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SPECIAL REPORT

The Ultimate AI Pick & Shovel Trade

ROSS HENDRICKS

Porter & Co.

The Ultimate AI Pick & Shovel Trade

“Why don’t we fly to Aspen for lunch…?”

About 15 years ago, we visited T. Boone Pickens at his famous ranch, Mesa Vista.

The ranch, at 100 square miles, consumes a little over 10% of Roberts County, Texas. It has 18 miles of manmade lakes for duck hunting and bass fishing. There are more than 100 different fields for hunting quail and over 1,000 wild quail feeders.

There are also enormous homes. Several of them. T. Boone (everyone called him “T. Boone”) was married five times… and each new wife got to build a house at Mesa Vista. The house T. Boone built for himself, The Lodge, is over 30,000 square feet. And in the living room, looming over an enormous fireplace, is a life-sized, full-length portrait of… T. Boone himself.

On the second day of our visit, a snowstorm ruled out quail hunting. Fortunately, T. Boone had his own airport at Mesa Vista and a nicely appointed Gulfstream V. The pilots circled the ranch as we took off. The landscape was covered in oil and gas wells.

> *“It’s the damndest thing, Porter… I spent most of the 1960s and 1970s looking for oil in Canada and Libya… if I’d only known how much oil I had right here, on my own ranch!”*

Boone was, for most of his life, an ardent believer in "Peak Oil." He believed that oil production in the U.S. had peaked in the early 1970s and that, in only a few more years, all the oil would be gone.

He believed nuclear and wind power should be used to produce electricity for the power grid, so that all the remaining oil and natural gas could be conserved for use as a transportation fuel. He was convinced that the country was heading for a disaster because we were going to run out of oil within a decade or so.

In 2008, Pickens announced a major investment in wind power. He ordered 667 1.5-megawatt turbines from General Electric – a $2 billion turbine order. Boone was going to cover his Mesa Vista ranch in wind turbines.

> *"I lost my ass on that wind deal," T. Boone complained.*

By 2010, the entire project was scrapped. Among the hurdles and economic realities T. Boone didn't anticipate: It would have cost $5 billion just to connect Mesa Vista's windmills to the regional power grid. Worse, the entire premise of his massive investment into wind energy and his "Pickens Plan" was dead wrong.

We'd first met T. Boone because we were extremely vocal opponents of his "Plan" and had mocked Peak Oil as yet another nonsense Malthusian fantasy. At a 2014 Stansberry Research Conference in Dallas, T. Boone conceded that he'd been dead wrong about Peak Oil and that his "Pickens Plan" would have been an economic disaster.

In a wonderful example of how truth is often stranger than fiction, a huge amount of oil and gas was discovered directly underneath Boone's own ranch. By 2014, oil and gas production in Roberts County exceeded 3 million barrels annually. Easing the sting of his losses in Wind Energy, even today – more than a decade after they were completed – several of T. Boone's new Mesa Vista wells (#008888 #008543, and #008991) are still among the most productive wells in the country. T. Boone's BP Operating Company LLC is still the third-most prolific producer in the county, even three years after his death.

We learned much from T. Boone over the years, but the most important lesson he taught us was that commodity industries – like oil and gas – that require huge capital investments are fraught with risk. T. Boone very nearly bankrupted himself by investing heavily in an economic myth: Both Peak Oil and the idea that wind power can reliably and affordably produce baseload power are economic fallacies.

The Real Story Of T. Boone: A Fortune Made On A Myth

Most people think T. Boone made his fortune developing Mesa Petroleum, which by the early 1980s was America's largest and most successful independent oil and gas company.

But that's not so...

Boone's unfailing belief in ever-higher prices for fossil fuels led Mesa Petroleum into serious financial distress in 1996. Legendary dealmaker Richard Rainwater bought it for pennies on the dollar in 1997, and turned it into one of America's best independent oil companies, Pioneer Natural Resources.

Boone, meanwhile, was forced out of the company. He was 67 years old and virtually broke. He took his last $8 million and raised another $30 million from friends to start a hedge fund, BP Capital.

What did he invest in? Natural gas, of course! He kept pyramiding leveraged bets on higher prices for natural gas, essentially the same strategy that led to ruin at Mesa. Within 18 months, he'd lost more than 90% of his fund, which dwindled to under $3 million.

What happened next was the greatest speculative triumph in the history of the financial markets.

T. Boone continued to bet on natural gas going higher, using the futures market. And in 2000, his commodity fund rose by $250 million, generating a 9,000%-plus return.

The gains came, in large part, because of the California state energy crisis and the subsequent spike in natural gas prices. It's worth understanding what happened, because the same thing is about to happen again – but on a much bigger scale – in Europe.

California "deregulated" electricity in 1996, creating a market structure that could have only been built by politicians. Baseload providers (Mirant, Reliant, Williams, Dynegy, and AES) were to supply power on a competitive basis to the California Power Exchange.

But to ensure competition, they could only sell power to the system the day before it was to be delivered to the customer by one of California's three retail electrical utilities. Worse, the regulators demanded caps on wholesale energy prices for a decade and based the caps on prices for energy that existed before deregulation began, on the theory that competition would increase efficiency.

As a result of these caps, there were no additional power plants built in California between 1990 and 1999. Meanwhile, the population grew 13%. Where did the state get the additional power it needed? All of the additional demand for power was supplied by importing electricity from Oregon and Washington, which normally came from hydro-electrical plants.

In 2000, the stage was set for a huge crisis when California finally deregulated wholesale prices – but continued to regulate retail prices. A drought led the hydro-sourced power to leave the market, causing a massive shortage. That, along with an absence of any long-term market for power, led to skyrocketing wholesale electrical prices, which the retail utilities had to pay because long-term contracts were not allowed.

The result? The power went out all over California with rolling blackouts as the retail utilities – which couldn't pass the price increases on to consumers – were forced to balance supply with demand by rationing power.

Eventually, the governor at the time, Pete Davis, resigned himself to the inevitable, signing long-term supply agreements with Enron and other major natural gas-based suppliers of energy. The crisis cost the state of California an estimated $40 billion, as natural gas prices soared in anticipation of increasing demand.

Where did all of that money go? A lot ended up at T. Boone's hedge fund, which had been buying natural-gas futures throughout 1999 and 2000 and continued to do so through 2007.

By early 2008, as oil soared to around $150 per barrel, T. Boone's fund had earned more than $8 billion in profits, leaving him with a multibillion-dollar fortune.

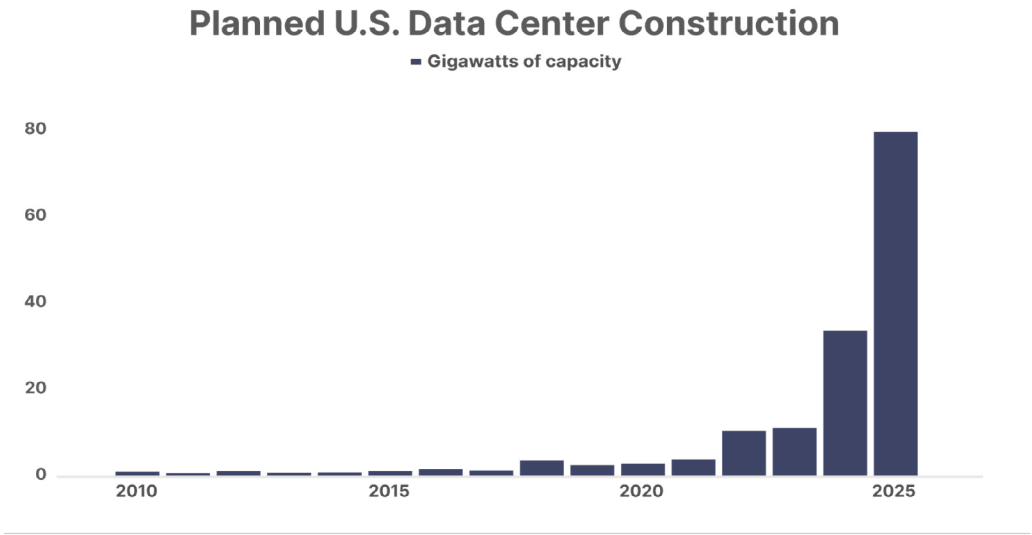
T. Boone spent 40 years looking for oil and producing millions and millions of barrels of it. But what made him a billionaire wasn't producing anything. BP Capital didn't own a single oil field or gas well. It merely owned the rights to energy other companies had to produce.

As he told us, "I sure wish I'd thought of that earlier."

The Coming AI "Grid War"

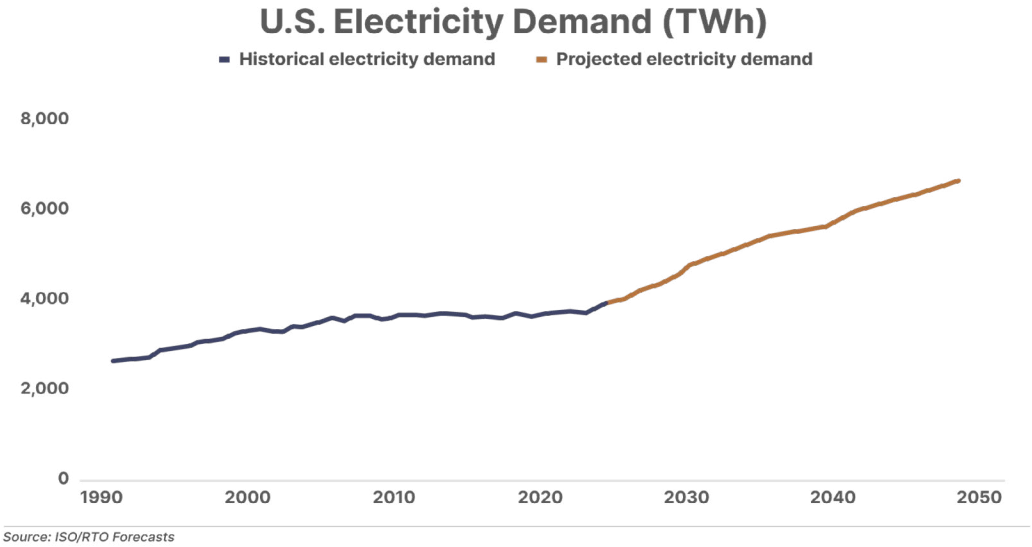
Just imagine what T. Boone would think of the opportunity being created from the coming energy shortages from today's artificial intelligence ("AI") revolution.

The ravenous computing demands from the AI revolution is leading to an explosion in new data center construction across America. And in order to power these energy-hungry data centers, the U.S. electric grid will need to add 80 gigawatts ("GW") of power generation capacity, based on the current slate of planned projects. That's enough electricity to power 40 million homes.



Source: MSCI Real Assets via JPMorgan Chase

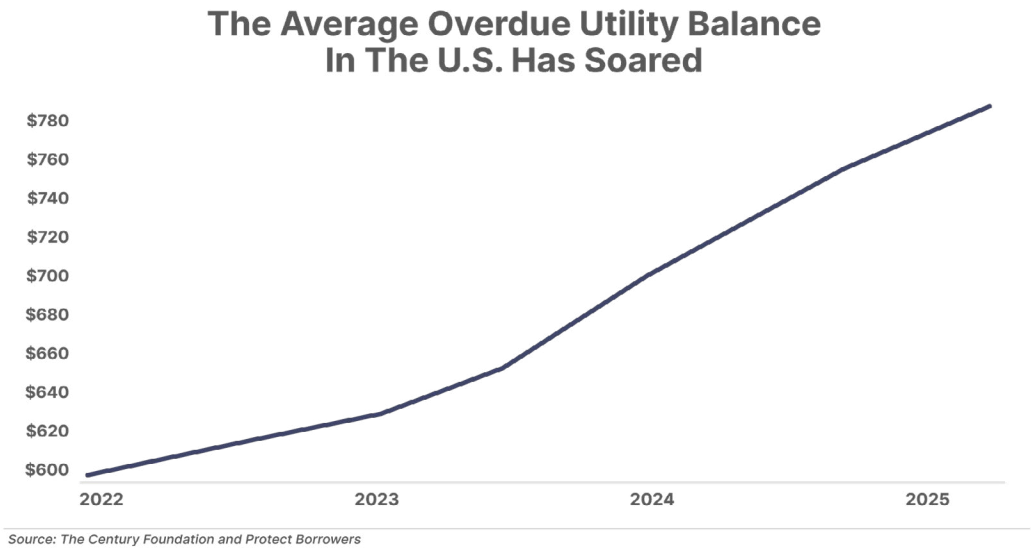
Here's the problem, and the opportunity: the U.S. electric grid is woefully unprepared to meet this surge in demand. Up until just recently, U.S. electricity consumption has flatlined over the past 15 years. But that's all changing now thanks to the proliferation of energy-hungry data centers fueling the AI revolution. The immense computing workloads of these data centers will push America's electric grid to the brink, with a 25% surge in power demand by 2030… and that's just the start. This trend is expected to continue for decades, resulting in a 78% increase in power demand through 2050:



Source: ISO/RTO Forecasts

We're only at the very beginning of this trend, and already, America's electric grid is being stretched to its limit. As a result, power prices are skyrocketing. Residential electricity prices rose 10.5% in the first eight months of 2025, marking one of the fastest price hikes in the last decade. And it's pushing a growing number of consumers into delinquency on their power bills.

Nearly one in 20 U.S. households is now delinquent on their utility bills. And in certain lower-income regions of the South and Appalachia, the number has reached one in 12 households. The average overdue utility balance has jumped from $597 in 2022, just before the start of the AI revolution, to $789 in 2025:



Rising power bills are pushing more Americans into financial distress. An estimated 3.5 million U.S. households had their power cut off as a result of past-due bills in 2024 – a number that's expected to reach 4 million this year.

Meanwhile, utilities are beginning to push back against the data-center boom to prevent pricing out local consumers. Amazon recently filed a lawsuit against Portland, Oregon-based PacifiCorp for its failure to supply electricity to four data-center projects. The cloud computing and retail giant claims PacifiCorp failed to provide sufficient power for one data center, no power for a second, and "has refused to even complete its own standard contracting process for the third and fourth Data Center Campuses."

In response to the lawsuit, the utility provider noted:

> *"PacifiCorp's policy position to avoid direct and indirect harms between customers is consistent with Oregon law, which ensures new data center loads do not jeopardize customer affordability."*

This is just the beginning of what we're calling the coming Gird War across America. As the AI boom outruns America's electrical grid capacity, it will result in an escalating series of battles for power priorities between consumers, utility providers, and data center operators.

The only solution is to aggressively increase U.S. electricity generation capacity. So, the question becomes: which fuel source will be used to meet this booming demand for power?

All Roads Lead To Natural Gas

Here's the key thing to know about data centers: they need to run at maximum capacity around the clock. This means that the so-called "renewable" power sources, like solar and wind, won't do the trick. Neither will coal, given the increasingly harsh environmental regulations aimed at crippling the sector.

That leaves only two sources of energy left to meet America's future power needs: nuclear and natural gas.

In theory, nuclear power offers the ultimate source of carbon-free, renewable energy. But in practice, the onerous permitting and safety regulations make this option prohibitively expensive and time consuming. And although there is promise in new technologies like small nuclear reactors, we're still many years away from these technologies scaling up to massive commercial deployment.

To illustrate the practical challenges with nuclear-power deployment, consider that America has only built two new nuclear power plants in the past 30 years: the Vogtle 3 and Vogtle 4, which were expansion plants built near the Vogtle 1 and Vogtle 2 plants built in the 1980s. The approved budget for both plants was $14 billion, and initial site work began in 2009. But the plants were plagued by permitting issues, construction delays, and massive cost overruns.

The Vogtle 3 and 4 reactors didn't come online until 2023 and 2024, roughly 15 years after initial construction. And the final cost for both plants was a stunning $36 billion, making these the most expensive nuclear power plants ever built anywhere in the world. The cost per unit of power capacity came out to $16 million per megawatt ("MW").

For comparison, the cost of building a modern natural gas power plant is around $1.2 million per MW, or more than 90% cheaper than the Vogtle boondoggle. And perhaps most importantly, natural gas plants can be brought online within 12 to 24 months of initial construction. That's a much more attractive proposition for investors, when the time value of money is factored in.

Thus, despite the recent surge in interest about the promise of nuclear technology, the Vogtle experience serves as a cautionary tale for utility operators and investors. The cost and speed advantages of building gas power plants are simply too hard to beat.

That's why all roads lead to natural gas as the near-term power solution for America's exploding power demand. And as the data center buildout accelerates in the years ahead, so too will demand for natural gas, leading to the next great supercycle in prices.

So, how to play this theme?

When most investors think about investing in commodities, they think about buying the producers, like natural gas drilling companies. But as we'll explain below, there's a far better way to invest in commodities – one that avoids the many challenges involved in digging holes into the ground

Royalties: The Capital Efficient Commodities Play

Royalty companies are some of our favorite – and somewhat off-the-radar – capital efficient companies at Porter & Co.

Royalty companies are a great way to invest in almost any industry or trend. But they're the absolute best way to invest in the resource sector. That's because producing commodities is generally a terrible business.

Digging miles into the earth to extract physical commodities is an incredibly capital intensive business model. Commodities producers spend enormous sums on labor and capital equipment operating their businesses. They must also constantly sink a substantial portion of profits back into finding new reserves, as they constantly deplete their existing resource base.

And along the way, economics can change drastically due to the cyclical nature of commodity prices. The inherent volatility in commodities prices means all of these investments come with a lot of risk. And all of this capital going into the ground reduces the amount of profit that eventually reaches investors, especially if it is invested unwisely or even just at the wrong time.

As Warren Buffett's longtime right-hand man Charlie Munger once explained:

> *"There are two kinds of businesses. The first earns 12%, and you can take it as cash. The other earns 12%, but all must be reinvested. It reminds me of the guy who looks at his equipment and says, 'There's all of my profit.' We hate that business."*

For example, drilling shale wells is like running on an endless treadmill: as soon as a well comes online, production begins rapidly depleting. This means a big chunk of the profits from existing wells must constantly go right back into the ground to drill more wells to keep production growing.

Oil and gas royalty companies avoid this trap. They let other companies do the hard work and take the risks of drilling holes into the ground. The royalty company owns the rights to drill on a given parcel of land. And in exchange for granting permission to oil drillers to produce energy from that land, they sit back and cash royalty checks – or a slice of the revenue from every drop of oil or gas produced.

This allows royalty companies to capture the upside from higher commodities prices, but without bearing the operational risks or capital costs of actually operating the business.

In this report, we'll introduce you to one of our favorite resource royalty firms...

Few investors have even heard of it, and you'll likely never see it touted by fund managers or Wall Street analysts on CNBC. As a result, it trades at a dirt cheap valuation of less than 10x free cash flow, and sports a juicy 6.6% dividend yield. When natural gas prices soar to meet the coming boom in data center power demand, this company will become one of the biggest AI winners… and no one is paying attention to it yet. It's our favorite "under the radar" AI play.

The Ultimate Energy Royalty Play

Viper Energy (Nasdaq: VNOM) is one of the world's best energy royalty companies.

The company's assets were developed by oil and gas driller Diamondback Energy (FANG) and are in the heart of Texas' largest shale formation, the Permian Basin. In 2014, Diamondback created Viper Energy as a separate company to own and manage these properties. Through this transaction, Viper became a separate publicly traded entity, although Diamondback retained a controlling interest, and today owns 41% of Viper shares.

Since Viper now owns these properties and the associated mineral rights, this means that if an energy company – Diamondback or anyone else – wants to produce oil or gas from land that Viper owns, it must get Viper's permission. That means striking a deal where Viper extends a lease for the development of the resource in exchange for a cut of the production.

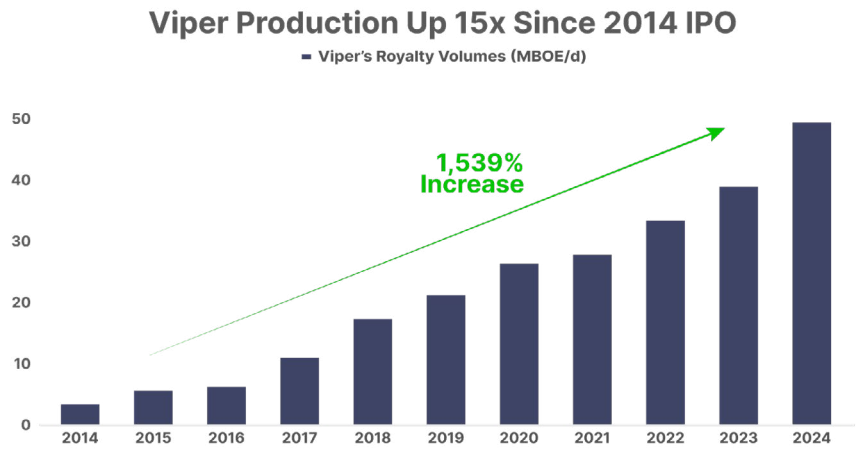
The key to understanding these businesses is that they don't incur any of the production costs or take any of the exploration risks: Viper just owns the mineral rights. The only cost Viper incurs is the upfront acquisition of the mineral rights. Once it owns them, all capital and operating expenses lie with the operator.

And that means, as energy prices and production volumes rise, the rights that Viper acquired in the past become more and more valuable.

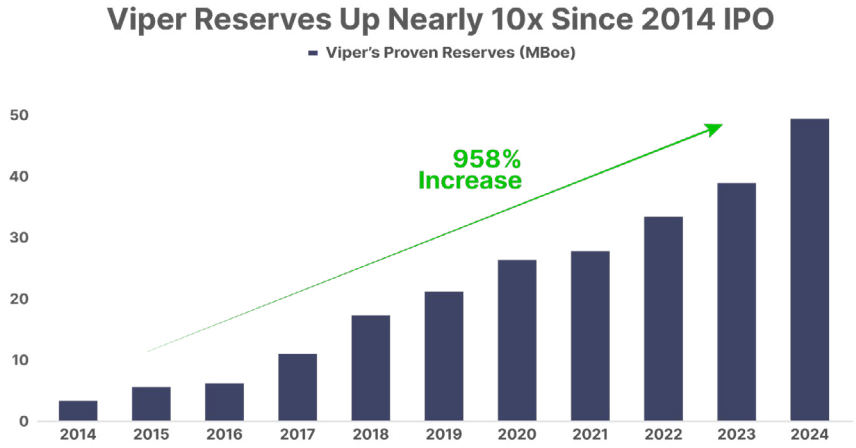
Viper transforms a capital-intensive industry into a capital efficient business that's virtually guaranteed to produce increasing returns across time. In fact, Viper really isn't a business at all: it's mainly a legal fiction that generates enormous wealth. Well-run mineral rights businesses like Viper are truly one of Wall Street's greatest secrets.

Consider that our standard rule of thumb when seeking out capital efficient companies is finding businesses capable of converting at least 10% of sales into free cash flow, or a 10% free cash flow margin. Viper's mineral royalty business boasts an incredible 70% free cash flow margin.

In addition to world-class margins, Viper also offers one of the most compelling growth stories in the energy market. Since going public in 2014, the company has invested over $7 billion acquiring mineral rights. This has propelled its production volumes up 15x over the last decade, from 3,000 barrels of oil equivalent in 2014 (MBoe/d) to 50,000 MBoe/d at the end of last year, or a compounded annual growth rate of 32%.



Equally impressive, the company's reserve base (i.e., the estimate of future recoverable oil and gas on its properties) has increased by nearly 10-fold over the same period.
Hedging Versus Speculating



Part of the secret to Viper's success is its deal-making prowess. The company takes advantage of bear markets by making its boldest acquisitions during weak energy markets when prices are cheap. This includes its latest deal, the $4.1 billion acquisition of fellow Permian royalty company Sitio Royalties, which was announced in June and completed in August. Viper was one of the few companies willing to make deals during the depressed price environment, as the Sitio acquisition was one of only two upstream energy M&A deals announced in the second quarter.

And by the numbers, this deal looks like a home run. The acquisition added over 25,000 net acres in the heart of the Permian Basin, and 42.1 MBoe/d of production to Viper's asset base. This was a transformative deal, making Viper the second-largest royalty company in the Permian, behind Texas Pacific Land (NYSE: TPL).

The key to this deal is that 50% of the acreage acquired overlapped with Viper's existing footprint in the Permian. This will enable significant operational synergies that Viper expects will reduce its overall breakeven costs by over 10%, plus unlock an estimated $50 million in administrative cost savings.

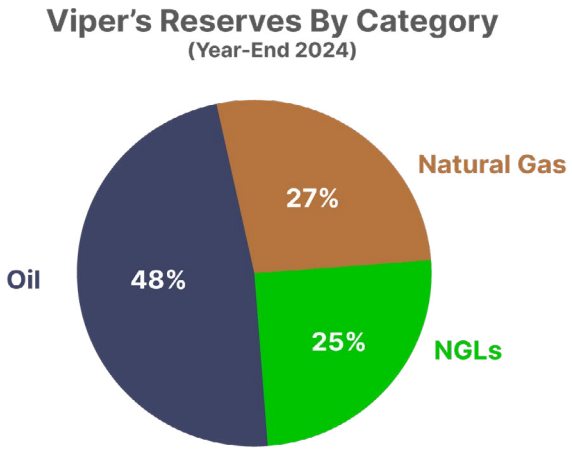
The deal resulted in an immediate boost in Viper's cash flow per share by 8% to 10%, allowing Viper to raise its base dividend 10% to $1.32 per share (the company also pays a variable dividend that fluctuates based on oil and gas prices).

Viper expects the newly acquired acreage to boost its production to 126 MBoe/d of production this year, followed by a mid-single-digit increase next year. Assuming commodity prices remain at current levels, that should translate into revenue of $1.8 billion and free cash flow of $1.5 billion next year.

Trading at a current market capitalization of $13 billion, that means Viper shares trade at an incredibly cheap valuation of just 9x next year's free cash flow, with a juicy dividend yield of 6.6%.

Part of the reason for Viper's depressed valuation is because the market views it as an "oil stock," which means the share price can experience short-term fluctuations along with the erratic swings in the price of oil. Over the past year, as oil prices have dropped by more than 20% from $80 to $60 per barrel, Viper's share price has declined nearly 40% from a high of $56 to around $36.

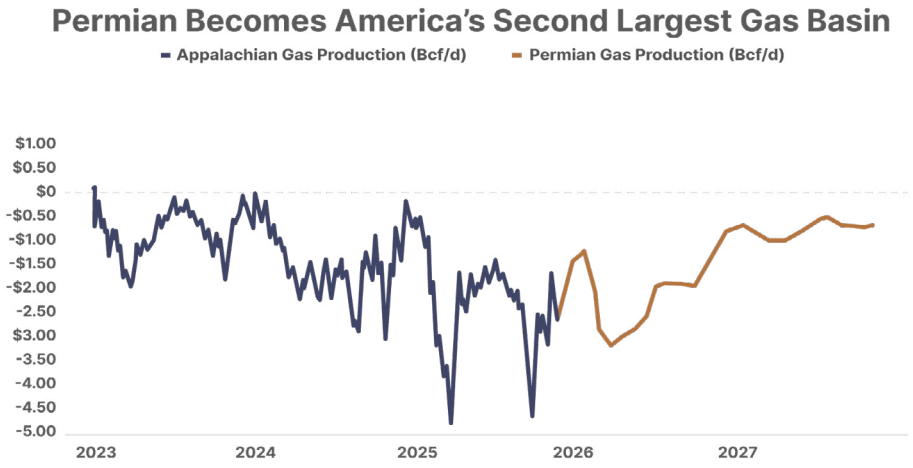
But the truth is, Viper is only half of an oil stock. The other half of its production and reserves come from natural gas and natural gas liquids ("NGLs"), as shown below:



(Note that energy companies typically report their audited reserve values at year-end. Thus, the numbers above from year-end 2024 don't incorporate the latest changes from Viper's acquisition of Sitio. Based on In Sitio's reserve breakdown of 41% oil and 59% natural gas and NGLs at year-end 2024, we can roughly estimate that Viper's post-acquisition reserve breakdown shifted to something like 46% natural gas and 54% oil and NGLs).

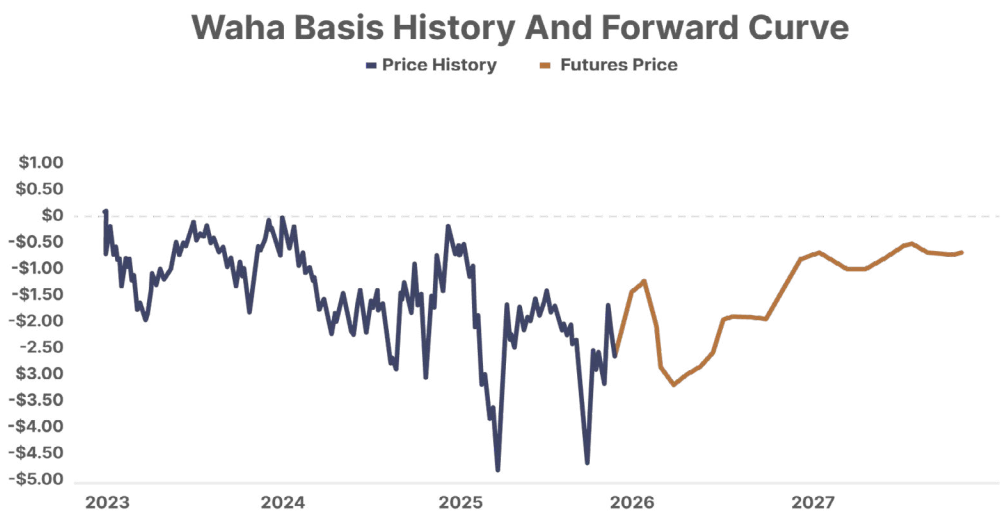
We'll distinguish the differences in consumption and pricing dynamics between natural gas and NGLs down below. For now, the bottom line is that Viper has significant exposure to both of these products. And for most of its history, gas and NGL royalties have punched far below their weight in Viper's financial results. Why? Because the Permian Basin is drowning in the stuff, thanks to a phenomenon known as "associated gas."

Associated gas is natural gas (and liquids) produced as a byproduct from oil wells, rather than from wells drilled primarily for gas. And the rapid increase in Permian oil production over the past decade has unleashed a more than 300% increase in natural gas production in the basin. This has catapulted the Permian into America's second-largest gas producing basin, just behind Appalachia, despite the fact that very few Permian drillers actively target natural gas.



This relentless pace of growth in Permian gas production has routinely exceeded the pipeline takeaway capacity in the basin, even as dozens of new pipelines have come online over the past decade. This has resulted in depressed pricing for both natural gas and NGLs sold at the Waha trading hub in West Texas, versus the national benchmark prices at the Henry Hub trading center in Louisiana.

The difference in these two prices is known as the "Waha Basis." In the chart below, note that the Waha Basis has routinely traded in negative territory in recent years, meaning Permian gas is sold at a discount – often a steep one – relative to Henry Hub prices.



Periodically, the Waha Basis becomes so negative that producers actually pay for the privilege of getting rid of their gas. This occurred most recently in April 2025, when the Waha Basis fell to negative $5 per thousand cubic feet ("mcf"), versus Henry Hub price of less than $4 per mcf. This meant Permian producers were paying more than $1 per mcf for bringing their gas to market.

The chart above also shows the forward curve for the Waha Basis (the dotted line at $0), which is a derivatives contract used for hedging against expected future changes in the Waha Basis. Note that the traders in this market are currently pricing in a significant narrowing in the Waha Basis starting in the second half of 2026 and continuing into 2027.

Next, we'll explain what we believe the market is only just beginning to price in: a much tighter market in Permian gas that sends prices soaring, delivering a windfall to Viper.

West Texas Becomes "Data Center Alley"

In a White House press event in January, U.S. President Donald Trump formally unveiled the Stargate Project – a massive $500 billion joint venture aimed at supercharging American AI infrastructure. It was dubbed as "the largest AI infrastructure project in history," and includes plans to build up to 10 GW of data-center computing capacity. The project is sponsored by a mix of public and private funds, including contributions from the U.S. government along with OpenAI, Oracle, and Softbank.

The flagship facility of the project is a massive data center in the West Texas town of Abilene. The first phase of the facility will begin with 1.4 GW of computing power, with the potential to scale up to 5 GW, which would make the Abilene facility one of the largest AI data centers in the world.

Now, why choose a podunk town in West Texas with a population of 150,000 as the flagship location for one of the world's most important technology projects? Because Abilene is just 200 miles east of the Permian Basin, which hosts one of the largest sources of cheap natural gas on the planet. Natural gas in Abilene trades for around $1.50 - $2.00 per mcf, or about $1.00 - $1.50 cheaper than the national benchmark price at the Henry Hub trading center in Louisiana (more on this price differential later). And this cheap gas has made West Texas the go-to destination for dozens of data centers.

The following list of West Texas data-center projects have already started construction, and they represent a combined total of 9 GW of computing capacity slated to come online in the next several years:

Project/ Campus	Company/ Partners	Location	Capacity	Timeline
Fort Stockton Campus	Poolside (backed by NVIDIA) & CoreWeave	Near Fort Stockton (Pecos County, Permian Basin)	2 GW (8 phases of 250 MW each)	Phased: First phase 2026; full by late 2020s
Barstow Facility	Nscale (leasing from Ionic Digital; for Microsoft AI)	Near Barstow (Ward County, Permian Basin)	1.2 GW (Phase 1: 240 MW; Phase 2 option: 700 MW)	Phase 1: 2027+; expansion TBD
Stargate Abilene	OpenAI, Oracle, SoftBank (land by Lancium)	Abilene (Taylor County)	1.4 GW (8-building complex)	Under construction; full by 2026–2028
Frontier Campus (Stargate)	Vantage Data Centers (for Stargate partners)	Shackelford County (near Albany)	1.4 GW (10-building campus)	First building H2 2026; full late 2020s
Odessa Helium Data Center	New Era Helium/Energy & Digital	Near Odessa (Ector County, Permian Basin)	0.25 GW	Preliminary; Phase 1 2026
Ector County Net-Zero	Texas Critical Data Centers (with PowerBridge)	Ector County (Permian Basin)	0.25 GW (Phase 1: 100 MW)	Phase 1 Dec 2026; full mid-2027
Unnamed Chevron-Powered Center	Chevron (power for unnamed operator)	Undisclosed Permian Basin site	2.5 GW initial (expandable to 5 GW)	Online 2027

The Texas data center bonanza goes beyond the Permian. America's leading AI companies are flocking to build all across the Lone Star State for its cheap energy, friendly regulatory environment, and low taxes. A host of additional facilities are slated for Dallas, Austin, and San Antonio in the coming years. The proliferation of data-center development has given rise to Texas' new title as "Data Center Alley."

All of this adds up to massive new demand for power. The Texas utility regulator, ERCOT, expects the state's electric grid will face a massive 43 GW of new power demand by 2030. And the majority of this demand will be met by new natural gas power plants.

There are currently over 100 proposed natural gas plants in various stages of planning or construction across Texas, representing tens of GW of generation capacity. The state government is stepping up to facilitate investment grants for this massive grid buildout. In 2023, the Texas legislature created the Texas Energy Fund to provide grants to finance these plants and other investments into beefing up the state's electric grid. With $9 billion in appropriations slated for 2025-2028, this represents one of the largest state-level commitments to grid infrastructure in Texas history.

The Coming Natural Gas Supercycle

Here's how the scenarios we've laid out above could impact the bottom line for VNOM shareholders.

Historically, given the persistently negative Waha Basis, Viper has routinely sold its gas at a steep discount to the Henry Hub benchmark prices. In its latest Q3 2025 financial results, for example, the company's average selling price for natural gas was just $1.77 per mcf. That translates into a 50% discount to Henry Hub prices that averaged around $3.25 over the same period. Likewise, the low price of Permian natural gas translated into depressed NGL prices in the basin, which averaged $19.07 per barrel in Q3.

So even though Viper sold its oil for $63.76 per barrel in Q3, ultra-low natural gas and NGLs rates brought its overall selling price down to $40 per barrel of oil-equivalent.

If our natural gas supercycle thesis plays out, we see a scenario where natural gas and NGLs in the Permian Basin reach parity or even exceed the price of crude oil on an energy-equivalent basis. This would lift Viper's profits 50% from higher prices alone, as its average sales price would increase from $40 to $60 per barrel of oil-equivalent.

Meanwhile, we can also count on rapid growth in gas production from the buildout of new power plants and pipeline takeaway capacity. So Viper can win from both higher prices and rising royalty volumes.

Plus, there's also the upside kicker of a recovery in crude oil, which has already suffered a three year bear market that took prices down 50% from the prior highs in 2022. With the U.S. oil drilling rig count down by one-third from 600 at year end 2022 to around 400 today, production growth has begun decelerating and most analysts are forecasting flat output in 2026. Permian production will increase modestly, making up for declines in other higher cost basins.

Given that American shale production has increasingly taken on the role of global swing producer, we believe it's only a matter of time before stalling shale supply growth sets the stage for a tighter market and the next upcycle in oil prices.

In a true energy bull market where oil, gas, and NGLs enter a sustained uptrend, we could see Viper earning $80 to $100 per barrel of energy equivalent. That's the windfall scenario, because it also means production comes back online in a big way in the Permian Basin across all key energy products. We could see Viper's earnings and cash flows increase by 100% to 200%.

Here's the best part: investors haven't come close to pricing in any of these future upside scenarios. Trading at less than 9x next year's free cash flow, Viper Energy shares are attractively valued even without an uplift from higher prices.

For a business of Viper's quality, the share price could double from here simply on a valuation re-rating. Consider the case of its next closest competitor, Texas Pacific Land, which currently trades at 28x next year's free cash flow. In other words, Viper shares could double and still trade at a 35% discount to Texas Pacific Land.

Thus, Viper offers one of the rare types of opportunities we stumble across in the financial markets: an ultra-high quality business, trading at a deeply discounted valuation, with a clear catalyst for improving earnings and cash flows in the near future. Meanwhile, we get paid a 6.6% dividend while we wait. It doesn't get much more compelling than this.

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P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X** here: **@porterstansb**