TAXPAYERS for COMMON SENSE

O&G REPORT

November 2021

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

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We previously examined the Q2 earnings results of top 20 U.S. oil and gas companies and found they have swung back from the pandemic thanks to soaring oil and gas prices. With Q3 results announced, it's time to revisit the recovery path of these companies.

SPOILER ALERT- Oil and Gas companies are cashing in on soaring oil and gas prices and posting record high profits above pre-pandemic levels.

During the third quarter of 2021, the top 20 U.S. oil and gas exploration and production (E&P) companies, ranked by market capitalization, reported **combined profits of $17 billion**, an 67% increase over Q2 2021. Compared to Q3 2020, the oil and gas companies' net income improved by $29 billion. ExxonMobil, the largest U.S. E&P firm, recorded a $6.75 billion profit during the third quarter of 2021, its strongest result since 2017.[1] Chevron, the seconded largest U.S. E&P company, reported $6.1 billion in profits, its highest quarterly result in eight years.[2]

[1] https://www.reuters.com/business/energy/exxon-mobil-posts-highest-quarterly-profit-nearly-four-years-2021-10-29/

[2] https://www.reuters.com/business/energy/chevron-posts-highest-profit-eight-years-surging-oil-gas-prices-2021-10-29/

During the first three quarters of 2021, these companies brought in $40.2 billion in net income. Over the same period in 2020, these companies reported combined net losses of $64 billion. Compared to the first three quarters of 2019, or before the pandemic started, top oil and gas companies raked in $8.2 billion more in profits in 2021. Soaring oil and gas prices that brought in strong revenues in Q2 continued to surge over the last three months, contributing to even stronger Q3 earnings for oil and gas companies.

Net Income (Loss) Attributable to the Company ($, millions)

	2021			2020				2019			
Company	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Exxon Mobil	$6,750	$4,690	$2,730	($20,070)	($680)	($1,080)	($610)	$5,690	$3,170	$3,130	$2,350
Chevron	$6,111	$3,280	$1,377	($665)	($207)	($8,270)	$3,599	($6,610)	$2,580	$4,305	$2,649
ConocoPhillips	$2,379	$2,091	$982	($772)	($450)	$260	($1,739)	$720	$3,056	$1,580	$1,833
EOG Resources	$1,095	$907	$677	$337	($42)	($909)	$10	$637	$615	$848	$635
Pioneer Natural Resources	$1,045	$380	($70)	$43	($85)	($449)	$291	$361	$231	($169)	$350
Occidental Petroleum	$628	($97)	($146)	($1,312)	($3,778)	($8,353)	($2,232)	($1,339)	($912)	$635	$631
Devon Energy	$838	$256	$213	($102)	($92)	($670)	($1,816)	($642)	$109	$495	($317)
Hess	$115	($73)	$252	($102)	($243)	($320)	($2,433)	($222)	($212)	($6)	$32
Diamondback Energy	$649	$311	$220	($739)	($1,113)	($2,393)	($272)	($487)	$368	$349	$10
Continental Resources	$369	$289	$260	($92)	($79)	($239)	($186)	$194	$158	$237	$187
Coterra Energy (formed by merger of: Cabot Oil & Gas	$63	$31	$126	$131	($15)	$30	$54	$147	$90	$181	$263
Cimarex Energy)		$113	$128	$25	($293)	($925)	($774)	($384)	$124	$109	$26
Marathon Oil	$184	$16	$97	($338)	($317)	($750)	($46)	($20)	$165	$161	$174
Apache	($113)	$316	$388	$10	($4)	($386)	($4,480)	($2,976)	($170)	($360)	($47)
Ovintiv	($72)	($205)	$309	($614)	($1,521)	($4,383)	$421	($6)	$149	$336	($245)
Chesapeake Energy	($345)	($439)	$5,678	($416)	($745)	($276)	($8,297)	($324)	($61)	$98	($21)
Antero Resources	($549)	($523)	($15)	$70	($536)	($463)	($339)	($482)	($879)	$42	$979
Range Resources	($350)	($156)	$27	$38	($749)	($168)	$166	($1,805)	($28)	$115	$1
Southwestern Energy	($1,857)	($609)	$80	($92)	($593)	($880)	($1,547)	$110	$49	$138	$594
Murphy Oil	$108	($63)	($287)	($172)	($244)	($317)	($416)	($72)	$1,089	$92	$40
SM Energy	$86	($223)	($251)	($165)	($98)	($89)	($412)	($102)	$42	$50	($178)
Total	**$17,134**	**$10,291**	**$12,774**	**($24,997)**	**($11,884)**	**($31,031)**	**($21,058)**	**($7,613)**	**$9,734**	**$12,367**	**$9,947**

In Q2 2021, we noted that some top U.S. drillers missed out on rising oil and gas prices due to hedging. In Q3, some companies once again recorded net losses from derivatives because they locked into lower oil prices, thus missing the upside of the recent price surge. Derivatives are a type of financial contract that allow 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 another price crash. But as oil prices rose beyond $70 or ever $80 per barrel, these contracts cost the companies hundreds of millions of dollars, at least on paper.

For example, a company might enter an option contract that gives other parties the right to buy oil at a certain price, say $40/barrel, because the company wants insurance against another price crash. When the oil price increases past $40/barrel and the company has to fulfill its contract, it loses 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.

Q3 Losses from Derivates and Other Sources for Select Companies
($, millions)

Company	Net (Loss) Attributable to the Company	Loss from Derivatives/Other
Apache	($113)	($446)
Ovintiv	($72)	($950)
Chesapeake Energy	($345)	($910)
Antero Resources	($549)	($1,251)
Range Resources	($350)	($652)
Southwestern Energy	($1,857)	($2,399)

Chesapeake Energy lost $910 million on derivatives in Q3. Antero Resources recorded $1.251 billion in derivative losses, and Southwestern Energy reported $2.4 billion in derivative losses. Apart from derivative losses, Apache Corporation recorded a loss of $446 million to cover retirement obligations for Gulf of Mexico properties it previously sold, resulting in a net loss of $113 million in Q3.

Despite some companies betting the wrong way with derivatives, the group as a whole took advantage of the upswing in oil prices to post increased earnings in Q3. Compared to Q2, ExxonMobil increased its profits by 40% and Chevron almost doubled its profits. Pioneer Natural Resources and Devon Energy tripled their net income from Q2 to Q3 because of increased revenue from rising oil prices and lesser losses from derivatives. Other top companies like ConocoPhillips, EOG Resources, Occidental Petroleum, Diamondback Energy, Marathon Oil, etc. posted more stellar results than Q2 2021. Coterra Energy, formed by the merger of Cabot Oil & Gas and Cimarex Energy, reported $63 million in net income.

The Race to Buy Back Shares

Enabled by strong cash flows in Q3, the group of top oil and gas producers are racing to buy back their shares. Chevron, for example, reported its highest free cash flow on record in Q3 [3] and is now aiming to increase the $2-$3 billion per year buyback program it announced in Q2.[4] Exxon Mobil had enough free cash flow to pay down debt and increase quarterly dividends. The company also pledged to spend as much as $10 billion on its stock buyback program next year. Devon Energy announced a $1 billion share buyback program, or 4% of its market capitalization through the end of 2022. EOG resources updated its share repurchase authorization to $5 billion. Pioneer Natural Resources authorized a new repurchase program of up to $300 million, or 6% of its market capitalization.

A company may have different motives for buying back their stock, like investing, 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.

Prices and Production Continue to Increase

The International Energy Agency (IEA) reported that world oil demand had increased by 12 million barrels per day (mb/d) in just a year, from 82.9 mb/d in Q2 2020 to 94.9 mb/d in Q2 2020.[5] In November, , the agency estimated that global demand will continue to expand in 2022 and reach 99.6 mb/d, above pre-pandemic levels.[6] Spot prices for oil continued to rise and hovered above $80

[3] https://www.cnbc.com/2021/10/29/chevron-cvx-exxon-xom-earnings-q3-2021.html
[4] https://www.bloomberg.com/news/articles/2021-07-30/chevron-revives-buyback-with-3-billion-pledge-after-oil-rebound
[5] https://iea.blob.core.windows.net/assets/1fa45234-bac5-4d89-a532-768960f99d07/Oil_2021-PDF.pdf
[6] https://www.iea.org/events/oil-market-report-november-2021

per barrel in October, reaching a 7-year high, a level almost on par with prices before the market realignment in late 2014. The Henry Hub spot price for natural gas also rose beyond $5 per million British thermal units in September 2021.

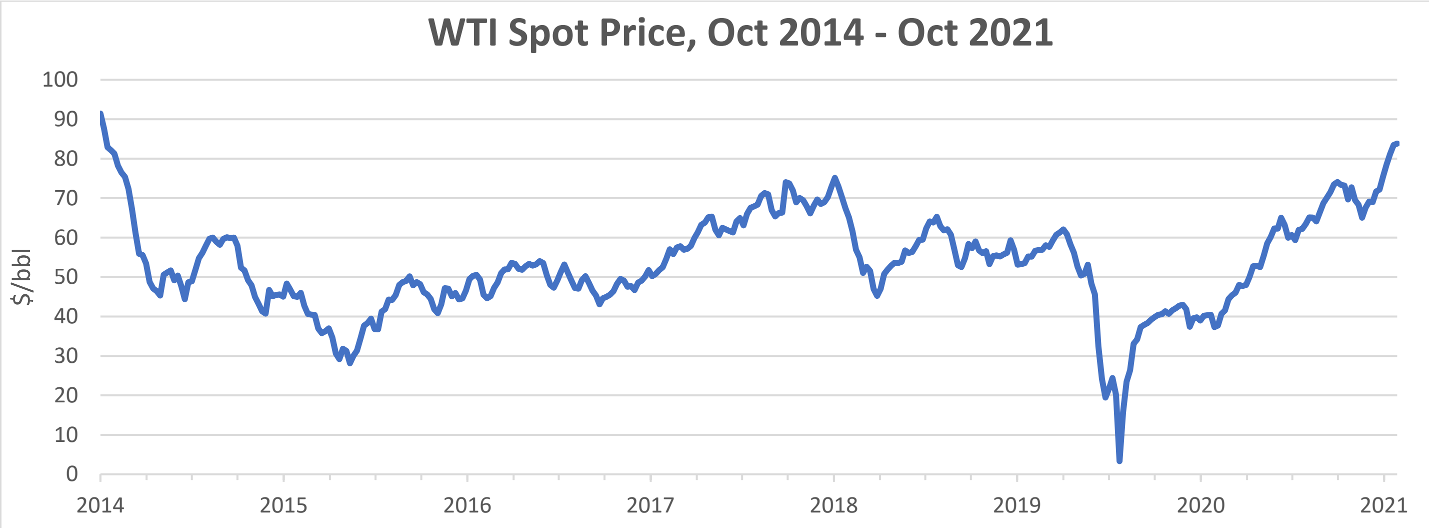

Figure 1 Source: EIA Weekly Spot Prices https://www.eia.gov/dnav/pet/pet_pri_spt_s1_w.htm

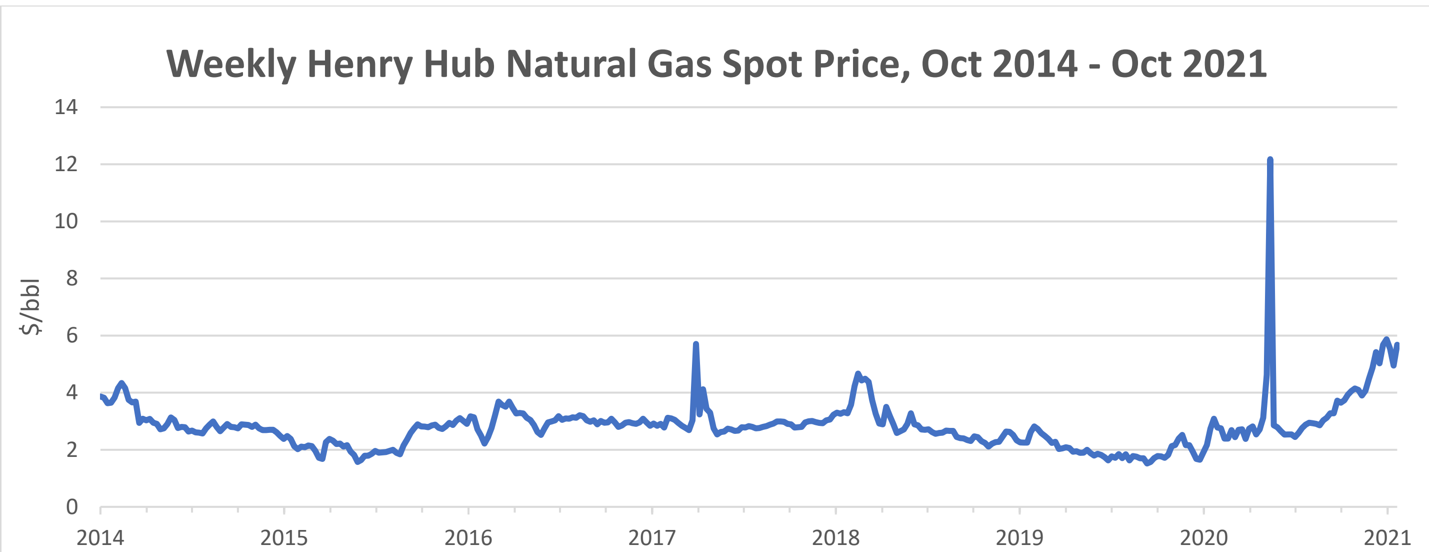

Figure 2 Source: Henry Hub Natural Gas Spot Price http://www.eia.gov/dnav/ng/hist/rngwhhdw.htm

U.S. total rig count rose in Q3 2021 as oil and gas companies continue to drill new wells. The 550 rigs in the field at the start of November 2021 represented an 83% increase from the year prior. U.S. drillers produced 11.5 million barrels of oil per day at the end of October 2021, steadily recovering from the lowest point in 2020.

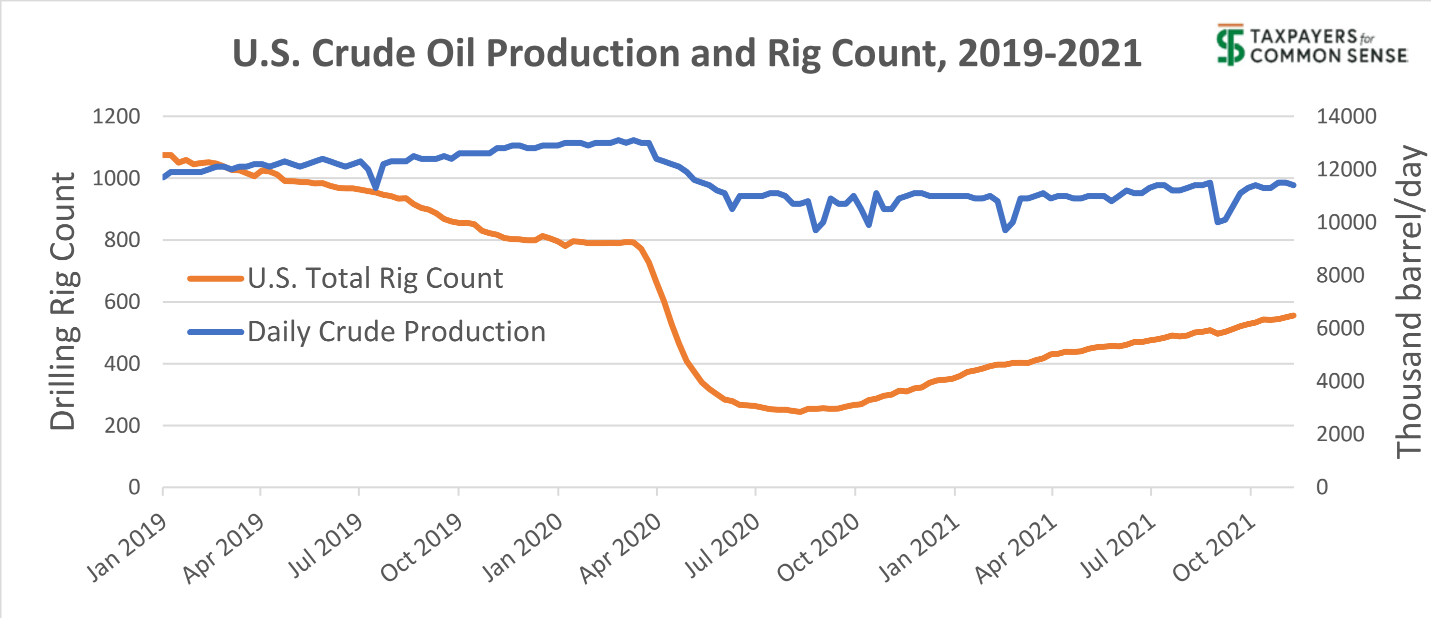

Figure 3 Source: U.S. Crude Oil Production (EIA) http://www.eia.gov/dnav/pet/pet_sum_sndw_dcus_nus_w.htm
U.S. Rig Count (Baker Hughes) https://rigcount.bakerhughes.com/na-rig-count

After finding firm footing in Q2 following the pandemic-induced demand shock, the top U.S. oil and gas companies reaped the benefits of rising oil and gas prices and recorded even stronger earnings results in Q3. The oil and gas industry is highly mature, profitable, and resilient and should be able to stand on its own feet. There is no need to continue to subsidize the oil and gas industry through sweetheart leasing terms and tax subsidies at taxpayers' expense.

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