



Click here and scroll down for recent updates on what we're writing about here. We update portfolio positions toward the bottom of each issue of The Big Secret On Wall Street (This Week). This lays out our investment thesis, and it's a great place to start!

The Gods of Gas

How two brothers that you've never heard of became America's largest producers of natural gas...

What they're doing next will make billions and transform the global market for energy.



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

While the media and our political leaders are focused on today's short-term bear market problems: gasoline prices, inflation, and mortgage rates...

...And environmentalists 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 global 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 what's behind skyrocketing gasoline prices. 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. Before the end of this year, the first international end-to-end production and distribution deal for American shale gas will be struck...



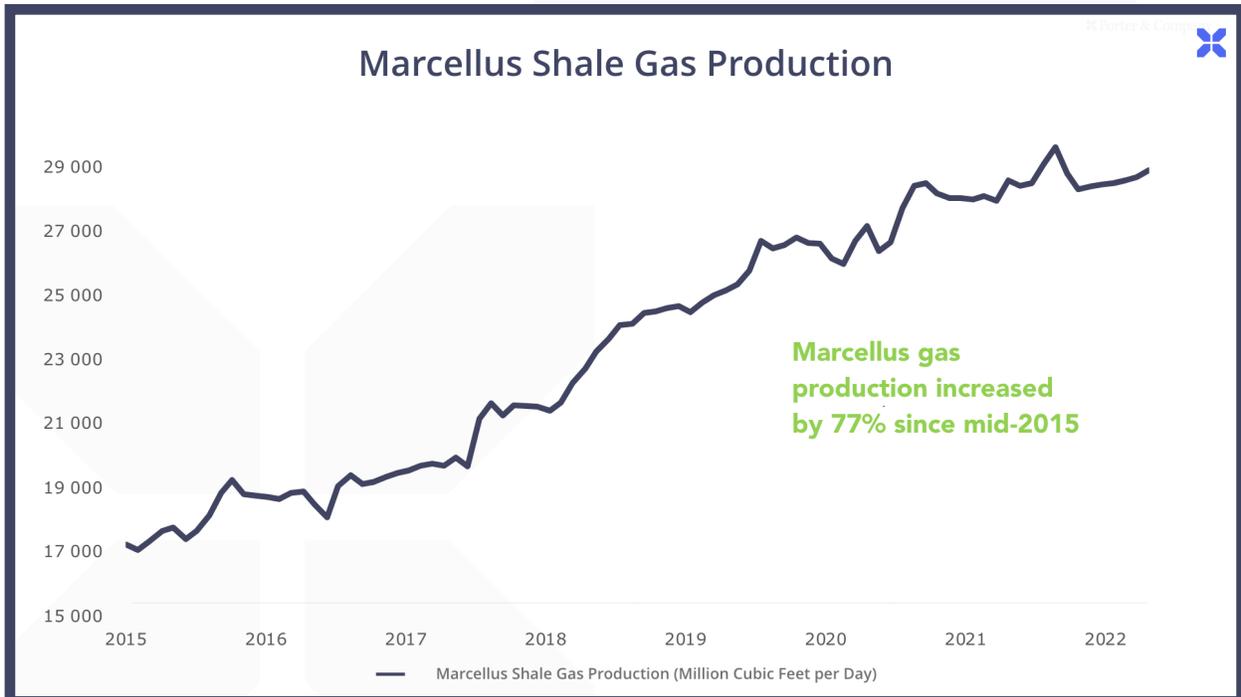
That deal will be made by a leading “fracker” – a small, independent, oil and gas firm whose production is centered on the largest natural gas reserve in the world, the Marcellus Shale.

This deal will create the first new, 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 15-fold increase in production since 2010:



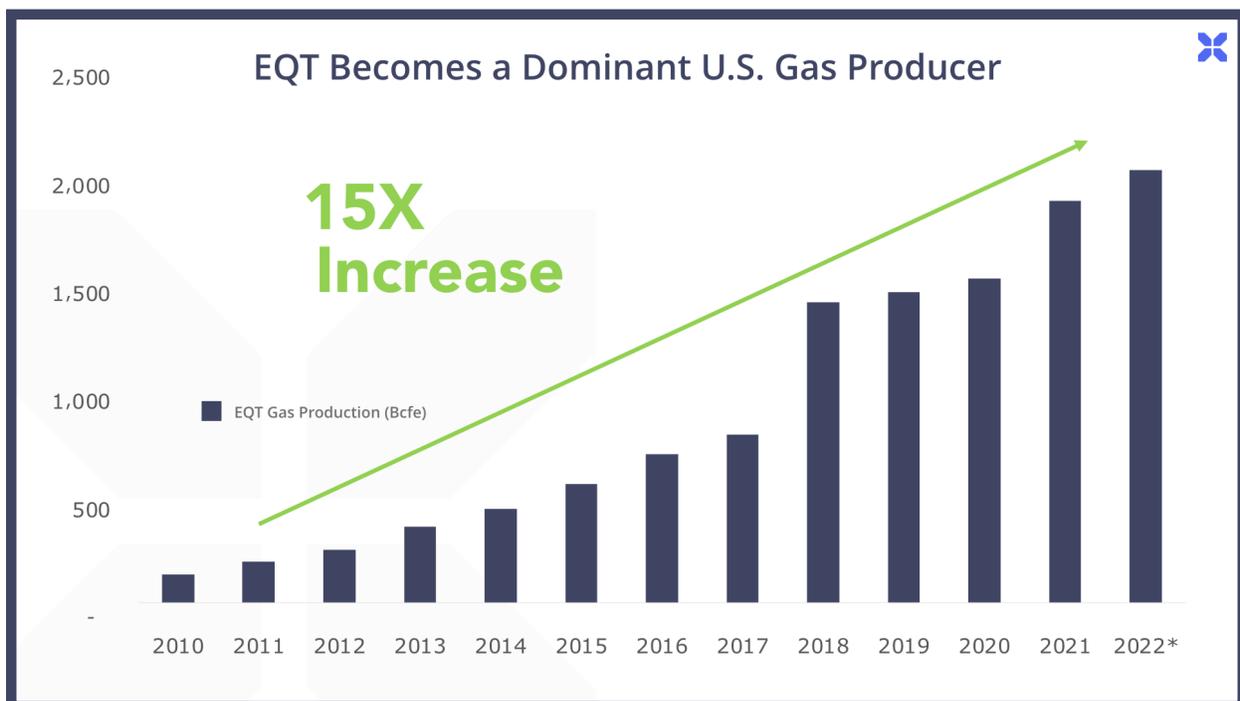
Best of all, the revolution that this company is leading will render Saudi oil much less important than it’s been in the past. Its corporate slogan ought to be “death to Saudi Arabia.”



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.



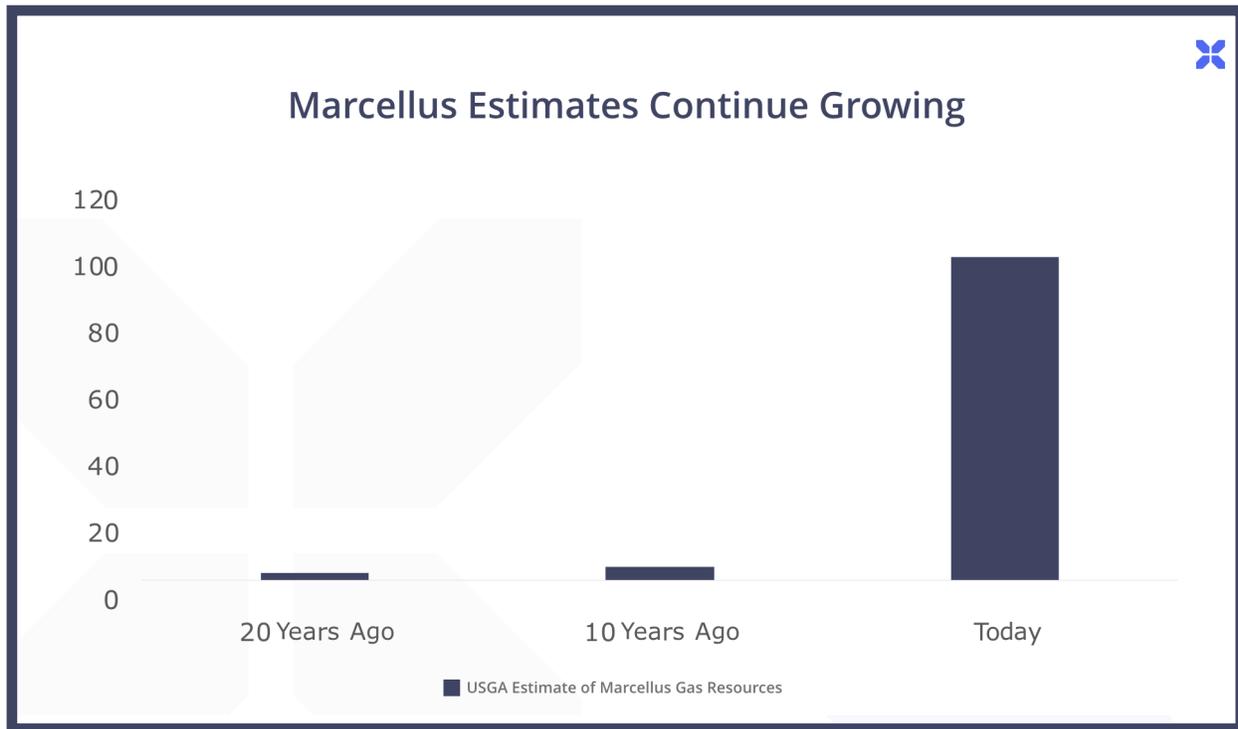
Gross profit margins more than tripled, from less than 10% to over 30%.

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 \$.19 in 2020 to positive \$.92 in 2021.

Earnings are expected to grow to \$2.70 in 2022 and to over \$6.00 in 2023.

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



In 2019, under the old regime, EQT reported free cash flow of less than \$250 million. In 2020, the Rice brothers' first year in control of the company, it virtually doubled to \$495 million.

In 2021, free cash flow grew 22% to \$607 million.

So far, in the first three quarters of 2022, EQT has returned over \$1.5B in capital to investors in the form of share buybacks (\$367 million), cash dividends (\$147 million), and debt retirement.

EQT has raised its free cash flow estimate for the full year by 50% to \$2.35 billion.

The company now expects to generate \$17 billion in cumulative free cash flow from 2022 through 2027. That's roughly the same size as its current market capitalization.

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 25 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 97 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 will reduce 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 Appalachia 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 (liquified natural gas – which we'll talk about more below).

EQT received an investment grade credit rating from both S&P and Fitch earlier this year. Moody's has signaled it will increase EQT's rating to investment grade later this year. 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 pipelines, processing plants, LNG terminals, 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. General Motors (GM) is investing \$27 billion in vehicle electrification over the next five years.

GM plans to offer 30 different electric models by 2025 and will phase out all gasoline-powered automobiles by 2035.

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.

Before the end of this year, a new super-major energy company will emerge—the first all-American corporation that can frack, refine, distribute, and deliver 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 \$400 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.

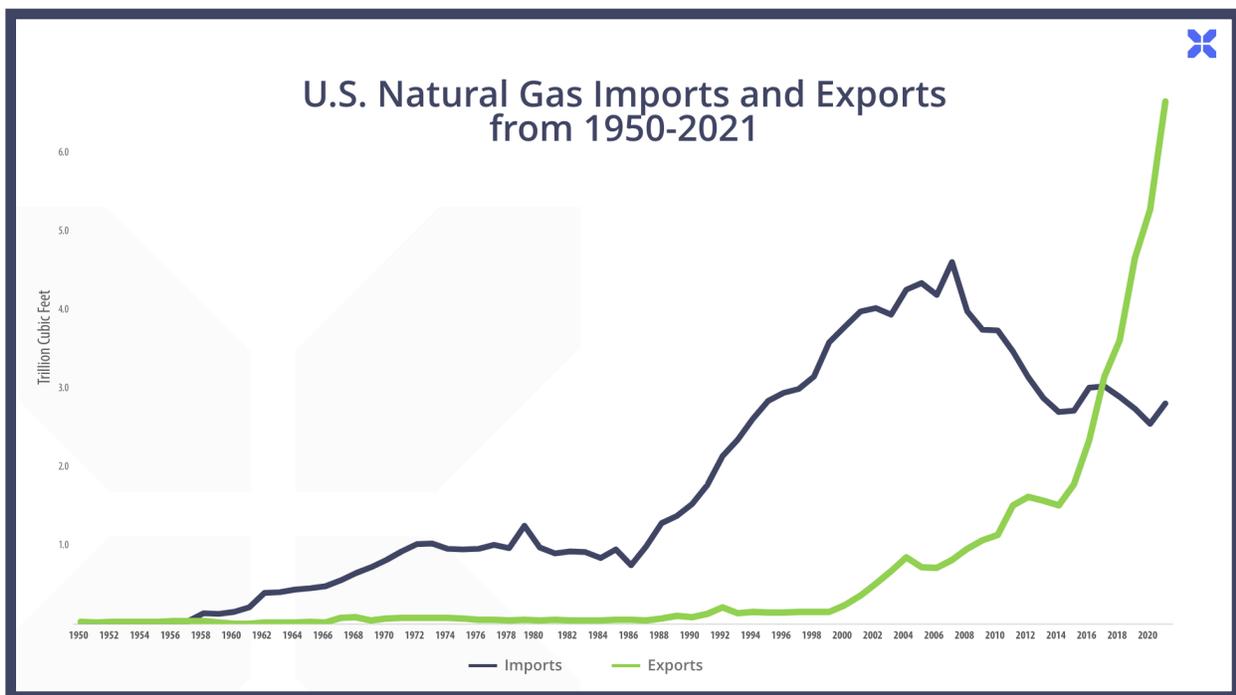


That's the kind of wealth that's coming to America.

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 – tripling from two billion cubic feet daily to over six billion cubic feet daily.



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 everyone 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," Porter 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 \$150, for a market cap today of \$35 billion!

Cheniere is the largest LNG exporter from America, filling a crucial bottleneck in global energy markets. With revenues of \$25 billion annually, the company is projected to earn about \$11 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.

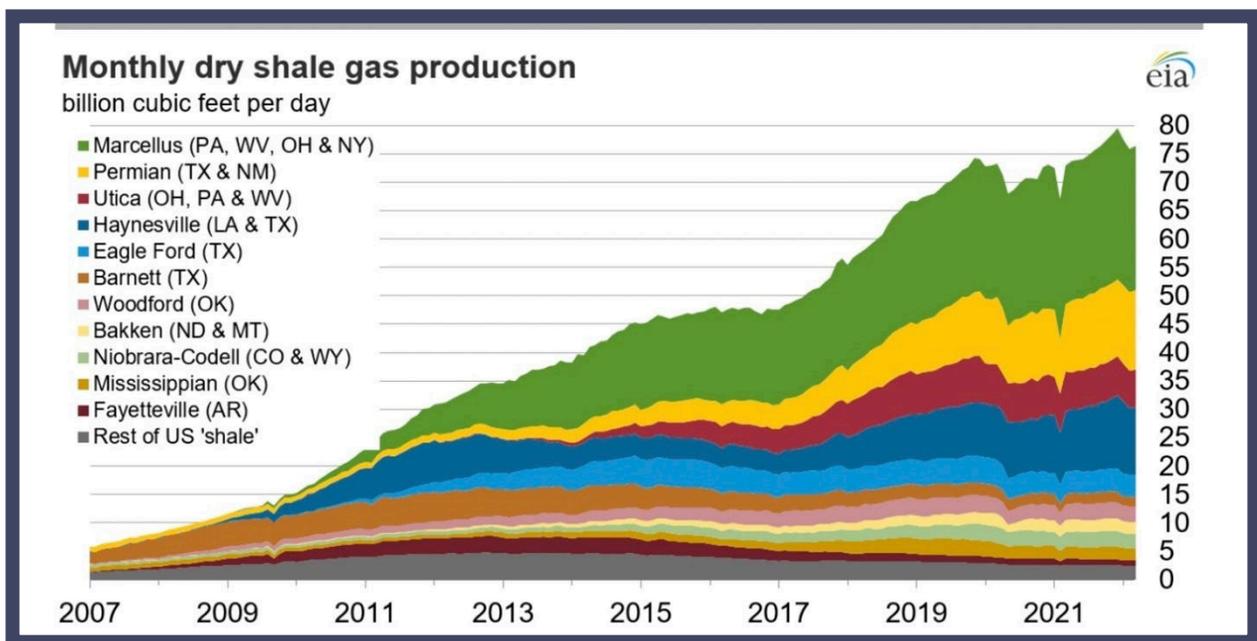
Just imagine what's going to happen when entrepreneurs as savvy as the Rice brothers get involved in LNG. Remember, the people who built Cheniere knew so little about America's natural gas assets they were going to import gas to America.

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 March 2022, U.S. LNG exports set a new daily record of 11.9 billion cubic feet, which is about 22% of the world's current demand. By July 2022, with the new Calcasieu Pass LNG export facility fully online, America has the most LNG export capacity in the world— surpassing Qatar.

But these are just baby steps. America only exported more gas via LNG than by pipeline for the first time in 2021. And so far, none of the major “frackers” have vertically integrated their gas production with their own LNG distribution networks. There's no direct link between America's giant shale gas fields and global markets – not yet.





When that happens, everything will change.

This chart by the U.S. Energy Information Administration shows why. As you can see, the fastest growing region is the Marcellus. The coming American dominance in global natural gas will be powered by producers in the Marcellus, the Permian, the Eagle Ford, and the Haynesville shales. But the Marcellus will be the biggest by far.

And who is the largest producer of natural gas in the Marcellus...? It's also the largest producer of natural gas in the United States.

We are of course talking about EQT.

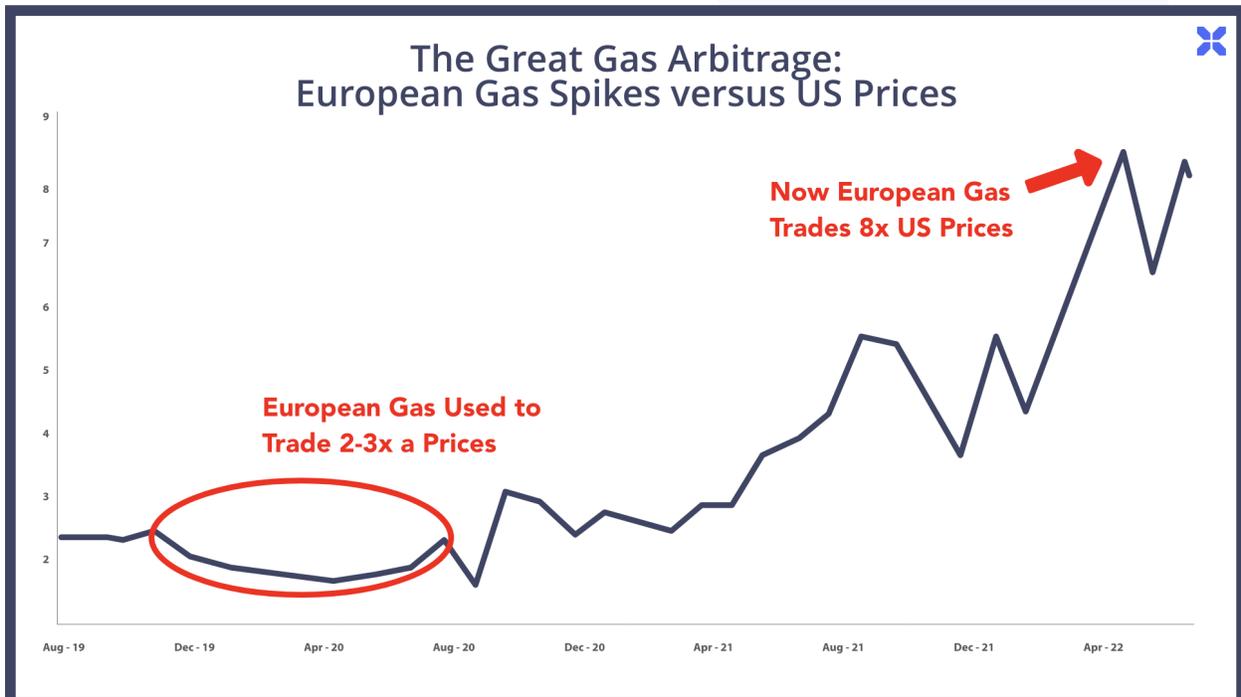
EQT grew production in 2021 by 31%. There's no question the company can supply gas to the world for decades. EQT has 25 trillion cubic feet of proven natural gas reserves and controls 2 million acres of the Marcellus, the world's richest natural gas field in America. In fact, the company's assets have 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.

Prices for natural gas have skyrocketed in Europe this year, jumping 10-fold, as trading firms expect further restrictions on Russian energy exports. Natural gas in Europe is trading around \$56/MMBtu!

Comparatively, U.S. prices, while much higher than last year (\$2.00), haven't broken \$10. In the past, European gas prices traded roughly two or three times the price of U.S. natural gas. Today, Europeans pay more than eight times the price that Americans pay. This has created a massive arbitrage opportunity for the producers and exporters of U.S. natural gas:





This enormous spread between gas prices in Europe versus America has led to a huge shift in global supply. The total number of U.S. LNG cargoes shipped to Europe (including Turkey) in the first two months of 2022 jumped to a record 164, up from 125 cargoes last year.

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 EQT's CEO Toby Rice explained in a recent 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 build pipelines and LNG infrastructure to support global distribution. 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.

Rice goes on to say:

"Our plan contemplates quadrupling U.S. LNG capacity by 2030, which we estimate would reduce international CO2 emissions by an incremental 1.1 billion tons per year. To put that in context, this is the emissions reduction equivalent to electrifying every U.S. passenger vehicle, putting solar panels on every home in America, and doubling the installed capacity of U.S. wind power generation, all combined."

Is this plan realistic? Can a regional fracker really begin to compete with the likes of Qatar and ExxonMobil to become a truly end-to-end energy company with global distribution? We think it's inevitable.

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 East Coast 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.

To validate our outlook on EQT, all we need to see is a long-term supply contract via LNG with a major foreign trading partner at a price that's well above average U.S. prices. Once that happens, investors won't think of this small regional company as merely a fracker. It will have become a "super major," – a global energy company.

And... when will that happen?

Well, according to Toby Rice, by the end of 2022:

"We are currently in discussions with LNG end users across various geographies and are contemplating equity investment opportunities in LNG export facilities. We are pursuing a portfolio approach from the perspective of liquefaction at end-to-end markets. Our goal is to have our first LNG contract signed by the end of the year." [emphasis added]

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.

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.