Summary & Transcript

Leo Nelissen

1. Strategic Actions and Decisions

- **Leverage structural land and water bottlenecks:** Prioritize investments in Permian Basin landholders like LandBridge that capture high-margin royalties from produced water management. [**05:17**]
- **Monetize power-adjacent acreage for AI expansion:** Capitalize on Texas land assets for data centers to benefit from cheap natural gas and avoid high capex burdens. [**08:52**]
- **Prepare for headline-driven market volatility:** Maintain a long-term position in high-conviction assets while using short-term dips from AI sentiment shifts as buying opportunities. [**14:10**]
- **Target high-EBITDA catalysts for stock re-rating:** Monitor data center deal announcements as key proof-of-concept events that can drive rapid valuation expansion. [**14:36**]
- **Utilize Midstream cash flows for portfolio stability:** Allocate to infrastructure assets like Antero Midstream to capture reliable total returns and steady buybacks. [**20:07**]

2. Executive Summary

This session evaluates high-conviction infrastructure and land investment strategies in the Permian Basin, focusing on LandBridge and Antero Midstream. Analyst Leo Nelissen highlights LandBridge's unique model, which avoids capital-intensive drilling to generate an 80% free cash flow margin by owning land and controlling critical water rights. The discussion details how produced water bottlenecks and rising AI data center energy demands serve as key long-term growth drivers. Evaluating valuation metrics and risks, Nelissen outlines how strategic land management creates high pricing power, offering strong upside potential despite short-term market volatility.

3. Key Takeaways and Practical Lessons

1. Land Ownership Beats Heavy Capital Expenditure:

Land-based royalty models capture steady cash flows while insulating investors from operational capex risks.

- Focus portfolio allocations on asset-light business models with minimal capital expenditure requirements to protect operating margins.

2. Water Infrastructure Is the Primary Energy Bottleneck:

Rising toxic water production in the Permian Basin creates severe operational constraints for oil producers.

- Invest in companies that control essential waste management rights and disposal infrastructure rather than pure commodity extractors.

3. Texas Land Offers Alternative AI and Data Exposure:

Cheap natural gas and ready land make West Texas a prime market for future data center and industrial expansion.

- Acquire land and infrastructure rights adjacent to energy nodes to capture secondary upside from tech expansion without absorbing tech-hardware capex.

4. Valuation Multiples Shift Rapidly on Proof-of-Concept:

Single major commercial agreements can trigger immediate market re-ratings for landholders.

- Establish positions in undervalued land assets before official tenant announcements to capture maximum upside during market re-evaluations.

5. Midstream Assets Provide Downside Protection:

Midstream infrastructure offers consistent cash flow and share buybacks without direct energy price speculation.

- Balance high-growth speculative positions with midstream cash-flow generators to build total return stability into volatile portfolios.

Transcript

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George Noble: Leo, how are you, my friend? Good to see you.

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Leo Nelissen: I'm fine. How are you? Thank you very much for having me.

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George Noble: Excellent. I'm really looking forward to this session. You were great at our last conference, we'll talk about Antero later, but,

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George Noble: you always have interesting ideas, and this time, you know, we're not income-constrained, no holds barred. So, what you got for us today?

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Leo Nelissen: Well, we are… thank God we are not income-constrained, because the pick I have yields less than 1%, but it's an… it's an absolutely phenomenal company, that's my biggest holding, in fact. It's account for 16, depends a little bit on how it trades, but 16-70% of my

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Leo Nelissen: entire portfolio. It's a company I found out a few years ago when I… Wait, wait.

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George Noble: wait, 16% of your portfolio? Oh, wow. You've got conviction in this one, alright.

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Leo Nelissen: Yes, 100%.

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George Noble: Bring it, bring it, we want to hear what this idea is, bring it.

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Leo Nelissen: Yeah, I found out about it a few years ago when I looked into the equity yield curve. That's a fascinating concept that Maurice Stahl, who sadly passed away a few months ago, came up with, which is entirely focused on the stupidity of the market.

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Leo Nelissen: Like, I will not bore you with bonds, but the bond yield curve is basically based on the longer I tie up my money in bonds, the more return I want. So, very simple.

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Leo Nelissen: And in stocks, it's similar. It basically says, in the short term, the market is hyper-efficient. And in the long term, well, people tend to behave irrationally. And, I mean, we see it everywhere. In media, everyone is focused on AI, data sense, everyone's talking about NVIDIA,

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Leo Nelissen: and micron, and whatnot. And most people forget the longer term, like, they don't use… look into energy usage, and look into bottlenecks, and look into trade, or you name it. And that's where opportunities arise, when you look into…

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Leo Nelissen: What will the next 5, 6, 7 years look like if I just ignore this noise? And the funny thing is, because everyone is so hyper-focused on the short term, that includes financial media, like CNBC, Bloomberg, you name it.

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Leo Nelissen: And hedge fund managers all depend on next year's bonus, and it's all short-term noise. You'll find some terrific companies.

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Leo Nelissen: And Landbridge perfectly embodies that for me personally, and it's not only because it's an energy company, but it brings together energy, water, and even data centers. So, LandBridge is a company that owns

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Leo Nelissen: slightly more than 300,000 acres in the Permian Basin. And if you're not familiar with the Permian Basin, that's the number one oil and gas basin in the United States. And it's also the… it was the number one supply engine over the past 20 years.

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Leo Nelissen: Because the only reason energy was so cheap before the pandemic is because the US produced so much energy. And they did it because they are geniuses when it comes to

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Leo Nelissen: shale production. So, I mean, if there is oil, the US will find it. In every crack, they drill it, they find ways.

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Leo Nelissen: One issue with that is that the more you produce, the more pressure it puts on prices, which is why energy was… in general, the energy trade was such a mess before the pandemic.

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Leo Nelissen: And that has changed. Since then, even the Permian Basin has almost flatlined in recent years, so the energy supply engine is… I won't say dead, but in the US, it's very… it has flatlined.

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Leo Nelissen: Meanwhile, demand has grown, we have all these issues in Iran that I expect to last, and even without Iran, I'm very bullish on energy prices.

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Leo Nelissen: But the thing is, Landbridge doesn't produce any oil and any gas. They just own the land.

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Leo Nelissen: And they do it in partnerships with companies like WaterBridge, which is also a public company, and they just allow drillers like ExxonMobil to go onto their land, drill for oil, and pay royalty. So, they have an 80% cash flow margin on revenue. So, from every dollar in revenue…

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George Noble: Wait, wait, wait, wait.

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Leo Nelissen: you're saying.

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George Noble: 80%. Oh, by the way, is this similar to… and the stock I do know is TPL, Texas Pacific Lines?

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Leo Nelissen: It's similar, it's…

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George Noble: Okay, alright, alright.

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Leo Nelissen: By the way, if you add text-specific, my total exposure rises to more than 30%.

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Leo Nelissen: So, so I'm the… I owe…

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George Noble: Alright, so you're eating, you're cooking, I got it, go on.

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Leo Nelissen: Yes, and that's exactly.

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George Noble: I mean, as I say, you're talking your book. Alright, go ahead.

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Leo Nelissen: Oh, yes, yes, very high conviction. And so, literally every…

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Leo Nelissen: Every dollar turns into 80 cents of free cash flow, because they don't…

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Leo Nelissen: They don't have drilling cars, they don't build pipelines, they just say, okay, we have the land, you need the land, you can use it, but we want the royalty. And so… but that's not the only thing, like, energy… oil and gas royalties account for less than 10% of the company's total revenue.

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Leo Nelissen: The overwhelming majority comes from surface, surface, and water rights. Because whenever you drill somewhere, you need infrastructure, you need pipelines, you need roads, you need…

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Leo Nelissen: You need materials. All that comes from land bridge land, so they make money on that as well.

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Leo Nelissen: And they focus on the water business, because initially, they were founded

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Leo Nelissen: Simply to manage the land that WaterBridge uses. And WaterBridge uses a lot of land, because

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Leo Nelissen: The water issue is the single biggest bottleneck in American energy, and you don't hear a lot about it, because most people don't understand it, and they have no idea why it's so important.

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Leo Nelissen: And the thing is, the Permian Basin itself has enough oil for decades and decades of high production, so that's not at all an issue. But the water is the issue. In many areas, especially where Landbridge operates.

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Leo Nelissen: Every barrel of oil comes with up to 7, 8, 9 barrels of produced water, and that is toxic water.

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Leo Nelissen: 10 years, even when the shale production, revolution started, there wasn't an issue. They were just pumping it back into the ground. It was cheap, it cost, like, 10 cents a barrel to get rid of water. So…

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Leo Nelissen: no big deal. But in recent years, it has changed a lot, because producers need to drill way, way deeper, because they're running out of the best reserves, so they need to drill much deeper, which requires more water.

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Leo Nelissen: more fresh water, but also it produces more produced water, more toxic water. And the volumes are so high that we are about to face, like, 20 million barrels of produced water in Permian alone. And that's, like, 4 to 5 times the total oil output in that area.

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George Noble: Wait, hold on, hold on. So you've got all this water coming out, and it's toxic, so what do you do with it?

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Leo Nelissen: Yes. Yeah, so there are two options. The easiest one is to just pump it back into the ground, but you can't do it because of seismic pressures, and you just need to bring it, what they call, out of basin, and land bridge has a lot of…

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Leo Nelissen: land around the New Mexico-Texas border. And there's a lot of drilling activity going on in New Mexico, but regulations make it nearly impossible to pump the water back into the ground in New Mexico.

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Leo Nelissen: And even Texas has the issue that they technically can, but there is just too much pressure, so the water needs to go somewhere. And water bridge has the pipelines, and land bridge has the land. So, land bridge…

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Leo Nelissen: has a lot of available pore space, where they can, for many, for decades to come, just pump it. They bring it out of basin, pump it into land bridge ground, done deal, they collect royalties on every barrel. Yes.

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George Noble: By the way, is this water so toxic?

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George Noble: you can't purify it, it's not worth doing it. I mean.

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Leo Nelissen: Yes, that's.

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George Noble: There's a water shortage, can you, can you get the crap out of the water?

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Leo Nelissen: Yes, that's the second point. They are now looking into… I mean, tech-specific, which you just briefly mentioned, is working on plans to clean this water. They have very small models right now, and they want to scale it big time. And LandPage doesn't do it, because they only have the land.

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Leo Nelissen: But WaterBridge is working on it, and that requires massive infrastructure, all on land bridge land. And that water, they will clean it because the oil companies need it, so they clean it and then pump it back for the fracking process.

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Leo Nelissen: But they also want to use the water for other purposes, and that's the different angle. So we have the water business that I'm

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Leo Nelissen: very, very bullish on, because it's the single biggest bottleneck in an energy crisis, and it's getting worse. So, I wanted landfish a few years ago only because of the world. I didn't care about anything else. But that's changing, you now get different layers.

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Leo Nelissen: Landbridge has something called powered LANs.

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Leo Nelissen: And their CEO and founder has been very, very open about this. They know that they have basically barren land. I mean, nobody's going to live in the Permian Basin on these spots.

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Leo Nelissen: But it's great for other purposes, so they…

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Leo Nelissen: from day one, they knew they wanted to go after data centers, and in general, I'm very careful when it comes to data centers, because we all know about the valuations of NVIDIA, Micron, and these companies. I'm not a big fan of taking a data center risk, where I know that

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Leo Nelissen: CapEx comes down, that my stock is going to crash. But landbridge is different, because…

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Leo Nelissen: they know that data centers need to come to West Texas, because the demand for data centers is so high, and it's overwhelming the infrastructure. You have in places like

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Leo Nelissen: Virginia, which has always been and still is number one for data centers, we have wait times of up to 7, 8, 9 years, because they don't have the power, they don't have the infrastructure, and you get local opposition, because nobody wants a data center in their backyard.

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Leo Nelissen: And these issues are getting so severe that more and more data centers are locating

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Leo Nelissen: being located in Texas, because in Texas, you have very cheap energy. You have the cheapest natural gas in the US, and the US already, in general, has very cheap natural gas compared to Europe and other places, China, Asia. But in Texas, it's… in some areas, it's free. It's even negatively priced, because they produce so much oil, there's so much…

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Leo Nelissen: co-produce natural gas, they just need to get rid of it, so it's… it's free gas for these companies.

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Leo Nelissen: and they have water, which they need for thermal power, like nuclear, coal, and other purposes. They need… they all need water. It's the same… it's the same way of creating energy, except the input is different, like, whether it's, you know, nuclear, coal, or whatever.

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Leo Nelissen: So you need water, and you need cooling water for data centers. And that's… cooling water is an issue as well, because water is getting scarce, and Texas has all of these things. So, Landbridge doesn't… I need to be very clear, Landbridge doesn't have a data center deal right now. Neither has,

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Leo Nelissen: Texas-specific land, but both are in very…

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Leo Nelissen: very far in discussions, because they know they have the land, and what Tech Specific is doing with the deal with Chevron and Microsoft, they just deliver the water, and they get a fee on these volumes, as well as on the land usage.

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Leo Nelissen: And that's exactly what I want as an investor. I want data center exposure, but I don't want to deal with the capex. I don't want to be the guy who invests in a company that owns a data center and eventually gets killed because they will overbuild data centers in the next few years. It's going to happen, like, with every real estate thing ever.

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Leo Nelissen: But it just where everyone jumped on the train and then figured out they built too much.

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Leo Nelissen: I just want high… high-income, high-margin royalties. That's exactly what Tech Specific is doing.

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Leo Nelissen: The only… and to get back to the valuation.

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Leo Nelissen: it's very tricky to value a company that really doesn't produce anything. And it gets a lot… whenever I bring up LandBridge with my friends and other…

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Leo Nelissen: So subscribers, they always say, isn't it too expensive? And, I mean, people have used this argument for text-specific, it's PFO for decades.

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Leo Nelissen: And it's a tricky thing, because this is a company that doesn't, as I said, doesn't have capex, at least almost nothing. So, everything they generate

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Leo Nelissen: ends up in shareholder pockets, and even if they use it to reduce debt, they have a 2.2 leverage ratio, so it's a very, very, very healthy balance sheet. But whatever they do with the cash should benefit shareholders, unless they just waste it on something.

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Leo Nelissen: And the interesting thing is, my models show that even in a bear case.

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Leo Nelissen: Where oil product… where oil prices remain low, let's just say oil remains in the 70s, where water production remains flat. And it won't happen because… because, you know, the way these basins work, the water production will go up.

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Leo Nelissen: Even then, I see…

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Leo Nelissen: roughly $360 million in EBITDA by 2031, and that's even below street estimates. And if you value it at 20 times EBITDA,

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Leo Nelissen: you get, like, an 87% stock price, and while I'm talking, that's, like, a 30% premium. So that's my bear case. I mean, below bear case is a situation where management becomes corrupt, or they just mess something up. Hope you see every stock can go to zero.

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George Noble: Right, so, so yeah, if the data center trade, you know, goes out, probably goes into the data center trade, anything related to data center trade is gonna hit probably this. The valuation is not cheap, but it's a unique asset, and it fits your Halo framework, so you've got a lot of pricing power, and looking at, not on the very short one, but looking at the further you look out.

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George Noble: the further you look at it, the higher your conviction is on this idea, but so you've laid out the risks. So what do you think is the upside here?

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Leo Nelissen: Yes, the upside is pretty big. Even if I just use Wall Street estimates, they think it's roughly $460 million in EBITDA by 2031.

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Leo Nelissen: If you apply a 28x multiple, and a 28x multiple is still below what TechSpecific used to trade at, which is its peer, you get, like, I think, a double. And it always sounds sketchy when I say an easy double, or just a snake salesman, but I think this company can…

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Leo Nelissen: Easily double within the next few years.

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Leo Nelissen: on the base case loans, so on water, oil prices holding up, water increasing, and they don't… they don't need a single data center for this. But George made a great point. It's if, let's just say, there was a scenario where headlines hit, let's say, the hyperscalers are dialing back CapEx.

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Leo Nelissen: Then, because LandPage is considered a potential beneficiary, you would probably see, like, 25… I'm just making something about a bigger decline in the short term, just because of these headlines, people getting out.

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Leo Nelissen: But from a valuation point of view, that's very buyable. So I would… even at these prices, if they never get a data center, I'm a buyer on any weakness.

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Leo Nelissen: And the bulk case.

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Leo Nelissen: If they get a data center, they are… I think they're very close to getting a 2GW data center.

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Leo Nelissen: at least an announcement. I mean, building it takes, like, one or two years. They could make… my estimates are $150 to $200 million in analyzed EBITDA. If you add that one.

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Leo Nelissen: you get a higher multiple as well, because then you get proof of concept. I think it trades at a multiple of slightly higher than 30 times, which is still defendable, because TechSpecific has had this valuation for a long time.

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Leo Nelissen: You get 260, 270 per share. That's something I think is very, very reasonable, if they get a data center. And it would be just a start, because 2 gigawatts is proof of concept.

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Leo Nelissen: That would validate my thesis, get more money in, and it would finally, end the bearish argument that Landbridge is all talk, no action when it comes to data centers. So any announcement on that end would…

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Leo Nelissen: caused the stock to re-rate high and very, very rapidly.

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Leo Nelissen: And then you have the blue sky, the blue sky argument. I think, when you talk multiple decades, like one or two or three decades, you will see that this talk benefits not only from energy, from data centers, but also from

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Leo Nelissen: AI-related economic reassuring, because the US hasn't seen an increase in industrial production

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Leo Nelissen: for more than two decades, you will see dark factories, and I've spoken to people in Texas about this.

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Leo Nelissen: They know the US is going to build dark factories like China, and they need power. They don't need employees, sorry, so you don't need a dark factory, as much as it pains to… I mean, I like it when factories employ people, but this is just, you know, the way it is.

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Leo Nelissen: They don't need a lot of employees, they need power, they need remote land, they need cost-efficient operations, so they will do it.

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Leo Nelissen: a lot in West Texas. They have railroad connections, they have fast internet, we have the data… they will buy… they will produce… they will build huge industrial clusters in West Texas, and, you know, as I said, this is not something over the next… you will see over the next 5-6 years, but over the next 10 to 20 years, I'm convinced you will see

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Leo Nelissen: Another layer to this bowl case, which is available land because of AI.

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Leo Nelissen: Supported, that's all.

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George Noble: Okay, so Leo, blue sky this.

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Leo Nelissen: Yeah.

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George Noble: What's the upside, say, over 1 year, 5 years? Not 1 month, 1 week, but looking at a year, five years, where's the stock price now? Put some lipstick on this big blue sky. Where could this go?

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Leo Nelissen: It's slightly below 80 right now. I think…

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Leo Nelissen: if they get proof of concept on the data centers over the next 12 months, I think it could be earlier. And when I say proof of concept, it means an announcement. Building it takes time. I think they double, very, very easily. So that's, I think… I always say, I think at 150 there still.

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Leo Nelissen: 150 is a great valuation if they don't ever talk about data centers again. So, 150 to 200 over the next 2 to 3 years is something I think is reasonable.

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Leo Nelissen: With the major risk being…

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Leo Nelissen: a steep recession, oil crashes for some reason, because if oil crashes to, like, 50 or 40, it won't be sustainable, but then the markets will say, like, okay, the Permian Basin is dead. I mean, they said it last year, too, and now land pressure's up 70%. That's the bearish argument, and also because the float is relatively low.

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Leo Nelissen: Because, the company itself,

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Leo Nelissen: the main shares own so much. It's very volatile stock, so… doesn't matter how bullish I am, I always need to add. People, this is very volatile, like, 20-25%.

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Leo Nelissen: the corrections within a few weeks are normal. It always bounced back, and I think it goes much higher, but don't buy this if you're not used to, like, cyclical stocks, and stick to blue chips, but I'm very, very bullish on this name.

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George Noble: So this is an investment, this is not a trade. Sounds really interesting, and I like the…

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George Noble: I like the fact… I mean, you're investing, you're not trading, and this sounds like the beauty of this idea is it could go forever. I mean, it's a relatively new idea, it's only been public a few years. TPL, though.

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George Noble: which is not a household name, and which doesn't screen very well, because they own the royalties, they own all the stuff. That's been, like, one of the biggest wealth creators, like, in the stock market. It's been unbelievable.

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Leo Nelissen: 100%.

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George Noble: So the quants won't pick it up, because the PE, and the price to book, and all that stuff, but that's been a home run stock, and so it sounds like this is kind of similar to TPL, no?

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Leo Nelissen: Yes, it's a baby TPL, with the one exception. TPL makes, like, 50% of its money from oil and gas royalties. Land bridge, less than… I think the number right now is exactly 7%, so they are much more focused on water. And as you just briefly mentioned, at some point, you will have this flywheel.

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Leo Nelissen: You will, when you bring on data sets, you have so much free cash flow. Like, they will invest some of it in land,

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Leo Nelissen: But they don't know where to put it, so they will buy back stock. They already started, they announced their first buyback. They hiked the dividends by, I think the number was 20%, and it's still less than 1%, but this is the start. People need to understand, this is a company that just went public a few years ago.

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George Noble: Wow, this is awesome. Alright, quickly, because I only have a couple minutes left here. Yes.

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George Noble: you mentioned Antero, last time we were on, the last conference. It's done okay, it's up a little bit, plus you clip a coupon. Again, it's more of a steady itty, but…

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George Noble: Just update the folks on Ontario, just real quickly. What are you thinking on Ontaro?

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Leo Nelissen: Yeah, yeah, so a few months.

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George Noble: And by the way, it's AM at Terra Midstream. Okay, go ahead.

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Leo Nelissen: Yes. It's Antero Midstream, the stock I mentioned a few months ago. It's not Antero Resources, which is the partner. Antero Midstream doesn't produce natural gas.

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Leo Nelissen: It owns the pipelines and the processing facilities used by Ontario Resources. They yield 4%, which is… nobody buys a Medium company because it yields 4%.

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Leo Nelissen: But they have an implied fee cash flow yield of almost 10% over the next few years, and they already started buying back stock, they almost hit all of their debt targets, even after,

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Leo Nelissen: acquisitions. This is the company which I own as well, and I'm not an income investor by any means, but it's… this company I think is going to be a total return star for the next few years. Not like NVIDIA,

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Leo Nelissen: But you'll have an income that is growing steadily at some point after they are done doing buybacks, and…

[00:20:26.750]

Leo Nelissen: It's just a terrific company, I think. If you want energy upside, pricing upside, you buy Intel Resource or some other producer, but this is a great mix for any portfolio that wants some peace of mind, no BS,

[00:20:40.320]

Leo Nelissen: buy bags that are going to be massively accelerated, and just a company that just needs it. You know, it's one of the most important companies in the region.

[00:20:49.660]

George Noble: Awesome. Leo, finally, you're very prolific.

[00:20:55.180]

George Noble: on Seeking Alpha, and it's Main Street Alpha. Can you just tell folks a little bit about what you do on Seeking Alpha, and where can folks find you?

[00:21:02.740]

Leo Nelissen: Yes, thank you very much, yeah. I run Main Street Alpha, which is a service on Seeking Alpha, so when you Google it, Seeking Alpha, Main Street Alpha, you will find my service, where we have daily articles, we do basically what we just did in this call, we go really into depth on these

[00:21:18.960]

Leo Nelissen: investment opportunities, we do income opportunities for retirees, but everything to the big picture lens, like what I like to call big picture investing. We care about

[00:21:29.110]

Leo Nelissen: what's going on in the market, how can we benefit from it, what are the pitfalls that we need to avoid? And we just covered the entire spectrum. I have a great colleague, Albert Marco, hedge fund advisor, and…

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Leo Nelissen: we have some of the greatest people, and the content… we also, and that's the funny thing, we have the highest, on the entire platform, the highest conversion of trial to paid, so people really like it, yes. And almost nobody cancels, so that's,

[00:21:53.960]

George Noble: Wow.

[00:21:54.310]

Leo Nelissen: proof for this, obviously, I'm just throwing it out right now, but it'.

[00:21:56.340]

George Noble: Alright, alright.

[00:21:58.410]

George Noble: That's awesome.

[00:21:59.470]

George Noble: Leo, this is great. Thanks so much for taking the time,

[00:22:04.260]

George Noble: Everyone give Leo a look on Seeking Alpha, and look forward to doing this again. Thank you so much, Leo.

[00:22:10.720]

Leo Nelissen: Thank you very much, George. Always a pleasure to be, invited. Thank you.