Blackstone, Ares Mount Major Energy Investing Push

By Tom Stabile November 21, 2018

Private equity managers have cranked up energy investing efforts this year – stockpiling deals, launching new funds, adding joint venture partnerships, and building new investment platforms. Blackstone Group, Ares Management, Carlyle Group, and KKR have announced a slew of energy sector moves and appear primed to keep up the pace – even if pricing for natural resources and power supply markets falter.

Private equity managers had built up nearly $180 billion in uninvested capital in energy funds as of the end of last year, and were seeking another $153 billion across 211 vehicles in the market as of Sept. 30, according to data from Preqin. And that's just in dedicated private equity and infrastructure energy funds, excluding an array of deals that many of the largest firms include in their broader flagship buyout, debt, and infrastructure funds as well.

The investment targets at the big private fund shops range widely across energy markets, far from a monolithic peg to oil industry deals, says **Rob Lee**, managing director for equity research at Keefe, Bruyette & Woods.

"People were asking 'What is your exposure?' when oil was getting creamed, but you have to ask is it a refinery or a pipeline or producing well?" he says. "Is it gas, solar, wind, hydro? Are you transporting natural gas or propane, or is it power generation? There's not one definition of energy."

Even in oil and gas, fund managers are all across the map with "upstream" investments in wells and drilling, "midstream" assets in pipelines, storage, transfer, and transportation facilities, and "downstream" deals involving refineries and "last-mile" delivery to consumers, Lee says.

And there is little sign of fund manager or investor interest in the segment waning, Lee says. "Energy drives the modern economy, and the need… to get the most out of existing resources and fund new energy sources… all require billions of dollars of investment globally," he says. "And there does appear to be appetite from limited partners."

Energy sector fundamentals also appear to leave an open path for private equity firms to continue investing, at least in sectors such as refineries, says **Jay Hatfield**, CEO and portfolio manager at **Infrastructure Capital Advisors**, and a former portfolio manager at **S.A.C. Capital**. If oil continues trading in the $55 to $75 per barrel range and energy stocks remain depressed, fund managers and other investors should find a lot of well-priced deals and opportunities to take public entities private, he says.

"The refinery sector is probably ripe for private equity and activist activity, because they don't have direct commodity risk, but rather spread risk," he says. "The [recent energy market decline] has probably created some opportunities, with a lot [of companies] trading below fair market value."

Renewable energy deals may also be in play because gas prices are on the higher end – typically a good sign for wind, solar, and other sustainable sectors, Hatfield says. "And we're heading into winter and natural gas storage levels are below the five-year average," he says.

Private equity investors will welcome the chance to deploy their mounds of uninvested capital into lower-priced energy deals, Lee says. "Now they have more capital to buy assets cheaply," he says.

The recent run from the biggest private equity firms has involved a range of acquisitions, joint ventures, and new investing platforms.

Blackstone has led the way with a spate of announcements, including a new joint venture announced in June between its **EagleClaw Midstream** portfolio company, **Kinder Morgan**, and **Apache Corp.** to develop the $2 billion Permian Highway natural gas pipeline in Texas. It followed up in November with a partnership between its funds, EagleClaw, and **I Squared**

Capital to add capital and assets to bolster EagleClaw's growth. It also bought portfolio companies, including Ulterra Drilling Technologies and Caprock Midstream; invested in Mime Petroleum, a portfolio company formed by **Blue Energy Water**; and launched an investing platform by forming a new portfolio company, Zarou, that will target energy deals in the Middle East and Africa.

Ares has pursued various portfolio company and asset deals this year across its private equity and infrastructure energy investing groups, including buying Admiral Permian Resources, a Texas-based independent oil and gas development firm, and Conti Solar, a renewable energy development and construction firm. It also formed a new portfolio asset, Salt Creek Midstream, in a partnership with **ARM Energy** that will operate gas and oil processing facilities and pipelines, and bought Paradigm Energy Partners from **Stonepeak Energy Partners** to make a larger investment platform out of Van Hook Gathering System, an existing Ares portfolio asset. Ares also created a new fund for four strategic investors that acquired and is managing the assets of Kleen Energy Systems, a gas-fired power plant in Connecticut, and is launching a new climate infrastructure clean energy fund.

Carlyle this year announced plans to raise $4 billion for its second international energy partners vehicle that acquires oil and gas assets in Europe, Asia, Africa, and South America, and its **NGP** affiliate was raising its 12th flagship oil and gas fund with a $5.3 billion target, according to PitchBook. It also announced several big deals, including a project to develop a major crude oil export terminal in Corpus Christi, Texas, that will be part of its infrastructure fund, as well as acquiring wind generation farms in New York from Noble Environmental Power through Carlyle's newly formed Zephyr Wind Energy portfolio company. Carlyle's energy mezzanine debt team also formed an investment joint venture with Diamondback Energy.

KKR acquired several energy sector portfolio companies and assets this year through various funds, including Ramky Enviro Engineers in Mumbai, which it added from its Asia private equity vehicle, and several Eagle Ford oil assets in Texas through a partnership with Venado, an operating company. It also created a joint venture with Williams to buy

Discovery Midstream, a natural gas and oil gathering and processing services company, in a $1.2 billion acquisition from a TPG Capital fund.

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