Phil Lookadoo in Hart Energy: Investors and Bankers Want Returns, Not Growth

By Phil Lookadoo | October 2, 2019

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Hart Energy quoted Haynes Boone Partner Phil Lookadoo in an article about the pressure on the exploration and production (E&P) companies to focus on returns instead of growth.

Here is an excerpt:

That growing concern throws a harsh light on the already limited capital options for producers. “The challenge for investors is where they think the future is for the oil and gas industry,” said Lookadoo. “What do they think the long-term plan is for producers? The issues of economic and environmental sustainability and shareholder activism are important to investors, as is the lack of a coherent national energy policy. Those concerns definitely affect investor appetite for the sector.”

Appetite for the resource is the key unknown. “I don’t have a crystal ball,” said Lookadoo, “but I do see mobile sources of emissions – vehicles - moving to a mostly electric or at least hybrid fleet. But I do not see power generation moving to all renewables. A mostly electric vehicle fleet moves the issue of emissions control to larger stationary sources where emissions can be more effectively and economically captured. Building carbon capture into power plant development will take climate risk and uncertainty concerns out of the equation.”

However, the hydrocarbon consumption sector develops, Lookadoo expects that the controlling factors will be cost and utility. It is much more likely for existing infrastructure and supply chains to evolve than for whole new assets and systems to be funded and built. “For example, using liquid organic hydrogen carriers and hydrogen fuel cells for electric cars is a more efficient use of existing fuel distribution infrastructure and would reduce many of the international (political and economic) risks [associated with lithium and cobalt as scarce resources] of relying entirely on batteries for electric vehicle fleets.”

“If the demand side materializes in these sorts of ways, that would give the E&P sector a shot in the arm,” said Lookadoo. “If the long-term viability and thus value could be made more secure, then immediate concerns about immediate profitability become less.”

In the near term, however, prices for oil and gas continue to be depressed and yet production continues to grow. “Even so, we do see real increases in demand for natural gas with a role in the global economy. As that grows, it seems reasonable to expect that pricing may become more stable.”

Oil remains even more of a question mark, however. “Sovereign wealth funds, private equity and other institutional investors don’t know where the upstream sector is going long-term,” said Lookadoo. “We see the same thing in plastics. The export market seems to be the answer for everyone. If an investor does not know what the future looks like for an industry, a company or an asset, it is difficult to determine value. Certainly there is value in the upstream sector, and in export markets, but no one seems to know what it is or what it looks like.”

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