

THE BIG SECRET ON WALL STREET

The Gods of Gas

- How Two Brothers that You've Never Heard of Became America's **Largest Producers of Natural Gas**

FROM THE DESK OF PORTER STANSBERRY

SPECIAL BRIEFING

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The Gods of Gas

You've Never Heard of These Two Brothers...

But They're About to Transform the Global Energy Market

The company's corporate slogan should be "death to Saudi Arabia."

While the media and our political leaders are fixated on the impossible: a world without fossil fuels...

...Two brothers from Pittsburgh pieced together the world's leading producer of an "ESG-approved," super-clean, carbon-based energy source.

Now they're building a dominant distribution network that will render Saudi oil virtually worthless.

The biggest disruption to the world's energy markets in 100 years is underway. And you've never heard about it.

Until now.

"Bring me the head of the dog," said the angry voice on the speaker phone.

The voice was the chief of staff to Mohammed bin Salman, the acting king of Saudi Arabia. The phone was inside a safe room at Istanbul's Saudi Consulate. The order wasn't rhetorical: the leader of Tiger Squad, an elite 15-member hit team, was holding a surgical bone saw.

Jamal Khashoggi, a Washington Post journalist, was about to die. While his girlfriend waited outside the consulate, the Tiger Squad put a plastic bag over his head and cut him into pieces.

According to the recording of his death, Khashoggi took seven minutes to die, while Mohammed bin Salman listened. The Tiger Squad brought back Khashoggi's fingers, which they cut off one at a time as a trophy for the king.

The rest of Khashoggi's body was burned in a specialized consulate oven. A courtyard barbecue was used to mask the smell.

The depravity of Saudi Arabia's leaders isn't new.

Barbaric events occur routinely in the country. People convicted of adultery are stoned to death. Amina bin Salem Nasser was beheaded for practicing sorcery and witchcraft in 2011. (We doubt she was really a witch. Guess we'll never know for sure.)

And let's not forget the mass executions. Last March, Saudi Arabia simultaneously beheaded 81 people. They were all confessed criminals... because they had all been tortured.

There's only one difference between Saudi Arabia and the barbaric, friendless countries of the Middle East, like the Taliban's Afghanistan—oil.

Since the end of World War II, Saudi oil has powered much of the world, with tankers carrying its crude oil to virtually every corner of the earth.

For the last 50 years, the quest for energy security has dominated foreign policy of all the great powers, including the United States. This has meant that Saudi Arabia has always been given a pass. Even the country's obvious ties to the 9/11 terrorists were swept under the rug.

But the world's market for energy is about to be turned upside down—forever. And in another decade, no one will need Saudi oil anymore.

The Big Secret on Wall Street this week isn't about America's reliance on imported petroleum products to keep our economy running. Everyone already knows there's not enough refining or pipeline capacity in America. We know about the Jones Act (which restricts the shipping of petroleum products inside the U.S.).

So... why haven't more refineries been built? Why haven't more oil pipelines been laid? Why don't we repeal the Jones Act?

Because the gasoline business is going extinct. It's a dinosaur. Automobile manufacturers are standardizing on electric cars. Thus, capital invested in new gasoline refining and distribution will end up being "stranded"—unused, forgotten, and worthless. That's why big investors won't get behind any new gasoline infrastructure.

Gasoline is NOT the gas you should focus on.

The Big Secret on Wall Street this week isn't about gasoline – it's about gas. Natural gas. And there's one little-known company in Pennsylvania that's quietly becoming one of the largest suppliers of low-cost gas in America, and soon, the world.

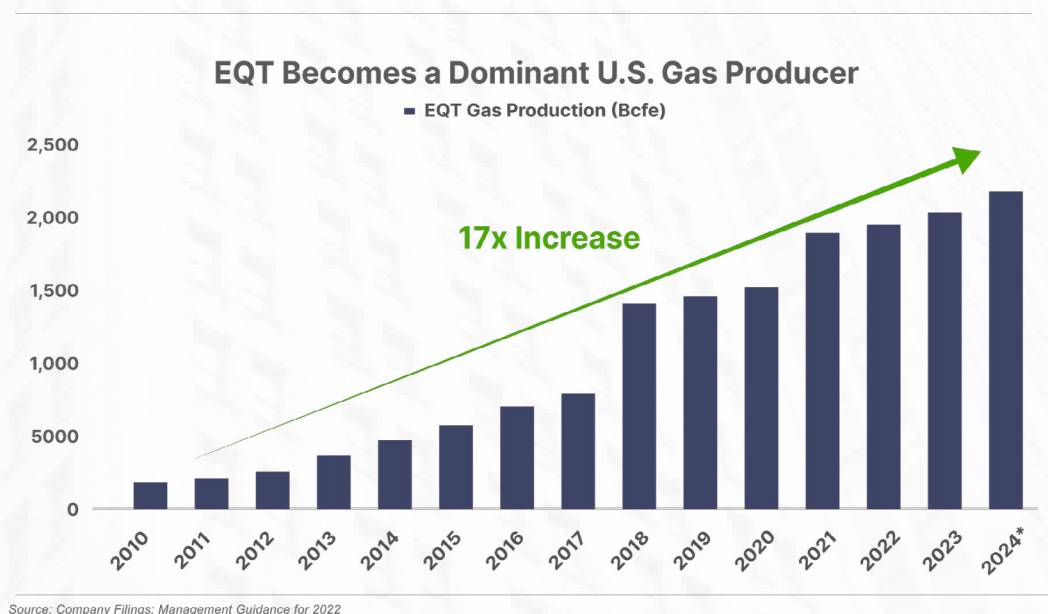
This leading "fracker" is a small, independent oil and gas firm whose production is centered on the largest natural gas reserve in the world, the Marcellus Shale.

Through a series of strategic acquisitions, this company is transforming into the first super-major energy company to emerge from America's shale resources, which are the largest ever discovered.

This firm (which we'd bet not a single paid subscriber has previously heard of) has suddenly – virtually overnight – become the largest producer of U.S. natural gas. It will soon be the world's largest and most important energy company. Read that again.

A company you've never heard of before is already the leading producer of natural gas in the United States.

This company sits on a resource that's so big and is growing production so much that it will become the world's most important energy company over the next decade. The company spent the last decade becoming America's largest independent gas producer, with a 17-fold increase in production since 2010:



Best of all, the revolution that this company is leading will render Saudi oil much less important than it's been in the past. Its corporate slogan ought to be "death to Saudi Arabia."

MEET THE RICE BROTHERS — “THE GODS OF GAS”

Toby and Derek Rice are from Pittsburgh.

Their father was a private equity banker who specialized in oil and gas. The brothers, while still in their late 20s, began to assemble valuable acreage in the Marcellus shale basin, starting in 2007. When the emerging shale field produced surplus amounts of gas, they took advantage of collapsing prices to add huge amounts of acreage from failing producers. Their privately-owned firm, Rice Energy, grew to be one of the ten largest natural gas producers in the U.S.

But that was just the beginning.

In 2017, the brothers sold Rice Energy for \$6.7 billion to a large, publicly traded gas company, EQT (**NYSE: EQT, \$50**), creating the largest producer of U.S. natural gas.

Then, in 2019, unhappy with EQT's inability to control costs or increase production, the brothers conducted a proxy battle and won 80% of the votes. Toby became EQT's CEO, which is when the story gets interesting.

By the end of 2021, despite the Covid-19 disruptions, the Rice brothers had grown EQT into one of the world's most efficient energy companies—including changes that were almost too good to be true. In just over a year, well costs fell 47%, and drilling speeds increased by 95%. The financial impact was substantial.

Gross profit margins more than tripled, from less than 10% to over 30%.

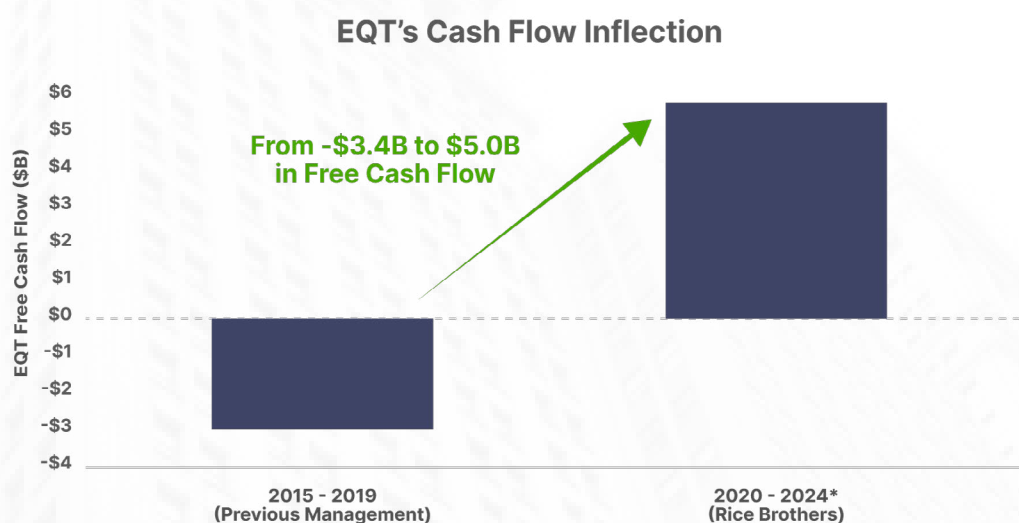
Cash from operations grew from \$1.5 billion to over \$3.5 billion, even though gas prices remained low and capital expenditures were flat.

Earnings per share went from negative \$.89 in 2019 to positive \$.89 in 2021.

Since then, the earnings have increased to 2.28 per share in 2023.

Most importantly, free cash flow—the excess capital available to return to shareholders—exploded.

In the five years from 2015 - 2019, under the old regime, EQT reported total free cash flow of negative \$3.4 billion. In the last five years from 2020 - 2024, under the leadership of the Rice brothers, free cash flow surged to \$5.0 billion.



Source: Company Filings; Management Guidance for 2024

Over the next five years from 2025 - 2029, the company expects to generate between \$8 billion and \$27 billion in cumulative free cash flow, based on gas prices ranging from \$2.75 - \$5 per million British thermal units (MMBtu). For perspective, that's roughly 40% - 135% of its current market capitalization of just \$20 billion.

How's that possible? How did two brothers from Pittsburgh take a small, regional, "also-ran" shale gas company and turn it into an economic engine that produces tens of billions of free cash flow and is the largest producer of natural gas in the U.S.?

The brothers didn't merely cut costs—they also struck a great deal with Chevron. And that deal was huge.

In the fall of 2020, the pandemic sent oil and gas prices to decade lows. Chevron wrote off its entire Marcellus investment. In fact, Chevron took an \$8 billion write-off.

But EQT paid only \$735 million for Chevron's Marcellus operations. They practically stole it.

The Chevron deal (800,000 acres) and EQT's later acquisition of Alta Resources (another 300,000 acres) assures that EQT will remain the dominant provider of Marcellus natural gas for decades.

Estimating what that will mean over time is difficult, thanks to EQT's continuous drive to improve operating efficiencies. It's also hard to know just how much gas EQT controls. But a safe bet is a lot more than the 27 trillion cubic feet that have been proven with current drilling.

As drilling techniques improve and more wells are drilled, the size of the total Marcellus resource continues to scale higher and higher. As of 2019, the United States Geological Survey (USGS) estimated that the Marcellus formation (including the associated shale layers known as the Utica) contains 214 trillion cubic feet of natural gas. However, these same estimates have been increasing over time, from 2 trillion 20 years ago to 84 trillion 10 years ago to 214 trillion most recently.

Scientists from Penn State University now claim that over 400 trillion cubic feet of gas is recoverable in the basin. But the truth is, no one really knows for sure.

To put this into context, the Marcellus probably contains more natural gas than all the other natural gas producing areas in the U.S., combined. The Marcellus, alone, probably contains more natural gas than every other producing nation except Russia, Iran, and Qatar.

The Marcellus isn't merely a big gas field. It's one of the largest reservoirs of energy in the world. Its development will not only change the U.S. economy, but it will also reshape the global energy map for the rest of our lives. And EQT will lead this process – because no one will produce more natural gas from the Marcellus (or in America) than EQT.

And that's not just because EQT owns the biggest acreage position in the heart of America's most prolific gas basin. It's because we can count on the Rice Brothers to continue expanding that footprint through savvy deal-making.

In September 2022, the Gods of Gas stuck again with another key strategic acquisition – the \$5.2 billion purchase of oil and gas assets of Tug Hill, a mid-size gas producer in the heart of the Marcellus. The acquisition expanded EQT's Marcellus footprint by roughly 10% to 1.1 million acres, and boosted its average daily production to 6.3 billion cubic feet equivalent – a 15% increase.

But perhaps most important is the quality of this acquired acreage, which shows up in the rock bottom breakeven costs of just \$1.35 per million British thermal units (MMBtu). This reduced EQT's breakeven costs from \$2.30/MMBtu to \$2.15/MMBtu.

As part of the deal, EQT also acquired XcL Midstream, a natural gas pipeline company with an extensive network throughout the Appalachian Basin which is home of the Marcellus. With these new pipeline assets, EQT will expand the scale of its operations towards becoming one of the world's largest, vertically-integrated natural gas supermajors.

On another front, a critical first step toward becoming a super-major energy company is gaining an investment grade credit rating. This will allow EQT access to much more capital, which it will need to build out more pipelines, more processing plants, and, eventually, its own LNG infrastructure (liquefied natural gas – which we'll talk about more below).

EQT received an investment grade credit rating from both S&P and Fitch in 2022. In August 2023, Moody's followed suit and raised EQT's credit rating to investment grade as well.

EQT was essentially forgotten and left for dead during the pandemic. But today, it has the scale, market power, and credit rating to do something only super-major oil companies can do—build its own global distribution network and capture the vastly higher prices for energy on the global market.

Over the next decade, EQT's best-in-class natural gas acreage, pipelines, processing plants, and long-term, fixed-priced global distribution deals will become the envy of every energy company in the world. But until you read this report, you'd never even heard of EQT or the Rice brothers—right?

That's because the media and politicians are, as always, fighting the "last war." They play to the plebes who care about filling up a SUV. Think about all the Biden stickers on gas pumps: Those stickers are there because the media and politics focus on today's problems.

But the future is obvious. Gasoline isn't going to power the world's transportation economy for the next 50 years. Global automakers are investing hundreds of billions in vehicle electrification over the next decade.

In 2022, more than 10 million EVs were sold globally – making up 14% of all new car sales. The International Energy Agency (IEA) expects this number to reach 17 million in 2024. And by 2035, the IEA expects more than half of all new car sales will be electric.

That's why nobody wants to own a new gasoline refinery (with a 30-year useful economic life). Demand for gasoline is going to fall off a cliff in less than a decade.

The next gasoline-powered car you buy will very likely be the last gasoline-powered car you will ever own.

As electricity replaces gasoline in vehicles, the ultimate fuel source for cars will change from gasoline to natural gas. Natural gas will power the electric grid, not gasoline. If you want to plug your car in, you're going to need what EQT has – and lots of it.

What investors need to know isn't what the price of gasoline is going to do by the end of this year. What you need to know is how America's dominance in natural gas is going to completely reshape the market for energy and transportation all over the world.

If you followed our work at Stansberry Research, you know we've been covering the shale revolution for over a decade.

You also know that we broke some of the biggest stories in finance for years, such as predicting the collapse of Fannie Mae and Freddie Mac, GM's bankruptcy, and the demise of GE.

We have also recommended dozens of great emerging companies that went on to become industry leaders, such as Amazon, Qualcomm, Illumina, Microsoft, Shopify, Nvidia, and literally dozens more.

But what's about to happen with U.S. natural gas is far bigger than any of these things.

American natural gas is emerging, right now, as the world's next dominant energy source.

Forget about Saudi Arabia. America is the new energy king. And there's one company best positioned to capture the biggest profits of this new global reality: EQT.

A new super-major energy company is emerging—the first all-American corporation that can frack, refine and distribute low-cost natural gas from the world's largest natural gas field (the Marcellus) to virtually any country in the world.

EQT: THE KING OF NATURAL GAS

What's the richest country in the world on a per capita basis?

Lots of people would guess Saudi Arabia. Or maybe Kuwait. Or the United Arab Emirates. But it's none of those countries – it's Qatar.

Qatar was a relatively poor country until the early 2000s, with a GDP below \$10 billion.

However, beginning in 1997, Qatar quietly came to dominate the world's global trade in LNG. Qatar shares a huge offshore natural gas field with Iran, known as the North Field. The field is an enormous resource—one of the world's largest proven natural gas fields, with reserves of at least 896 trillion cubic feet (tcf). But Qatar didn't begin exporting natural gas in large quantities until 1997, sending its first LNG shipment to Spain.

By 2007, Qatar was the world's largest LNG supplier. Today, Qatar has eight massive LNG "trains" and six even larger "mega-trains," which can liquify huge volumes of natural gas for shipment on specialized LNG tankers. Qatar is currently investing another \$30 billion in a massive North Field expansion, which will reportedly increase production by 40% by 2025.

The results of these investments are hard to believe.

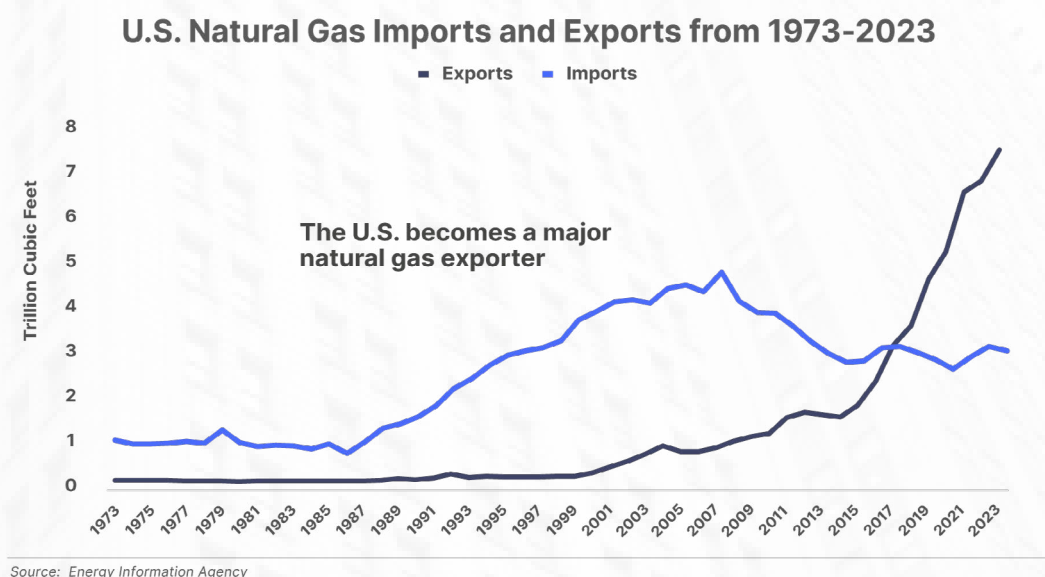
Qatar's GDP grew from \$9 billion annually in 1996 to over \$200 billion in 2014. Qatar's economy grew 21-fold in less than 20 years. The nation's sovereign wealth fund now tops \$500 billion in assets under management, making it one of the world's largest capital pools. With only 300,000 citizens, Qatar has a per capita GDP of \$686,000, and more than \$1 million for each citizen in its sovereign wealth fund.

That's the kind of wealth that's coming to America.

How do we know?

The U.S. began exporting significant natural gas quantities in the early 2000s via pipelines to Canada and Mexico. As U.S. production grew thanks to shale gas development (resulting in the U.S. becoming the world's largest natural gas producer in 2009), exports increased rapidly. Exports grew from less than half a billion cubic feet daily in the early 2000s to over two billion cubic feet daily in 2015.

Since 2015, export growth has been parabolic – growing more than 4-fold from less than two trillion cubic feet to nearly 8 trillion cubic feet per year.



Longtime readers of our work may remember a report we wrote in the spring of 2006, titled “Madness.”

The report was about a start-up that planned to build a huge new LNG import terminal in Louisiana. This was during the “peak oil” mania, when most investors sincerely believed the U.S. was running out of hydrocarbons (oil and gas) and would face permanent shortages.

Some argued the “only way” to save the country was by importing huge quantities of oil and gas from places like Russia and Qatar, where major oil companies were investing tens of billions. Some of these projects were incredibly risky—even stupid. One involved natural gas production in the middle of the Caspian Sea. Another project was in the Russian arctic, 300 miles from the North Pole!

It was a global mass hysteria. And frankly, we couldn't understand why every had lost their minds. We knew America had more hydrocarbons locked in so-called "tight shales" than these other places combined. All we needed were some pipelines and a little ingenuity.

We believed, even back then, that America would be the dominant provider of natural gas to the world—not an importer. As we saw shale gas drilling begin to take off, we also saw more and more gas being produced and stored. A glut was forming, not permanent shortages.

As we wrote back in May 2006:

"I believe over-investment in domestic drilling and production has already produced a glut of natural gas that will persist for many years... New technologies recently have unlocked huge supplies of gas in the United States. Heavy investment in the sector since 2003 is now beginning to bring these new reserves into production. Far from running out of natural gas, we're drowning in the stuff. Huge new supplies of gas have been found in the U.S. over the last 10 years because of innovations in shale-gas drilling. These new reserves are only now coming into production..."

"[Cheniere Energy plans] to build three new liquified natural gas facilities along the Gulf coast. Each of these terminals will cost more than a billion dollars. They will take several years to construct. The first one isn't scheduled to begin operations until 2008 or 2009. The point of these terminals is to serve as off-loading stations for LNG tankers, which, theoretically, would ship natural gas to America from places like Egypt, Algeria, and Oman. Cheniere wants to spend billions to set up facilities for importing natural gas into the United States. This is utter madness. There's only one other country in the world, according to the C.I.A., that produces more natural gas than the United States: Russia. Cheniere's business plan is the equivalent of setting up a really big airport in Iowa to import wheat from China, on the basis that wheat costs less there. It just doesn't make any sense, given the abundance of natural gas in our country."

"Madness," Stansberry's Investment Advisory, May 2006

As everyone knows by now, we were exactly right about soaring gas production and the future of a business that was trying to import LNG to America.

We recommended shorting Cheniere Energy (NYSE: LNG, \$140) back in May 2006 at around \$40 per share. By 2008, it had fallen to about \$2.00—a complete collapse. As we wrote at the time, "If you were trying to win a competition for the worst business idea, this one would be hard to beat."

But a funny thing happened on Cheniere Energy's Road to bankruptcy.

The company's founder and CEO had a complete change of heart. He realized, albeit a little late in the game, that the problem America faced wasn't a shortage of natural gas but a glut. The only way to solve this problem long term was to begin exporting massive quantities of natural gas via LNG.

In a case of real life being stranger than fiction, in 2009 the company completely made a mid-construction U-turn and, rather than building LNG import facilities, reverse engineered and rebuilt its facilities to handle LNG exports.

America loves a comeback story. Ever since Cheniere got on the right side of the most important trade in the world (the inevitable global domination by U.S. natural gas), the stock has basically moved in a straight line from \$2.00 to \$180, for a market cap today of \$41 billion!

Cheniere is the largest LNG exporter from America, filling a crucial bottleneck in global energy markets. With revenues of \$20 billion annually, the company is projected to earn about \$13 per share this year.

But Cheniere isn't going to dominate the global markets. It doesn't own any natural gas resources – it only owns the terminals.

Just imagine what's going to happen when entrepreneurs as savvy as the Rice brothers get involved in LNG. Remember, the people who built Cheniere knew so little about America's natural gas assets they were going to import gas to America.

Cheniere is the story of a monkey finding a dollar and thinking he's a banker.

The coming revolution is far bigger than Cheniere. America has more natural gas infrastructure than the rest of the world combined. America already produces more natural gas than any other country and has the capability to grow production faster too.

In December 2023, U.S. LNG exports set a new monthly record of 13.6 billion cubic feet, which is more than 20% of the world's current demand. This made America the single largest LNG exporter, surpassing Qatar. By 2028, with a series of new LNG export facilities coming online, America's export capacity will jump by another 80% to reach 25 billion cubic feet per day.

And so far, most of the major "frackers" have been excluded from the upside of America's LNG export boom. That is, they have typically sold their gas at market rates here in the U.S. – allowing the LNG exporters to capture the spread between domestic and international gas prices.

In January 2024, EQT changed the game. It struck a gas supply deal with Texas LNG Brownsville LLC, a company building the Texas LNG project in the Port of Brownsville, located on the southern tip of Texas with access to shipping routes

in the Gulf of Mexico. This wasn't the typical LNG supply deal, where the owner of the most valuable asset – the gas itself – gets excluded from the upside. EQT became one of the first independent U.S. gas producers to sign a long-term supply agreement with an LNG exporter in the form of a "tolling agreement." In this arrangement, EQT pays a "tolling fee" to the LNG terminal to liquefy its natural gas. After that, EQT is free to sell that LNG to the highest bidder on the international market – giving it the opportunity to capitalize on much higher gas prices overseas.

The Texas LNG project will begin coming online in phases starting in 2025. By 2028, it will reach a maximum capacity of 4 million tons per year (or about 200 billion cubic feet). EQT booked half of that capacity all to itself – 2 million tons per year, or roughly 100 billion cubic feet of gas production.

EQT's CEO Toby Rice commented on the deal in EQT's subsequent Q1 2024 earnings call in February, explaining:

"Our more integrated approach to LNG exposure compared with peers gives us direct connectivity to end users of our gas globally and we have seen strong interest from prospective international buyers."

EQT is slated to receive its first LNG from the Texas LNG plant in 2028. When that happens, everything will change.

We are of course talking about EQT.

EQT has grown production by 50% since the Rice Brothers took control in 2019. There's no question the company can supply gas to the world for decades. EQT has 27 trillion cubic feet of proven natural gas reserves and controls 2 million acres of the Marcellus, the world's richest natural gas field in America. In fact, the company's assets have provided 10% of all U.S. natural gas production growth since 2005.

Meanwhile, global demand for LNG—especially American LNG—is soaring. Why?

Russia supplies Europe with 40% of its natural gas.

With this supply cut off, and much of the gas landlocked in Russia with no alternative shipping routes into other markets, global gas supplies have been squeezed. Prices for natural gas in Europe and Asia now consistently trade at \$10 - \$12 per MMBtu versus \$2 - \$3 in the U.S.

This has created a massive arbitrage opportunity for the producers and exporters of U.S. natural gas.

This enormous spread between international gas prices versus America has led to a huge shift in global supply. The U.S. LNG exporters have stepped in to fill the gap, with a record-setting year in 2023 that made America the world's largest LNG supplier.

An even larger opportunity is to replace coal internationally as the leading baseload power fuel.

As Europe is discovering, it isn't yet feasible to power an entire economy's electric grid with wind and solar power. The wind doesn't always blow, and the sun doesn't always shine. But simply replacing coal with natural gas (distributed as LNG) would dramatically reduce greenhouse gas emissions.

As Toby Rice explained in a 2022 conference call:

"Without incremental U.S. natural gas, the world is reverting to coal. In just the last 12 months, emissions associated with international coal consumption increased at a level that effectively wipes out all of the progress made by the United States in deploying wind and solar over the last 15 years. We will not be successful in addressing climate change without providing a scalable solution to international coal. That scalable solution is natural gas, and we are the ones that have it."

EQT's plan is simple. Continue to increase production and forge strategic relationships with owners of LNG infrastructure to support global distribution. And most importantly, make deals that give EQT full control over the economic fate of its gas. Doing so will allow the company to capture far higher international prices for natural gas. This would vastly lower global emissions because it would take coal offline.

EQT has what the world needs most right now—virtually unlimited supplies of low-cost natural gas. In the short term (the next 3-5 years), these assets will be unlocked by new pipelines and new LNG terminals to supply Europe—especially Germany, Poland, and Lithuania—with reliable, long-term natural gas supplies of natural gas.

There's no more valuable strategic asset in America's effort to contain Putin's aggression than our natural gas supplies. And over the long-term (next 10-20 years), there's no other company better positioned to profit as the world takes coal offline. EQT's natural gas will be powering the grid – and electric cars – across America and around the world.

It's natural gas – not gasoline, that matters.

Over the longer term, EQT's efforts to become the world's "cleanest" energy company will show the path forward for our entire economy's energy needs.

Cars aren't going to run on gasoline for much longer. They can't run on solar power. Likewise, using solar and wind power exclusively for the power grid isn't feasible. As more cars depend on the grid for power, the amount of electricity consumption in the U.S. (and around the world) will soar.

The Big Secret on Wall Street

What is the only clean, safe, and dependable way to supply that demand?
American natural gas.

Which energy company will be America's (and possibly the world's) largest supplier
of energy?

That will be EQT.

Action to Take: For the latest updates on our open positions, please visit our live
portfolio [here](#).