Dallas Business Journal - November 2, 2009
/dallas/stories/2009/11/02/story1.html

Dallas Business Journal

Friday, October 30, 2009

Teak Midstream nets $100M

Pipeline business comes back to life as investors are attracted to bargain prices

Dallas Business Journal - by Chad Eric Watt Staff writer

A pair of pipeline industry veterans has received $100 million from the private equity firm **Natural Gas Partners** to launch Teak Midstream LLC.

The new venture will be led by Chris Aulds and James Wales, two of the founders of **Crosstex Energy Inc.** That Dallas-based company (NYSE: XTXI), which is involved in the drilling, processing, transmission and marketing of natural gas, began in 1996 and has grown to $3.8 billion in annual revenue for the 12 months ending June 30. It has more than 5,000 miles of pipeline across Texas and nearby states.

Teak Midstream's ability to come to the table with relatively big money and two respected energy pedigrees sends a signal that some aspects of the energy industry may be ready to emerge from the economic doldrums.

"It's a signal of confidence," said Bruce Bullock, director of the Maguire Energy Institute at Southern Methodist University. "It's also a bit of an insight into where they expect natural gas prices to go."

The recession and resulting industrial slowdown have dampened demand for natural gas. With gas selling at lower prices, producers have slowed their output, and the volume of gas flowing through the pipelines that Teak Midstream and others aim to buy or build has suffered as a result.

Higher prices generally lead to more volume flowing through the pipes, which makes them more valuable.

Teak aims to acquire and build its own pipeline, depending on what natural gas producers want, the company said in a written statement.

"Teak's early growth will be opportunistic," the company said in an e-mail to the Dallas Business Journal. "Customer needs will drive decisions regarding acquisitions and greenfield projects." Officials declined to provide further comment.

Signs of life

The Teak Midstream funding isn't the only sign of life in the oil patch.

Earlier this month, the crude oil transport unit of Dallas-based Holly Corp. acquired an Oklahoma refinery and related equipment from Sinclair Oil Corp.

On Oct. 20, Crosstex acquired a natural gas processing plant in Louisiana for $42 million.

And Dallas-based Talon Oil & Gas LLC recently received an additional $90 million in private equity funding for its acquisition-based expansion strategy. Talon has received $250 million in capital from sources led by EnCap Investments LP, a Dallas energy private equity firm.

Groups including Teak and Talon are likely looking for motivated sellers, Bullock said. In the petroleum business, that means companies that can't find additional financing or are out of cash. Crude prices only recently have climbed above $70 a barrel, half their all-time high of more than $140 a barrel in 2008.

"There are bargains out there to be had," said Jim Williams, principal of EnergyEconomist.com. "Ultimately we're going to be using a lot more natural gas."

Even though crude oil and its derivatives such as gasoline have begun climbing in price, natural gas remains very inexpensive.

That's because the high prices for all forms of energy spurred drillers to expand their operations in domestic natural gas extraction in places such as the Barnett Shale west of Fort Worth ahead of the July 2008 price peak.

Those drillers and developers continued their intense expansion work well after demand began tapering off.

"We had increasing production hitting dropping demand," Williams said.

Top that off with a financial crisis that started in the fall of 2008, which made new loans scarce and even tightened existing credit lines for expanding oil and gas firms, and you have opportunities of all shapes and sizes.

Experts said a potential seller could be a local pipeline owner, or a fully integrated oil company looking to cut debt or refocus on the oil exploration piece of the business.

“Exploration and production companies (generally) like to acquire midstream assets and transmission companies,” Bullock said. “And when the market begins to go down, they tend to unload them in order to meet cash needs and so forth.”

Beyond smaller sellers and cash-strapped operating businesses, Teak could target some of the many energy companies that are operating in bankruptcy.

The company said bankruptcy buys weren’t a key part of its strategy, but if an opportunity fits, Teak will look at it.

While private equity funding has emerged for the Teak deal and others, that doesn’t mean that oil and gas operators will see a gusher of credit.

Well-established companies will all have to adjust to living with less credit available, and funding their deals with more of their own cash, Bullock said.

That will lead to more consolidation in the industry.

“There will be fewer, larger companies,” he said.

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