

August 2021

## 18 Months after the Pandemic Started, Where Do Top U.S. Oil and Gas Companies Stand?



*2020 was a hard year for everyone. But with the vaccines rolling out and the economy opening up, we thought it would be a good time to look at how the top U.S. oil and gas companies are doing these days.*

**SPOILER ALERT** Oil and Gas companies are doing just fine. More reason to end taxpayer subsidies for the industry.

During the second quarter of 2021, the top 20 U.S. oil and gas exploration and production (E&P) companies, measured by market capitalization, reported combined profits of \$10.5 billion. These same companies reported profits of \$13.0 billion during the first quarter of this year. So far, the largest oil and gas drillers have earned \$1 billion more in the first six months of 2021 than at the same point in 2019, before the pandemic began. ExxonMobil, the largest U.S. E&P firm, recorded a \$4.7 billion profit during the second quarter of 2021, bringing its yearly earnings to \$7.4 billion.

After getting hit by the demand shock brought on by the pandemic, the oil and gas sector managed to post above-estimate earnings in 2021, largely due to increasing oil and gas prices that have risen beyond pre-pandemic levels. The average oil price of \$66.19 in Q2 2021 was 137% above the average oil price of \$27.96 in Q2 2020. In total, the Energy sector reported earnings of \$14.9 billion for Q2 2021 compared to a

loss of -\$10.6 billion in Q2 2020, an increase of \$25.5 billion.<sup>1</sup> More specifically, the two oil giants, Exxon Mobil and Chevron combined, account for the lion's share of the entire energy sector recovery—\$17.32 billion of the \$25.5 billion year-over-year improvement in earnings.

Net income (Loss) Attributable to the Company (in \$millions)										
	2021		2020				2019			
Company	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Exxon Mobil	4,690	2,730	(20,070)	(680)	(1,080)	(610)	5,690	3,170	3,130	2,350
Chevron	3,280	1,377	(665)	(207)	(8,270)	3,599	(6,610)	2,580	4,305	2,649
ConocoPhillips	2,091	982	(772)	(450)	260	(1,739)	720	3,056	1,580	1,833
EOG Resources	907	677	337	(42)	(909)	10	637	615	848	635
Pioneer Natural Resources	380	(70)	43	(85)	(449)	291	361	231	(169)	350
Hess	(73)	252	(102)	(243)	(320)	(2,433)	(222)	(212)	(6)	32
Occidental Petroleum	(97)	(146)	(1,312)	(3,778)	(8,353)	(2,232)	(1,339)	(912)	635	631
Devon Energy	256	213	(102)	(92)	(670)	(1,816)	(642)	109	495	(317)
Diamondback Energy	311	220	(739)	(1,113)	(2,393)	(272)	(487)	368	349	10
Continental Resources	289	260	(92)	(79)	(239)	(186)	194	158	237	187
Marathon Oil	16	97	(338)	(317)	(750)	(46)	(20)	165	161	174
Apache	316	388	10	(4)	(386)	(4,480)	(2,976)	(170)	(360)	(47)
Cimarex Energy	113	128	25	(293)	(925)	(774)	(384)	124	109	26
Ovintiv	(205)	309	(614)	(1,521)	(4,383)	421	(6)	149	336	(245)
Cabot Oil & Gas	31	126	131	(15)	30	54	147	90	181	263
Chesapeake Energy	(439)	5,678	(416)	(745)	(276)	(8,297)	(324)	(61)	98	(21)
Antero Resources	(523)	(15)	70	(536)	(463)	(339)	(482)	(879)	42	979
Southwestern Energy	(609)	80	(92)	(593)	(880)	(1,547)	110	49	138	594
Range Resources	(156)	27	38	(749)	(168)	166	(1,805)	(28)	115	1
Murphy Oil	(63)	(287)	(172)	(244)	(317)	(416)	(72)	1,089	92	40

Thanks to rosy market conditions and rising oil prices, most of the top 20 market cap oil and gas companies were able to rake in profits and recover from the demand shock. However, the recovery is not consistent across the board because of poor financial decisions. Profits for 2021 would be even higher if some of the top U.S. drillers managed their business portfolios better - several lost hundreds of millions of dollars betting on financial derivatives.

Derivatives are a type of financial contract that allows companies to secure certain purchase or sale prices ahead of time. In this case, some companies locked in sale prices at \$40 or \$50 per barrel, hedging against the possibility of a nother price crash. But as oil prices rose beyond \$60 per barrel, these contracts cost the companies hundreds of millions of dollars, at least on paper. For example, Southwestern Energy lost \$871 million on derivatives in the second quarter of 2021, driving the company's net loss of \$609 million. Ovintiv lost \$799 million on derivatives, resulting in a net loss of \$205 million. Chesapeake Energy, fresh out of bankruptcy, reported a loss of \$740 million on derivatives and a net loss of \$439 million overall.

It is important to note that some of these losses are only on paper. For example, a company enters an option contract that gives other parties the right to buy oil at a certain price, say \$40/barrel because the

<sup>1</sup>[https://www.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight\\_073021A.pdf](https://www.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_073021A.pdf)

company wants insurance against another price crash. When the oil price increases past \$40/barrel and the company has to fulfill its contract, it is losing out on potential upside income, making the value of the contract negative. The changes in the face value of the option are recorded as either income or loss, known as fair value accounting, and therefore do not reflect the actual income or loss generated by the sale of oil after subtracting production costs.

Hedging strategies vary from company to company, however, and not all companies missed out on the upswing in oil prices. Continental Resources, for example, held a very different position in oil derivatives compared to companies mentioned above, managed to reap the full benefits of soaring oil prices, and reported \$1.28 billion in revenue from oil and gas sales. Other oil and gas companies managed to report strong earnings despite some losses. EOG Resources, Pioneer Natural Resources, and Continental Resources all hit their best quarterly earnings result since Q1 2019. Devon Energy's net income of \$256 million was its best since Q3 2019. Other oil giants like ConocoPhillips, Diamondback Energy, etc. posted above-estimate earnings that are on par with pre-pandemic results.

Most importantly, almost all the top oil and gas E&P companies posted twice the amount of revenue from oil and gas sales compared to the same period in 2020. And companies are already doing all they can to maximize their shareholders' returns. Occidental earned a net income of \$103 million which it then passed on to preferred shareholders through \$200 million in preferred stock dividends, netting them a \$97 million loss for the second quarter. Chevron announced it will resume stock buybacks between \$2 billion to \$3 billion per year.<sup>2</sup> A company may have different motives for buying back their stock, like investing in itself, improving its financial ratios, or increasing/inflating its stock prices. However, the bottom line is that stock buybacks seek to maximize returns for a company's investors, essentially diverting cash away from other possible uses like R&D, creating jobs, or other investments that expand the business.

### **The Oil and Gas Outlook – Prices and Production**

On the demand side, world oil demand increased by 12 million barrels per day (mb/d) from 82.9 mb/d in Q2 2020 to 94.9 mb/d in Q2 2021, according to the International Energy Agency (IEA)<sup>3</sup>. Throughout all of June and July 2021, spot prices for oil hovered just above \$70 per barrel, a level seen only for a few months in 2018 after the market realignment in late 2014. The Henry Hub spot price for natural gas meanwhile reached \$4 per million British thermal units in July 2021 for just the 10<sup>th</sup> week in the last six years.

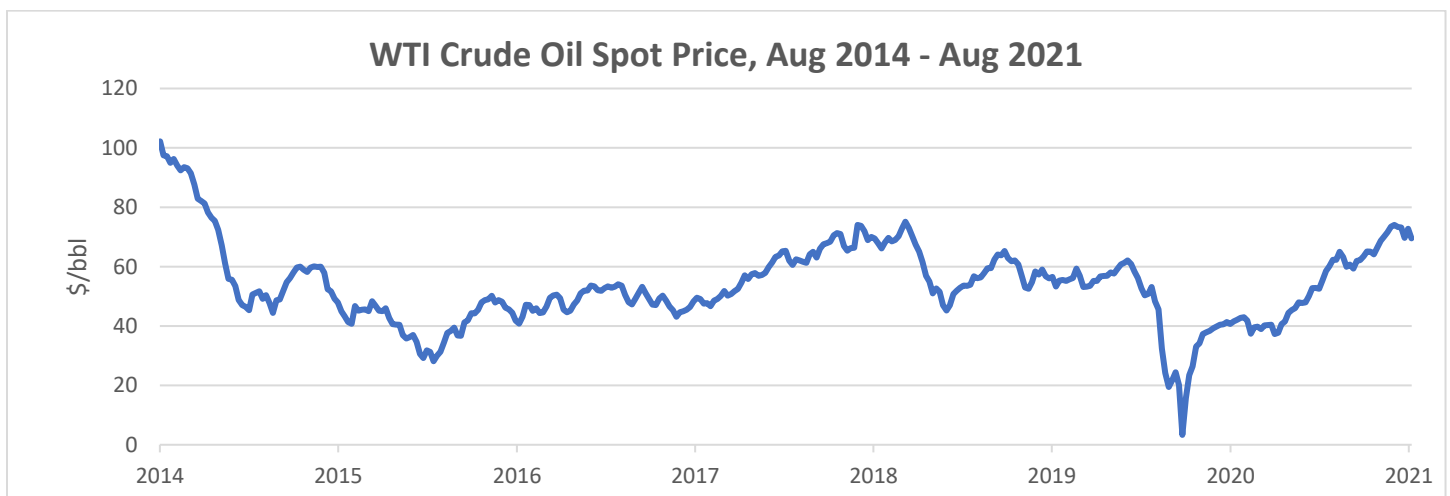


Figure 1 Source: EIA Weekly Spot Prices [https://www.eia.gov/dnav/pet/pet\\_pri\\_spt\\_s1\\_w.htm](https://www.eia.gov/dnav/pet/pet_pri_spt_s1_w.htm)

<sup>2</sup> <https://www.bloomberg.com/news/articles/2021-07-30/chevron-revives-buyback-with-3-billion-pledge-after-oil-rebound>

<sup>3</sup> [https://iea.blob.core.windows.net/assets/1fa45234-bac5-4d89-a532-768960f99d07/Oil\\_2021-PDF.pdf](https://iea.blob.core.windows.net/assets/1fa45234-bac5-4d89-a532-768960f99d07/Oil_2021-PDF.pdf)

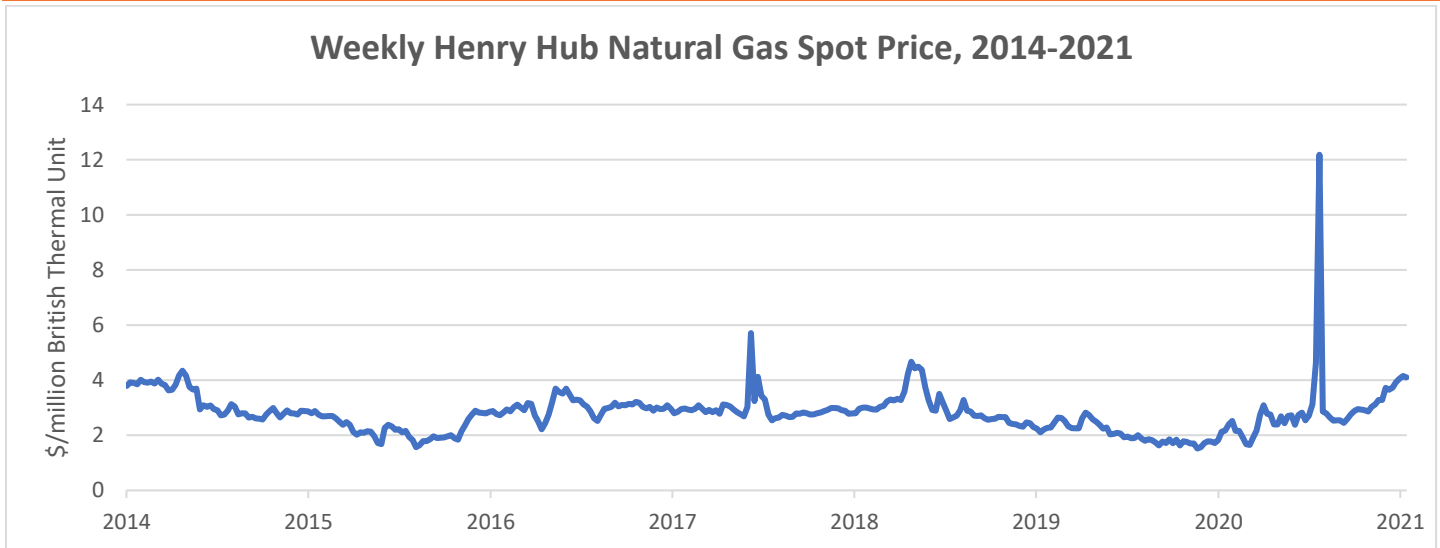


Figure 2 Source: Henry Hub Natural Gas Spot Price <http://www.eia.gov/dnav/ng/hist/rngwhhdw.htm>

Production has followed suit. U.S. production of oil and gas is ticking up toward its pre-pandemic levels and companies are drilling new wells again. U.S. drillers produced 11.2 million barrels of oil per day at the end of July 2021, off from the historic peaks of January 2020, but a recovery of 15% from the lowest point last year. Oil production is set to rise further with more than twice as many rigs drilling new oil wells now than at the same time last year. U.S. natural gas production has fully returned to its historic levels.

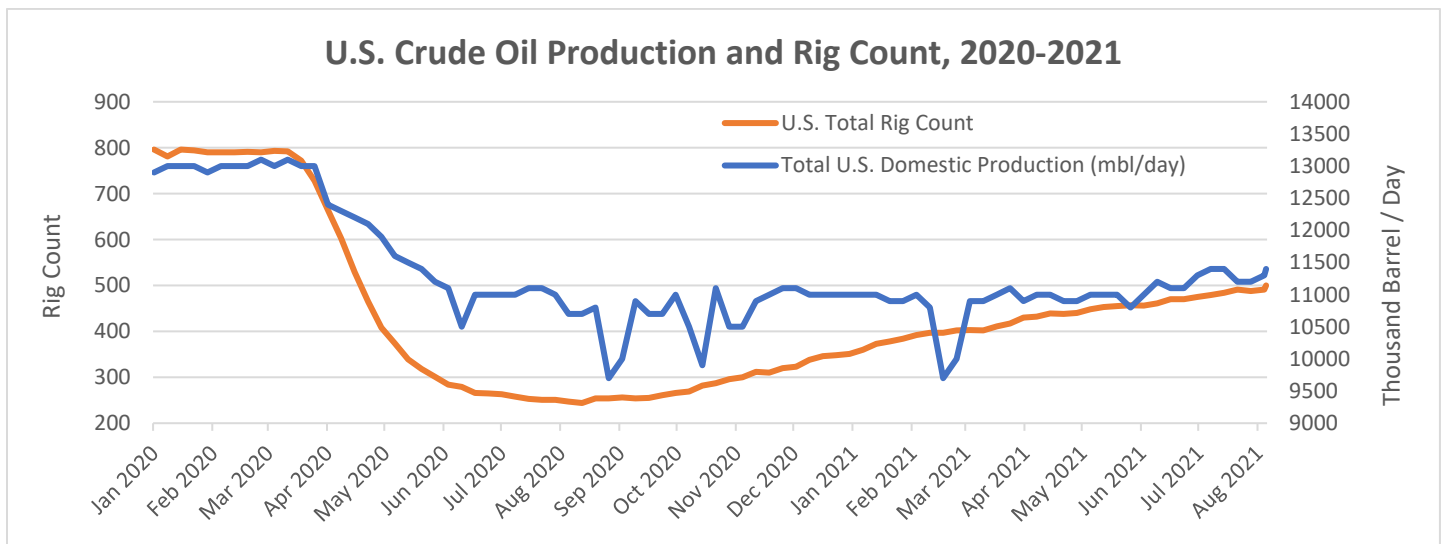


Figure 3 Source: U.S. Crude Oil Production (EIA) [http://www.eia.gov/dnav/pet/pet\\_sum\\_sndw\\_dcus\\_nus\\_w.htm](http://www.eia.gov/dnav/pet/pet_sum_sndw_dcus_nus_w.htm)  
U.S. Rig Count (Baker Hughes) <https://rigcount.bakerhughes.com/na-rig-count>

In general, with the economy opening up and oil prices soaring, oil and gas companies are booming businesses once again. Different hedging strategies prevented some companies from reaping the full benefits of rising commodity prices, but companies are solely responsible for their own risk management decisions. Top U.S. companies have mostly swung back from the pandemic demand shock and are highly mature and profitable businesses that should be able to stand on their own feet. For that to happen, it's time to stop the oil and gas industry from pocketing more than \$4.8 billion per year in subsidies, paid for by taxpayers.