News

Private equity eyes rebound in Eagle Ford

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Expectations that Eagle Ford shale oil and gas production will continue to decline over the next several years is not stopping private equity firms from jumping in now to stake out positions in the resource-rich South Texas play.

KKR and Venado Oil and Gas said Thursday they were teaming up to acquire new Eagle Ford assets and enhance existing ones. While they did not disclose how much they plan to spend or where specifically their focus will be, they said in a joint statement they “see the opportunity to build a large scale, long-term business.”

Low commodity prices amid an oversupplied market have spurred a consistent decline in US rig activity, especially in the Eagle Ford. Natural gas output in the Eagle Ford is expected to drop from 5.47 Bcf/d this year to 4.74 Bcf/d in 2017 and to 4.44 Bcf/d in 2018, according to Platts Analytics' Bentek Energy. Year-to-date new well starts for both oil and gas, meanwhile, have fallen 61% to 844 as of September, versus 2,137 during the same period in 2015, Platts Analytics data show.

Even so, companies are still investing in the Southeast and Texas in anticipation of the market rebounding in the future. The idea is that exploration and production firms, backed by investors including private equity, expect better returns down the road with higher prices and they want to hold their ground until that happens. Also, producers are using already drilled-but-uncompleted wells in the Eagle Ford now to help them keep production partially afloat, since those wells are cheaper to bring online than drilling brand new wells.

“It fits the prevailing trend of private equity coming into the market in a strong way,” Michelle Foss, chief energy economist at the University of Texas at Austin's Bureau of Economic Geology, said in a telephone interview. “Obviously, Texas is going to be a destination for a lot of these things.”

Producers in the Eagle Ford are focusing on the more oily window of the play, which by default contributed in part to the decline in gas production. Oil production in the Eagle Ford is flat to declining over the next several years, but if more rigs are added on with improved market prices, a rebound in oil, and subsequently gas, production will be expected to materialize, according to Platts Analytics data.

KKR, which manages oil and gas assets in other resource plays including the Bakken, Marcellus and Permian, has made more than 10 investments in the Eagle Ford, according to Thursday's statement, and it sees more opportunity. Privately held Venado, whose founding partners include former senior managers at Pioneer Natural Resources, has been active in the Eagle Ford since the play's early phase of development and is confident in the “next phase of its evolution,” the statement said.

Other producers seek private equity help in Eagle Ford

They are not alone. Earlier this month, exploration and production firm S&A Resources announced it secured an equity commitment from private equity firm Denham Capital that would help it focus on leasing, acquiring and developing opportunities in the Eagle Ford shale. Also this month, at a Barclays energy conference, Carrizo Oil & Gas said it could easily return to rapid growth mode by adding one to two rigs to its Eagle Ford shale program by early 2017.

Private equity money will continue to be a key driver for these types of deals, especially in the Eagle Ford, because many companies have cut back capital programs amid the commodity rout, and traditional banks have become less willing to pump fresh capital into deals.

“That means that if they are in there to find gas, they have a bullish view for natural gas prices down the road, and there are reasons to think that is the case,” Foss said.

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Eagle Ford Shale permitted and completed wells territory|graph Source: Texas Railroad Commission

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