This Pipeline Company is Making Mega Deals and It's Still Flush with Cash

By Laura Sanicola

As U.S. domestic oil and gas production booms, companies that transfer oil and gas from the wellhead to end users and terminals stand to gain.

That's the space where Energy Transfer has thrived. The Dallas, Texas-based company founded by Kelcy Warren is one of several pipeline companies that aggressively built out a network of pipelines from oil-and gas-producing regions such as the Permian and the Bakken basins after the shale revolution to transport hydrocarbons to end markets and export terminals on the East and Gulf Coast.

Energy Transfer is a master limited partnership, a corporate structure that pays virtually no corporate income taxes by providing income to unit holders. Its profits are largely fee-based, so it has benefited from strong U.S. production since the coronavirus pandemic subsided. It also stands to gain from a boom in AI data centers in the U.S. Southeast and nearshoring trends that should keep power needs higher for longer.

By sticking to smaller expansion projects, Energy Transfer has generated multiples more in cash flows than its capital expenditures in recent quarters. The company was further able to reduce its debt load after receiving a $2.4 billion windfall by storing natural gas when the deadly winter storm hit Texas in 2021, freezing in natural gas production and sending prices surging.

For investors, its overall strategy has paid off. Shares are up 18% this year, yielding a juicy 8% dividend. The company’s credit rating, which was once near junk bond territory, was upgraded by Moody's to Baa2 last month. Its shares trade at 15 times earnings, lower than most of its competitors' ratios, sweetening the deal for investors.

“The company is in an enviable position of being able to fund future capital expenditures without resorting to equity capital funding,” said Gabriel Moreen, managing director of U.S. MLPs & pipelines at Mizuho, who has a Buy rating and $20 price target on the shares, up 26% from last year's close.

Energy Transfer's financial success has been bolstered by its aggression in gaining market share. It sued rival Enterprise Product Partners in 2016 for reneging on a handshake deal to build a pipeline project in 2011, and paid half a billion dollars to rival Williams in 2016 after [walking away] from an agreement to purchase the company. Another rival, Williams, told news outlets it is seeking damages after accusing Energy Transfer of delaying the start of a project to ship natural gas from the Haynesville Shale across Louisiana and Texas to liquefied natural gas, or LNG, terminals on the Gulf Coast until 2025. The project competes with Energy Transfer's own proposed Warrior pipeline, and a judge ruled Wednesday that Williams can continue.

In an ideal world, Energy Transfer would touch oil and gas molecules as many times as possible from the moment they come out of the ground to the time they are marketed. Its East Texas Nederlands terminal is the largest aboveground crude oil storage facility in the U.S. and the second-largest export facility globally of natural gas liquids, or NGLs, a key feedstock for petrochemicals.

"If Energy Transfer can buy a pipeline that's already transporting liquids and redirect those liquids to one of its own terminals, it can increase the value of that terminal more than a competitor who doesn't have the ability to redirect those liquids," said Spiro Dounas, energy infrastructure analyst at Citi, who has a Buy rating and $18 price target on the company.

On the Gulf Coast, the company has aspirations to partner with another company to export LNG. Warren donated $5 million to Trump's campaign. Trump's administration is likely to resume issuing LNG export permits, which could take the company's Lake Charles project, which is not yet under construction, out of investment limbo.

While major LNG players like Shell Plc think global demand growth will exceed 50% by 2040, concerns are mounting that export capacity in the U.S. Gulf Coast is becoming overbuilt as LNG producers in Australia and Qatar greenlight their own projects.

There are also shale production headwinds. Energy Transfer is one of several companies lobbying the U.S. government for permits to build an offshore terminal to export domestic crude, but competitor projects are reportedly struggling to attract customers due to regulatory delays and slower production projections.

Energy Transfer wants to be the last incremental oil and gas exporter out of the Permian Basin. It has competition, but its track record suggests the company will reward investors until renewables cut into LNG demand in the next decade.

Stocks and ETFs impacted: Energy Transfer (ET), Alerian MLP ETF (AMLP), Enterprise Product Partners L.P. (EPD)

Cheap Pipeline Play

Company / Ticker	Price to Free Cash Flow Ratio
Energy Transfer / ET	7.7
Enterprise Products Partners / EPD	14.2
Williams Cos. / WMB	16.9
Kinder Morgan / KMI	21.7

Note: as of July 3
Source: FactSet

The Energy Roundup

Regulation: A federal judge in Louisiana has blocked the Department of Energy's pause on issuing permits for new liquefied natural gas facilities, a move that could benefit companies in the LNG production and export sector. U.S. District Judge James Cain Jr., responding to 16 Republican-led states, including Louisiana, ruled against the Biden administration's initiative to withhold new approvals for LNG facilities pending economic and environmental assessments. Despite the ruling urging expedited permit reviews, the Department of Energy retains authority over the approval process and has not disclosed its timeline for future decisions.

Stocks impacted: Cheniere Energy (LNG), Tellurian (TELL), NextDecade (NEXT)

Elections: Labour's landslide in the United Kingdom's general election this week could bring a slew of changes to the nation's energy landscape. New Prime Minister Kier Starmer campaigned on establishing the UK's own publicly owned clean energy company, quadrupling offshore wind by 2030 whilst tripling solar power, upgrading the nation's electricity grid, denying new licenses for oil and gas exploration in the North Sea, and banning the sale of new internal combustion engine vehicles by 2030. The UK's oil demand for transportation increased year-on-year, but more than a quarter of all new car sales in June 2024 were either fully electric or plug-in hybrids, according to UK trade body data.

Stocks impacted: BP plc (BP) NextEra Energy (NEE), Tesla (TSLA)

Crude Oil ↑ WTI crude prices ended the week 1.6% higher to $83.79

per barrel after a surge in U.S. crude exports and strong refinery runs sent domestic stocks plunging by 12 million barrels more than expected last week. Refiners typically run hard before the Independence Day holiday when demand for gasoline and other refined products typically rises. Russia is also expected to curb exports as its refineries recover from Ukrainian attacks. However, gains were tempered by concerns over OPEC's increased production in June and signs of an economic slowdown in China, the world's largest crude importer.

Stocks impacted: Exxon Mobil (XOM), Chevron (CVX), ConocoPhillips (COP)

Coal ↑ Metallurgical coal prices surged by 11% this week to $260 per ton, according to OPIS data. The market braced for a potential multi-month shutdown of Anglo American's Grosvenor steelmaking coal mine in Australia following a large fire last Saturday. Another fire at Allegheny Met Coal's Long View Mine in West Virginia also forced production to stop. The fires may benefit competitors such as AHR and Arch Resources, who will see prices rise, but will raise feedstock costs for steel producers such as ArcelorMittal, Tata Steel, and Nippon Steel.

Stocks impacted: Arch Resources (ARCH), Peabody Energy (BTU), Warrior Met Coal (HCC)

Gasoline ↑ Gasoline futures moved up 3.4% to $2.61 per gallon this week on hopes that gasoline demand will strengthen through the summer, but prices at the pump are still lower than last month. The Biden administration sold off the East Coast's million-barrel gasoline reserve this week, a move mandated by Congress and timed to lower prices during the busy holiday. On the West Coast, refiners are benefiting from an influx of Western Canadian Select (WCS) crude oil off of the Trans Mountain pipeline, which is more than $20 cheaper than Alaskan North Slope (ANS) crude at $63 a barrel, according to OPIS data. The WCS crude oil yields more gasoline than ANS when it's processed. That, combined with lower gasoline demand on the West Coast, has driven West Coast gasoline inventories to 31.9 million barrels, the highest seasonal level in 10 years.

Stocks impacted: Valero (VLO), Marathon Petroleum (MPC), Phillips 66 (PSX)

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