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Drillers Are Easing Off the Gas

In an industry not known for restraint, Appalachia's shale giants are decelerating natural-gas output as prices languish

Investors have been urging shale drillers to stop boosting natural-gas production while prices are low. Above, a shale gas-drilling rig in Washington County, Pa. PHOTO: MICHAEL RUBINKAM/ASSOCIATED PRESS

By Ryan Dezember and Stephanie Yang

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Some of the companies responsible for flooding the U.S. with natural gas are dialing back on drilling amid worries that supplies of the fuel are outpacing demand and potentially sending already depressed prices into a tailspin.

Pittsburgh-based EQT Corp. EQT -3.10% on Tuesday became the latest big gas producer to say it will spend less on drilling this year than it did last year, and that it aims to maintain its present level of output rather than increase it. Gulfport

Energy Corp. GPOR -3.06%outlined a similar strategy earlier in the month, saying it would use the cash that it saves from drilling less this year to buy back $400 million worth of its own shares.
Antero Resources Corp. AR -1.44% trimmed its 2019 drilling budget by more than 10% in response to languishing prices, a move that should translate to up to 40 fewer wells completed on its land in Ohio, Pennsylvania and West Virginia.
The announcements represent a major shift in an industry not known for tapping the brakes and follow a chorus of investors urging shale drillers to stop boosting production while prices are low.

"Growth is a disease that has plagued the space, and it needs to be cured before the sector can garner long-term investor interest," said Matthew Portillo, director of exploration and production research at Tudor, Pickering, Holt & Co., a Houston investment bank. "The industry has been under significant shareholder pressure to change the way it allocates capital."

Natural-gas prices have fallen by more than a third since heating-season highs reached in mid-November. A cold snap that left swaths of the country iced over and furnaces blasting during the recent holiday weekend did little to slow the decline. Gas futures for February delivery lost 8.8% last week, settling at $3.178 a million British thermal units on Friday.

Many analysts have forecast further declines barring an especially frigid February. It took a superlative year of demand growth, courtesy of exports and electricity generators, to absorb record U.S. gas production last year. There are doubts, though, that enough new demand will materialize this year, even with several liquefied-natural-gas export facilities slated to open over the next 12 months.

At the same time, a new pipeline scheduled to open across Texas in October will deliver much more of the gas being flared from oil wells in the Permian Basin to Gulf Coast markets. Since Permian gas is a byproduct of oil drilling, producers there are far less sensitive to the fuel's price than rivals like EQT and Antero, which drill in Appalachia and must make their numbers work with gas sales.

The growth-at-all-costs mind-set has been a hard habit to break for shale producers, who are more than a decade into a rush to stake claim to emerging drilling fields. For years shares of shale explorers have been valued mostly for their future prospects. Year-over-year production growth has been a major component of the formulas that determine executive compensation. A lot of wells are drilled with little regard for commodity prices because leases can expire from lack of drilling. Antero, Gulfport and EQT have been pestered by activist investors. Their stocks have badly underperformed the broader market in recent years. While the S&P 500 is up 16% over the last two years, each of those companies' shares have lost at least 40% of their value.

The stocks have been particularly painful investments for those who bought new shares that the companies sold following 2015's collapse in commodity prices to pay down debt and keep rigs running. Gulfport raised more than $2.1 billion selling new shares in four offerings in 2015 and 2016 at prices ranging from $21.50 to $47.75. Gulfport's shares have since declined to $8.83, wiping out billions of dollars in market value.
"This is stockholder value destruction in the starkest possible terms," Firefly Value Partners LP wrote in a note to Gulfport's board suggesting a stock buyback and other changes hours before the company announced its plan on Jan. 17. The investment firm said it owns 8.1% of Gulfport's shares.

A Gulfport spokeswoman declined to comment.

Antero and EQT each sold more than $1 billion of new stock during the slump, and those shares have lost more than half their value. They, like Gulfport, have been buying back their own stock.

Jay Rhame, chief executive of Reaves Asset Management, said he expects additional gas producers to announce their own drilling cutbacks and plans to return cash to shareholders. Yet, he hasn't been convinced to buy stock in any.

“I’m a little concerned that companies are saying one thing but actually doing another,” he said, citing a December survey of energy executives by the Federal Reserve Bank of Dallas in which 46% of respondents said their primary goal for 2019 is to increase production. “A lot of the incentive packages at these companies really favor production growth,” he said.

Other analysts contend that private investors who spent several billions of dollars last year on Appalachian drilling fields are unlikely to leave their investments idle and could offset output reductions by publicly traded rivals. New pipelines in the region have made it more attractive to drill in areas that were previously isolated from markets.

“Even if these public Northeast-focused operators scale back a little bit, we wouldn’t necessarily translate that into slower growth in the region as a whole,” said Jen Snyder, director at analytics firm RS Energy Group.

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