



WHERE ENERGY AND AI CONVERGE

On the road in Texas*

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Key takeaways

- Texas is benefiting from a mutually reinforcing relationship between energy producers and technology companies
- EOG's strong balance sheet and low-cost base support resilience and free cash flow in volatile markets
- Suppliers of wafers, gases and inspection tools are clustering around Texas, reinforcing Texas Instruments' scale

Scale, migration and momentum

If Texas was a country, it would have the eighth largest economy in the world, ahead of Canada, Italy and Russia. This is just one of several indicators of the state's current momentum. The Dallas-Fort Worth area alone has attracted more corporate headquarters relocations than any other US metro area since 2018, including high-profile moves by CBRE, Hewlett Packard, Oracle and Tesla. This reflects the region's business-friendly environment, lower costs, favourable tax regime and access to a large, skilled workforce. This same combination of factors has also supported robust population growth, with Texas adding more than half a million residents in 2024 – the largest increase of any US state – driven primarily by inward migration. Together, these dynamics help explain the state's current economic and technological trajectory.

During a recent research trip to the state, we witnessed first-hand how this momentum is being translated into investment, particularly through the expansion of data centre infrastructure to support the growing demand for artificial intelligence (AI). Established energy producers are extending their role beyond traditional supply, while technology companies are increasingly drawn to Texas by the availability of large-scale, reliable power and supportive infrastructure.

Over two weeks, we met with 18 companies and undertook a number of site visits, including to Tesla's Gigafactory in Texas. In our conversations with management teams, one theme kept coming through clearly. Demand related to digital

*and Plaquemine, Louisiana

infrastructure is developing more rapidly than many had anticipated, underpinned by the state's combination of scale, energy capacity and a policy environment conducive to investment. These factors remain difficult to replicate elsewhere in the US.

Disciplined energy supply at scale

Energy remains central to the Texas story. Despite the recent focus on data centres and infrastructure build-out, we continued to prioritise engagement with energy companies, given the sector's enduring importance to the state's economy. The timing of the trip provided additional context given the conflict in the Middle East and unsettled oil supply.

Of the companies we met with, EOG Resources stood out. It is a US oil and gas producer with a long-standing focus on shale exploration and development. Our conversation with Chief Operating Officer, Jeff Leitzell, reinforced our positive assessment of the company's relatively straightforward business model as well as the depth and consistency of its technical and operational expertise.

Management noted that geopolitical developments, including the situation in Iran, are being closely monitored. One of EOG's strengths is its strong balance sheet and low-cost structure, enabling it to navigate commodity price volatility and capture incremental free cash flow in higher price environments. This positions the company well relative to peers.

We believe that one of EOG's most compelling attributes is the resilience of its corporate culture. Under founder and former Chairman and Chief Executive Officer Mark Papa, the company developed a decentralised operating model in which each asset functions as a self-contained technical hub. Expertise and experience are shared rapidly across the organisation, supported by a high degree of trust and accountability. This structure, combined with minimal bureaucracy and a comparatively small workforce of around 3,400 employees, allows EOG to operate with greater agility than many of its larger peers. Although Mr Papa has retired from the business, the current management team has deep organisational experience. CEO Ezra Jacob and COO Leitzell bring more than 20 and 18 years of experience at the company respectively.

Extending beyond energy

The availability of abundant, reliable energy is only one part of the current investment story in Texas. Looking beyond energy producers, we met with several companies positioned to benefit from the knock-on effects of the current infrastructure build out.

The first of these was Texas Instruments (TI), which designs and manufactures analogue and embedded semiconductors. We met with CEO Haviv Ilan, followed by an impressive tour of its fabrication plant (where semiconductors are made). Ilan described how previous reliance on a small number of large wireless customers, including Nokia and BlackBerry, shaped the group's emphasis on diversification. Over the years, TI has evolved to sell a wide range of specialised chips, each small in value per device but deeply embedded in customer designs, making them hard to displace.

As the name suggests, the company has a long history with the Lone Star state, founded there in 1951. On the current regional momentum, Ilan pointed to the development of a broader semiconductor ecosystem around TI's sites, including suppliers of wafers, gases and measurement and inspection tools. All evidence that scale really does matter. He also highlighted that the region offers access to low-cost renewable power and secure water supply, both of which are essential for operating large-scale semiconductor facilities. More widely, Ilan suggested that TI's customers increasingly value US-based supply, whether for tariff resilience, political risk mitigation or operational continuity.

We left the TI visit with a positive impression of a disciplined management team deeply committed to the long term and impressively clear on the structural economics of its chosen markets.

Materials underpinning infrastructure

Shin-Etsu Chemical is a related but distinct case. The Japanese company supplies critical semiconductor materials – such as silicon wafers – that are structurally embedded in the AI supply chain, playing an important role in enabling AI compute to scale. However, it is also the world's largest polyvinyl chloride (PVC) manufacturer, with its North American operating arm, Shintech, making up three-quarters of its production capacity. PVC is integral to large-scale infrastructure projects such as data centres.

We visited Shintech's Plaquemine PVC facility, one of the largest globally. We were hosted by the site's operations manager, who has decades of industry experience. A key takeaway was the longevity and depth of Shin Etsu's commitment to the region.

The business's competitive position appears to be driven less by any single decision and more by the cumulative effect of multiple operating advantages – including deep vertical integration, disciplined maintenance practices, resilient infrastructure, prudent commercial behaviour, and a willingness to invest through the cycle. By way of example, Shintech has assembled a substantial land bank surrounding the site, providing capacity for potential development over many decades. More recently, it has secured access to a nearby salt dome, a critical raw material input, with an estimated resource life extending into the mid 22nd century.

In the near term, Shintech's competitive position is further strengthened as their other key input, natural gas, remains abundant and cheap in the US. The Henry Hub benchmark, the main US natural gas price, has dropped since the start of the Iran war. This places the company in a stronger position, with the conflict impacting global liquefied natural gas supply and availability, compared to peers.

From enablers to end demand

Having met with the likes of TI and Shintech, a visit to Tesla's Texas headquarters illustrated how this demand for AI and data centres is manifesting at scale. With more than 10 million square feet of factory floor, about three times the size of the Pentagon, it is the second biggest factory in the US, having only begun construction in 2021. As one of our team noted: "the complex is mind-numbingly vast and expanding beyond belief... If one returns in two years, the place will be unrecognisable, as new facilities will have come onstream, such as Cortex 2, its data centre. It shows what one can do when designing a car plant with a blank sheet of paper rather than decades of legacy processes."

On our visit, we heard a lot about Tesla's shift from a capital-intensive hardware model towards a software and services-led business. The existing automotive and energy base remains important for cash flow and for building a growing fleet that generates data. This underpins future revenues from full self-driving, robotaxi networks and other services.

According to the company, the larger opportunity lies beyond traditional manufacturing, in robotaxi and Optimus (Tesla's humanoid robot), where software, AI and fleet utilisation drive economics. Heavy investment is accelerating this transition, with spending focused on AI compute, robotics and vertically integrated platforms that support a data-rich, software-enabled ecosystem. However, there is no doubt that the Austin factory is a factory, and one of the most advanced, highly automated in the world.

It is always worth following Tesla which, despite its size, still manages to feel like an innovative startup. However, in our opinion, uncertainties remain, including the competitive landscape, near term cash requirements and the volatility of its leadership and, ultimately, execution.

A dynamic innovation landscape

Alongside the company meetings, we also attended the SXSW Innovation Conference in Austin which focuses on developments in technology, business and culture. It was particularly insightful to speak to engineers, designers and others involved in implementing change. There were also entrepreneurs networking and pitching their startups. Unsurprisingly, AI was the dominant topic. To illustrate the array of topics covered, session titles included "How to think when machines think faster", "When AI shops for you", "The last human at the FDA: AI on a skeleton crew" and "The future of genetic medicine". Just as valuable as the scheduled presentations and discussions was the opportunity to meet fellow attendees from around the world, all with different backgrounds.

Momentum grounded in fundamentals

Beyond the headline indicators of Texas's growth, our discussions and site visits pointed to the depth and quality underpinning this trajectory. Across sectors, companies are responding to the same underlying forces highlighted at the outset – scale, population growth and access to reliable energy – by investing in capacity, infrastructure and technology.

At the same time, the breadth of innovation within the state's start up ecosystem, reflected at the SXSW conference, reinforces the extent to which these dynamics are supporting both established businesses and new entrants. Taken together, these observations suggest that the current momentum is not only visible in headline data but is also deeply embedded across the state's industrial and technological landscape.

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