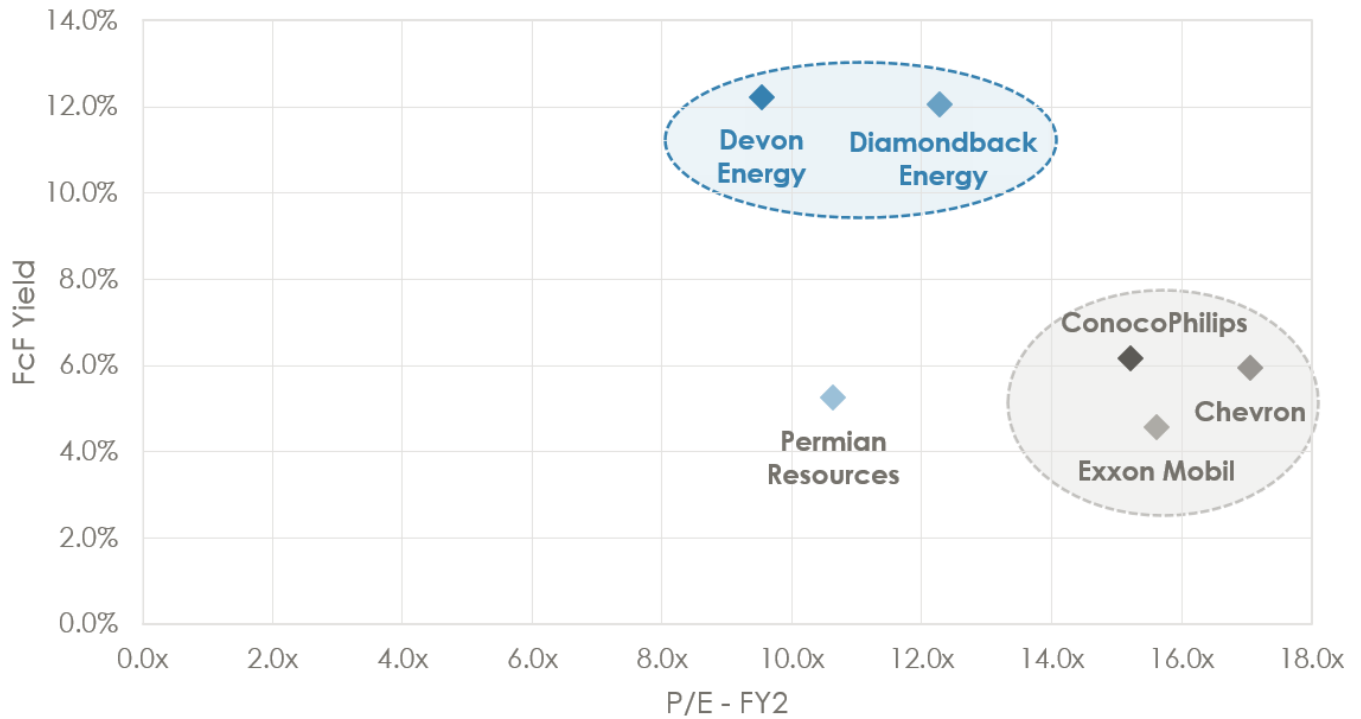


# CHART OF THE MONTH

## PERMIAN PURE-PLAYS: WHY INDEPENDENT E&PS ARE EMERGING AS STRATEGIC EQUITY ASSETS



Source : NS Partners, Bloomberg.

## PERMIAN PURE-PLAYS: WHY INDEPENDENT E&PS ARE EMERGING AS STRATEGIC EQUITY ASSETS

Recent instability in the Middle East has once again reminded energy markets that not all oil barrels carry the same value. When nearly one-fifth of global seaborne crude flows through the Strait of Hormuz, even a limited disruption can rapidly lift the geopolitical premium embedded in oil prices. In that environment, investors are increasingly forced to distinguish between oil producers exposed to geopolitical uncertainty and those positioned far from it.

That shift in perception directly benefits the Permian Basin.

Stretching across West Texas and southeastern New Mexico, the Permian has become the most important oil-producing region in the United States, accounting for roughly 45% of total U.S. crude production and more than 40% of domestic proved reserves. Producing close to 6 million barrels per day, the basin now rivals major OPEC nations in scale while offering something many international producers cannot: political security, rapid development cycles, and low-cost supply.

The strategic appeal of the Permian lies in the quality of its barrels. These are politically secure barrels, located well outside maritime chokepoints, with breakeven prices often in the low \$30–40 per barrel range. Unlike offshore or conventional megaprojects that require years of development, shale wells in the Permian can be drilled and brought online in a matter of months. That gives operators an embedded option on higher oil prices: if crude remains elevated, production can be adjusted quickly without committing to long-cycle capital spending.

For equity investors, however, the most compelling opportunity may not be in the integrated majors, but in the independent pure-play producers.

Large integrated companies such as Exxon and Chevron use the Permian as part of a broader corporate system, where upstream production often serves downstream refining and chemical operations. That diversification provides stability, but it also dampens direct exposure to rising crude prices.

Independent operators such as Diamondback Energy, Permian Resources or Devon Energy offer a different proposition. Without downstream hedges, they retain much greater sensitivity to commodity prices, allowing shareholders to participate more directly in oil price upside. In periods of geopolitical disruption, that operating leverage can translate into disproportionately stronger cash flow.

Importantly, today's Permian independents are no longer the aggressive shale producers of the last decade. The industry has undergone a structural transformation. Where companies once pursued production growth at any cost, management teams now prioritize return on capital at almost any oil price. Instead of reinvesting every dollar into drilling, many producers now focus on maintaining production while directing excess free cash flow toward base dividends, variable dividends, share repurchases, and debt reduction.

This shift has fundamentally changed the investment profile of the sector.

Rather than behaving like speculative growth companies, leading Permian independents increasingly resemble disciplined cash-return businesses. Even at oil prices near \$70–80 per barrel,

many can generate attractive free cash flow yields while still maintaining modest production growth. The result is an equity class that can deliver income, inflation protection, and commodity upside simultaneously.

Yet despite this improvement, valuations remain undemanding. Independent Permian E&Ps continue to trade at a substantial discount to the broader equity market and often at lower multiples than the integrated majors. Investors are effectively paying less for businesses that now have stronger balance sheets, better capital discipline, and a more shareholder-friendly approach than at any point in the shale era.

That valuation disconnect suggests the market may still be pricing these companies as old-cycle commodity producers rather than recognizing their evolution into strategic energy assets.

The broader macro backdrop only strengthens the case. In a world defined by persistent inflation, geopolitical fragmentation, and supply insecurity, low-cost domestic oil producers can provide a natural hedge against many of the risks affecting traditional equity portfolios. Their earnings are tied less to consumer demand or technology spending and more to the physical value of energy itself.

In that sense, independent Permian producers are no longer simply oil stocks. They are increasingly becoming hard-asset equities—businesses that combine real asset exposure with disciplined capital allocation.

For investors seeking exposure to rising geopolitical risk without taking direct commodity ownership, the best Permian independents may offer one of the more compelling opportunities in global energy today. In a market where security of supply is becoming as valuable as the commodity itself, the most attractive barrels may be the ones located furthest from conflict—and the equities most exposed to them may still be undervalued.

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