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A New Energy Fund's Investments Illustrate Several Energy Trends

By Luis Garcia

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Quantum Energy Partners, one of the largest private-equity investors in the U.S. energy industry, recently raised nearly $5.6 billion for a new fund and is deploying it at a rapid pace.

A look at the types of deals the firm made from the fund so far reveals several trends that are defining the energy private-equity market today.

Trading of noncore assets: Private-equity firms are targeting the noncore assets that publicly traded oil-and-gas producers are selling to focus on their most profitable fields. Quantum-backed Middle Fork Energy Partners LLC, for example, last month acquired oil-and-gas assets in Utah's Uinta Basin from publicly traded QEP Resources Inc.

Holding assets longer: Public oil-and-gas companies are less inclined today to buy new land unless it is in a core shale play or comes with a lot of producing, revenue-generating wells. That is forcing private-equity firms to drill more wells in their assets to make them more attractive to a potential public buyer. Drilling more wells, in turn, means firms will have to hold assets for longer periods than they did until a year or so ago, when it was easier to flip undeveloped acreage to public companies.

Quantum expects more of its portfolio companies to reach the latter part of its fund's life, Quantum's founder and chief executive, Wil VanLoh, said earlier in March. "Whereas in the past we might monetize half of our companies in the first five years, now it might take seven years to get there, and eight or nine or 10 years to monetize all of them," he said.

Hanging on to the best plays: When it comes to the most popular shale plays, such as the Permian Basin of West Texas and southern New Mexico, private-equity firms are seeing more value in developing energy assets even if they could potentially find a buyer for them. That is because it is becoming harder for firms to reinvest in those plays after cashing out. Oil-and-gas companies FourPoint Energy LLC and Double Eagle Energy Holdings III, which are backed by Quantum and Apollo Global Management LLC, respectively, recently managed the difficult task of gathering large acreage positions in the Permian. Had it been 2016 or 2017, Quantum and Apollo might have sold the acreage to eager public buyers. Today, however, the two firms decided to combine the assets into a joint venture and develop them.

Expanding further into renewable energy: Established energy-focused firms are striving to expand their presence in the renewable sector, perhaps encouraged by its growth and by investor desire for exposure to it. Quantum used its latest fund to form a renewable-energy company, ConnectGen LLC, marking the first time it backed a business solely dedicated to the sector.

While the last trend is here to stay, the first three will largely depend on the future behavior of public oil-and-gas producers and their investors. As long as the companies continue to have limited access to equity and debt markets, they will need to sell noncore assets to fund their drilling programs. Only after the public markets open up for them again will they become more willing to buy the assets private-equity firms are developing today.

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