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Quantum Energy Partners Sees Validation in Higher Oil Prices

Chief Executive Wil VanLoh said Quantum has pushed for greater output from its oil assets to raise their value

Oil rigs extracting crude from the Permian Basin shale formation near Midland, Texas.
PHOTO: MATTHEW BUSCH/BLOOMBERG NEWS

By Luis Garcia
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Oil prices on Thursday surged to the highest level in almost eight years, touching $102.26 a barrel for Brent crude, after Russia attacked Ukraine. For U.S. energy-focused private-equity firms, higher oil prices underline the logic of raising output, according to the chief executive of one of the largest of such firms.

Houston-based Quantum Energy Partners began driving oil-and-gas producers it backs to ramp up output long before the recent price gains, said CEO Wil VanLoh. Yet in recent years, large publicly traded producers have gone in the opposite direction.

Quantum-backed energy companies, which operate in several regions across the U.S., report total daily production of roughly 500,000 barrels of oil or natural-gas equivalents, up 30% to 35% from a year ago, Mr. VanLoh said.

“We buy assets that are relatively undeveloped or underdeveloped, and how we make our money is by meaningfully increasing production and cutting costs,” he said.

He added that raising production became critical for private-equity-backed energy companies in recent years as increasingly capital-disciplined publicly traded peers stopped buying undeveloped oil fields.

Mr. VanLoh recently spoke to WSJ Pro Private Equity about how capital discipline also is limiting the response of publicly traded companies to higher crude prices and the factors behind the surging markets, as well as how higher prices affect mergers and acquisitions among energy companies. His responses have been edited for length and clarity.

WSJ Pro: Why do you think oil prices rose so much as the Russia-Ukraine conflict escalated?

Mr. VanLoh: I think markets got jittery because what Russia is doing right now with Ukraine is unprecedented. But I don’t think there’s anything about the conflict that’s threatening to disrupt oil supplies and causing prices to go up. I do think that two things are happening. You’ve clearly got global demand for commodities still increasing, particularly for oil and natural gas, and you’ve got an increasing awareness that we’ve underinvested in supply capacity globally for the last seven years. I think people realize we’re at one of the narrowest margins in terms of spare capacity that we’ve probably seen since the [oil-price] run-up between 2006 and 2008.

WSJ Pro: How are U.S. publicly traded and private-equity-backed energy companies responding to rising oil prices?

Mr. VanLoh: Private-equity-backed companies account for plus or minus half of the total rig count in the U.S., and that’s the highest it’s ever been. Seven or eight years ago it was probably 15%. The private companies are doing what they’ve always done. They haven’t changed their behavior, but the public companies are showing more restraint. It’s not about manipulating [oil] prices. It’s about their investors. Over the last seven years, they’ve bought the stock of those companies that showed capital discipline and they’ve sold [the stock of] the companies that did not. The CEOs are listening to their shareholders.

WSJ Pro: What effects do you expect higher oil prices to have on energy deal activity?

Mr. VanLoh: Public companies [have] a lot of cash at these prices. They're generating huge amounts of free cash flow. They can buy back stock, they can [pay] dividends or they can buy companies at a good price, and I think they will do that. I personally think that these higher oil prices will usher in quite a bit of selling by private-equity firms. We've seen a lot of consolidation over the last five years in the public market. I think you could still see more, but I actually think more of the M&A will be public companies buying private [peers] as opposed to merging with other public companies.

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