandria REIT in the Lifesciences area as a pure play, or **Medical Properties** (NYSE: MPW) for other types of property in this sector.

Allan

6:31

Thanks, Roger for your SSEZY in CUI.

 Roger Conrad

6:31

Hi Allan. Thanks for joining us.

Jeff

6:33

Roger, what is your opinion on ORAN for dividend safety and growth in 2022.

 Roger Conrad

6:33

I Jeff. I answered a question on Orange extensively earlier in the chat. it's a buy up to 16 in a very unloved sector (European telecom) with a high and safe yield.

Dennis

6:37

Thoughts on CVE (cenovus energy), TRTX (TPG RE Financial), RIOCF (RioCan REIT)? Thanks

 Roger Conrad

6:37

I haven't covered TPG RE Finance but with few exceptions I would be very cautious about any mortgage REITs--things have gone well for the sector recently but they're a black box, in that we never know what's inside.

I like RioCan REIT in Canada as indicated in the REIT Sheet as a buy up to 18. See my comments in the current issue for more. Cenovus the oil sands company is a hold in our Canada and Australia coverage universe for EIA--I prefer **Canadian Natural Resources** (NYSE: CNQ) in that space.

Ron

6:39

I hold PPL , what do you think the dividend will be next year ?

 Roger Conrad

6:39

Good question. As I indicated in the December issue of CUI, I think the stock is priced for about a 40% cut--which would position it to pay down debt more quickly, make investments in utility rate base and then resume growing off a smaller base.

ron

6:44

Would appreciate your outlook for BEPC which is near 52 week low.

 Roger Conrad

6:44

The shares have actually caught a small bid here in the last few days of 2021. But the bottom line is (1) they got caught up in the Biden Trade whereby the shares were bid up on enthusiasm about anything green, and they've dropped this year as money came out of those names. (2) The underlying business of Brookfield Renewable has continued to grow robustly in 2022--in fact as the company has added scale, it's eliminated those massive bumps it used to hit when water or wind conditions in Canada or the US were worse than the year before. It's also continued to expand successfully to grow cash flow. I think both BEP and BEPC have potential for a big turnaround in 2022. And remember BEPC was up 106% in calendar year 2020--and it's still up 32% plus since inception.

salvatore
6:47
Hi Roger/Elliot   We appreciate your dedication and advise and wishing all of us a Healthy and prosperous New Year. That being said I still own SHLX, do you believe there is a reason no internal information is being offered on the company's future. Your thoughts are highly appreciated.


Roger Conrad
6:47
The same to you Salvatore! I don't see a lot of reason to hang onto Shell Midstream--which looks more and more like a takeunder target for 68.51% owner Shell. The parent is not dropping anything down and without that there's no real hope for a lift in distributable cash flow. In fact, the partnership is unlikely to cover what it pays now this year or in 2022. The assets are valuable. But it's hard to see these shares making much headway going forward--you're much better off in one of the Model Portfolio midstreams that by contrast have big upside to a volumes recovery.

Ken in Phx
6:48
I have been a subscriber since before you were in your current form. As another year rolls around, I want to thank you for the education you have provided, the excellent advice and recommendations, and especially for these chats. I have met you both in industry meetings, and you are as generous with your time and insights in that sort of venue as well. This week, Elliott's Alert on energy prices was a master class. Thank you. Thank you. Thank you. May you prosper in 2022 and beyond.


Roger Conrad
6:48

Thank you Ken!.

Tom S
6:49
Two suggestions for additions to the REIT Sheet: GOOD and EQR. You have been a great help to me over the years.

 Roger Conrad
6:49
Thanks Tom. I actually do already cover **Equity Residential** (NYSE: EQR). I rate it a hold, mainly because of a very high valuation though risks are low. I will take a look at Gladstone, though as I've indicated I'm not generally high on mortgage REITs--even those making loans backing industrial properties.

Jeff
6:50
Hi Roger, thank you and Elliott for answering all my questions today. This monthly chat is really great. I can't believe I have been a subscriber of your service for 12 years. Back when you were with the other publisher. Your research has been great for all that time. All the best, Jeff

 Roger Conrad
6:50
Thanks Jeff. We really appreciate your business over all this time. Here's to a great 2022 for all of us!

 Roger Conrad
7:00
Here's one from the remaining emails:

Q. Season's Greetings. Folks, may the New Year bring you peace, happiness, and prosperity. And speaking of prosperity -- I would like to hear your thoughts about **Magellan Midstream Partners** (NYSE: MMP). I am assuming (hoping?) that the Omicron variant and the wide suspension of airline travel are temporary phenomena and that MMP's dividend will survive unscathed. Personally, I see the current weakness in the stock as a buying opportunity

Second, there's a great deal of analyst talk these days about the need to have "global exposure." I subscribe to several of your services, and I have positions of many of your recommendations for utilities, telecoms, energy, and materials that are internationally oriented. I find it curious, however, that you do not seem to recommend any international agricultural stocks or industrial stocks (apart from ABB) that focus on European or Asian markets. Are closed end funds the way to play such sectors?

And third, in your recent REIT SHEET you advise investors to "look elsewhere" rather than picking up shares of office REITS, with the exception of **SL: Green Realty** (NYSE: SLG). Yet, you do recommend **Highwoods Properties** (NYSE: HIW) as a buy <$48. Do you have additional thoughts on HIW? Also, a little while ago, you mentioned that you might add **VICI Properties** (NYSE: VICI) to your coverage, but I see that **Gaming & Leisure** (NSDQ: GLPI) is the only REIT for this niche. I'd appreciate it you would compare VICI with GLPI. Many thanks for all you do. --Jeffrey H.

A. Hi Jeffrey. I have talked quite a bit about Magellan and other midstreams today. They specifically do have a high exposure to refined products, including jet fuel. But so far, gasoline demand has remained very robust this holiday season, and despite the number of cancelled flights it appears to be offsetting the impact on overall volumes. I also see the current weakness as a buying opportunity though I always caution about overloading on any particular stock.

Regarding global exposure outside essential services, that's not really what we do in Conrad's Utility Investor—or outside energy in Energy and Income Advisor. In CUI+Plus, several of the companies earn substantial income outside the US—Vodafone has no US income. I'm always considering others, however. By the way, I did recommend taking our rather substantial profit on ABB in the most recent update, which posted earlier this week.

Finally, I am still planning to add VICI to the REIT Sheet coverage universe. I do still prefer GLPI as the smaller of the two and more likely takeover target. Thanks again for the suggestion. As for Highwoods, it's a niche company in what I consider a key region (Atlanta/Research Triangle of NC) and it's focused on industrial properties—not your typical "office properties" REIT.

7:04
And the last of the emailed questions:

Q. What is Roger's 2022 top takeover candidates that can be purchased for a premium? —Kurt C.

A. Hi Kurt. I haven't yet made such a list for 2022. Look for something of this nature in an upcoming issue, though I have talked about candidates in both Conrad's Utility Investor and The REIT Sheet recently. In any case, my main rule for takeover targets is to never buy something I wouldn't want to own if there were no deal. So basically, any company I recommend with a market capitalization of $10 billion or less could be considered a potential takeover target.

Andrew
7:04
Hi Roger and Elliott - I don't have a question this time, just wanted to say thank you for being such calm voices all these years and helping me and my family. I wish you and Sherry and your families a wonderful new year.


Elliott Gue
7:04
Thank you so much for the kind words and for being a subscriber. Happy New Year!

D
7:07
Any insight to AY?


Roger Conrad
7:07
Atlantica Yield should give us another solid Q4 earnings report early next year and I would expect to see more mid-to-upper single digit percentage dividend growth in 2022 as the company adds more assets. I would also look for the stock--which has been flat this year I think due to a high valuation from 50% plus gains in 2020--to return to an upward trajectory now that business growth has caught up with the price.

RBB / Robert Blum
7:09
Any general thoughts about GMRE (Global Medical / REIT) ? Also, do you have any suggestions for reliable sources regarding money/banking or economics (such as G Gammon or M Maloney). Your down-to-earth, substantive information has been deeply appreciated. And, wish you guys (+Sherry) the best for a safe and happy new year in a twisted environment. Take care.

 Roger Conrad

7:09

Thank you, Robert. I did answer your question on GMRE a bit earlier in the chat--basically that I prefer **Medical Properties Trust** (NYSE: MPW) or **Alexandria REIT** (NYSE: AREA). But I will take a look at including it in the next REIT Sheet. Thanks again for participating today.

 Roger Conrad

7:11

Well, we've come to the end of the queue for this month. Thanks again to everyone who participated. As always, we will be sending you a link to the complete transcript of all the Q&A, and it will also be posted on the EIA and CUI websites for your perusal.

Here's to a great 2022 everyone!