

Financial Review of the Global Oil and Natural Gas Industry: Second-quarter 2018



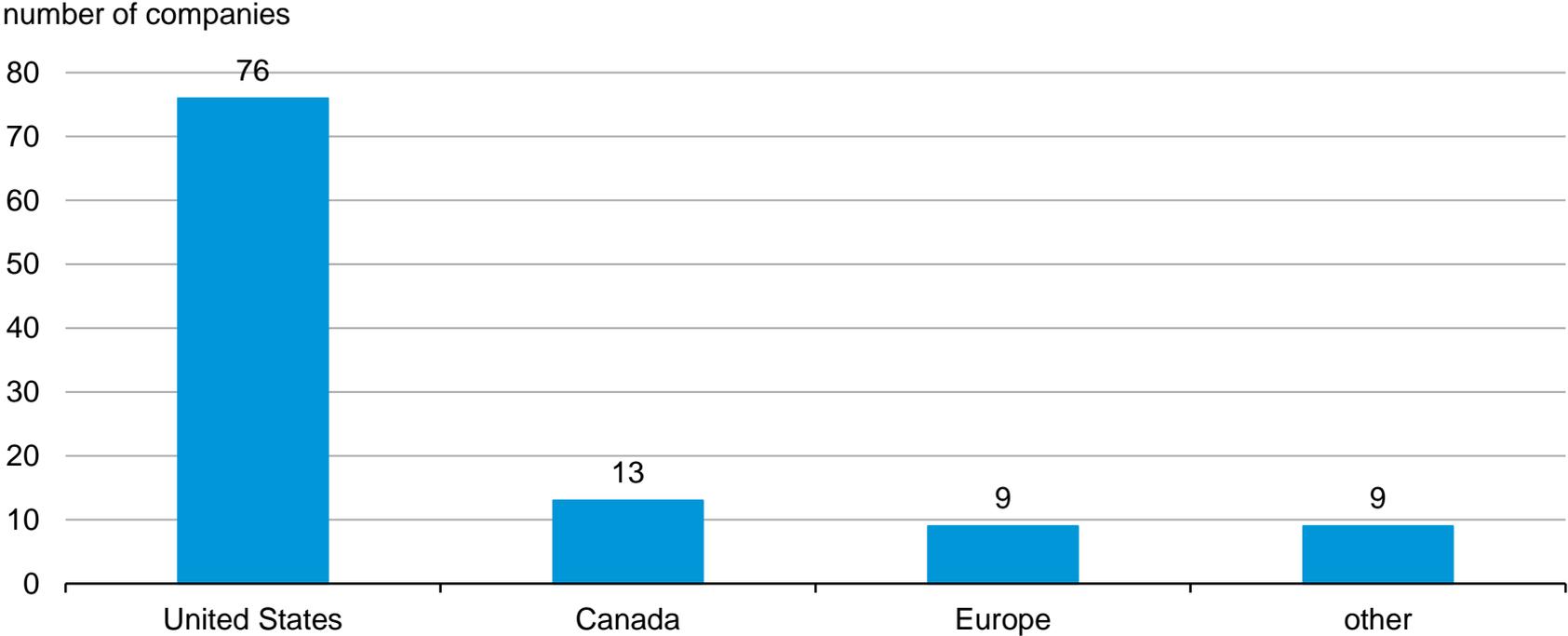
Markets and Financial Analysis Team

September 2018

Key findings for second-quarter 2018

- Brent crude oil prices were 48% higher in second-quarter 2018 than in second-quarter 2017 and averaged \$75 per barrel, the highest since fourth-quarter 2014
- Liquids production increased 2.3% in second-quarter 2018 from second-quarter 2017, and natural gas production increased 1.8% during the same period
- Energy companies' free cash flow—the difference between cash from operations and capital expenditure—was \$119 billion for the four quarters ending June 30, 2018, the largest four-quarter sum during 2013–18
- Companies reduced debt for seven consecutive quarters, contributing to the lowest long-term debt-to-equity ratio since third-quarter 2014

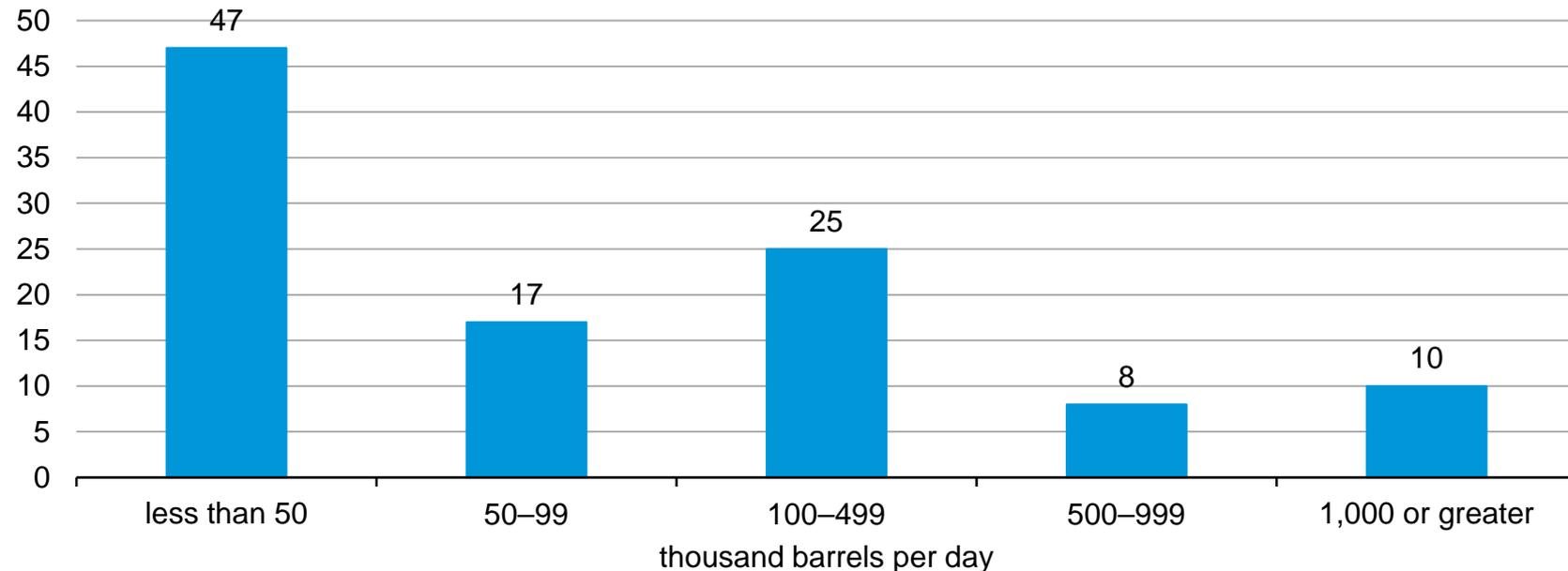
Geographic distribution of global oil and natural gas companies, second-quarter 2018



Source: U.S. Energy Information Administration, Evaluate Energy

Distribution of global energy companies by production of petroleum liquids, second-quarter 2018

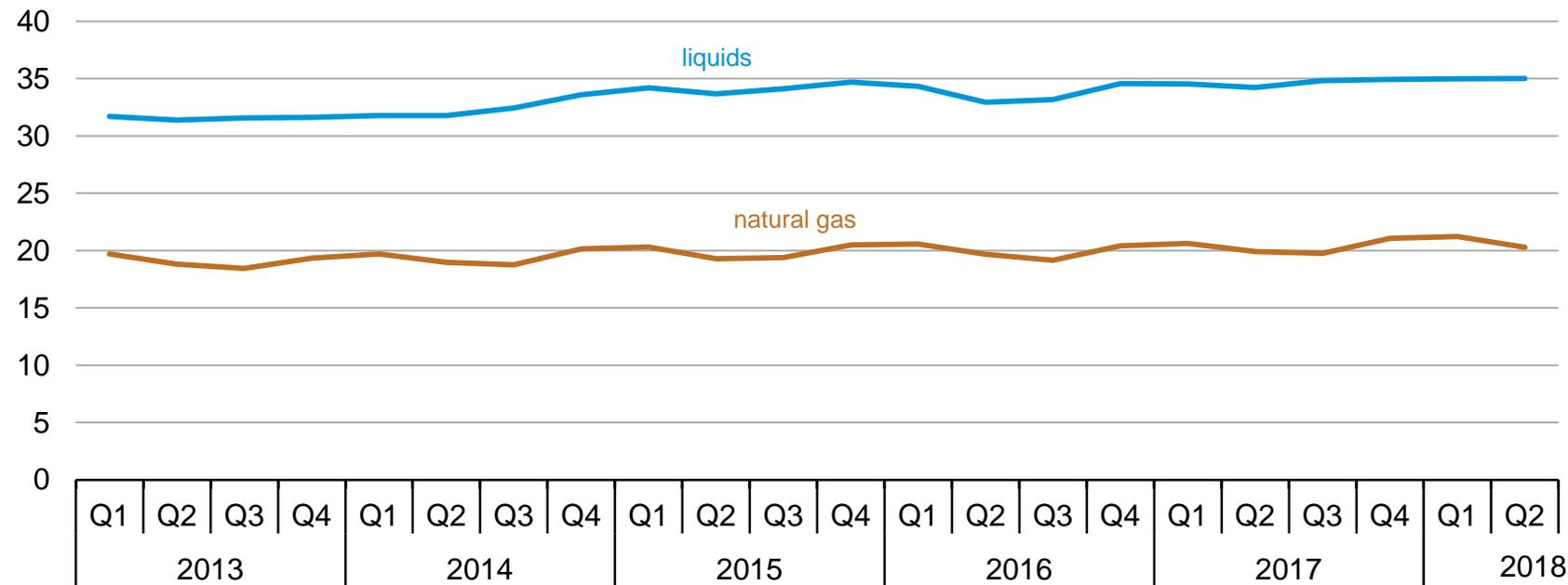
number of companies



Source: U.S. Energy Information Administration, *Evaluate Energy*

Liquids and natural gas production was 35 million barrels per day and 20 million barrels of oil equivalent per day, respectively, in second-quarter 2018

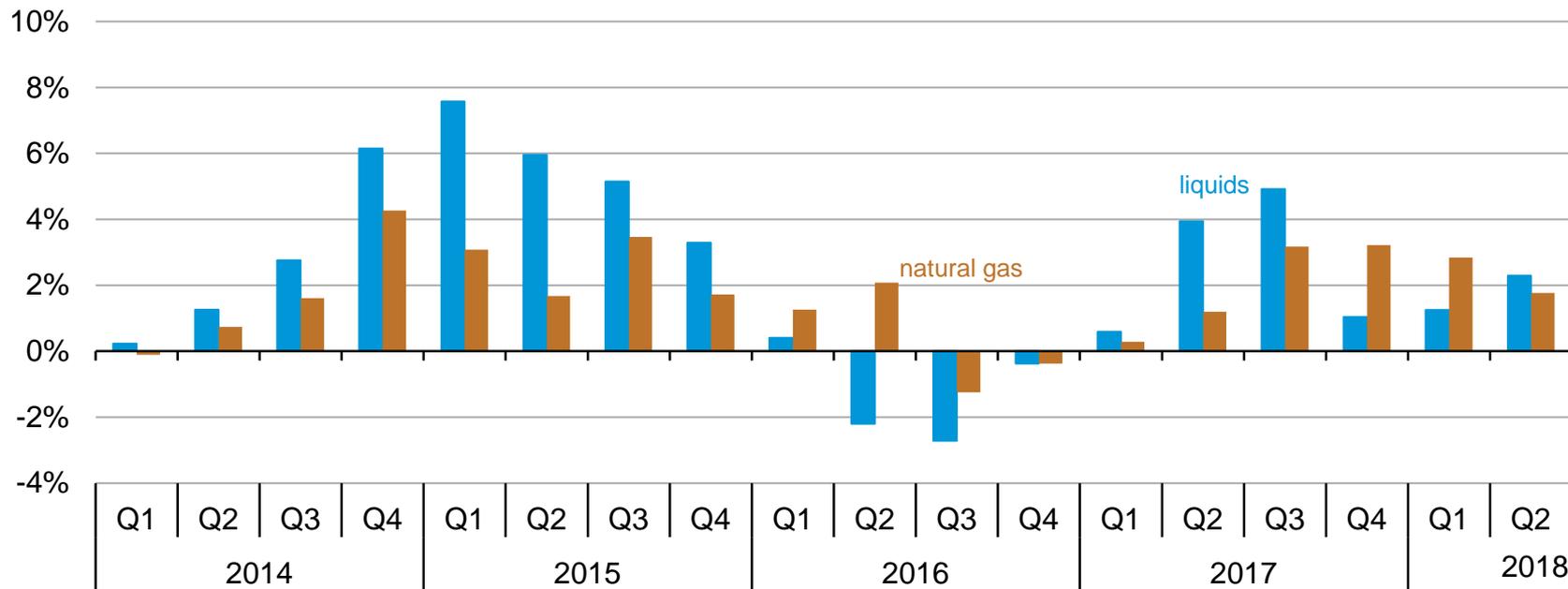
liquids and natural gas production
million barrels of oil equivalent per day



Source: U.S. Energy Information Administration, Evaluate Energy

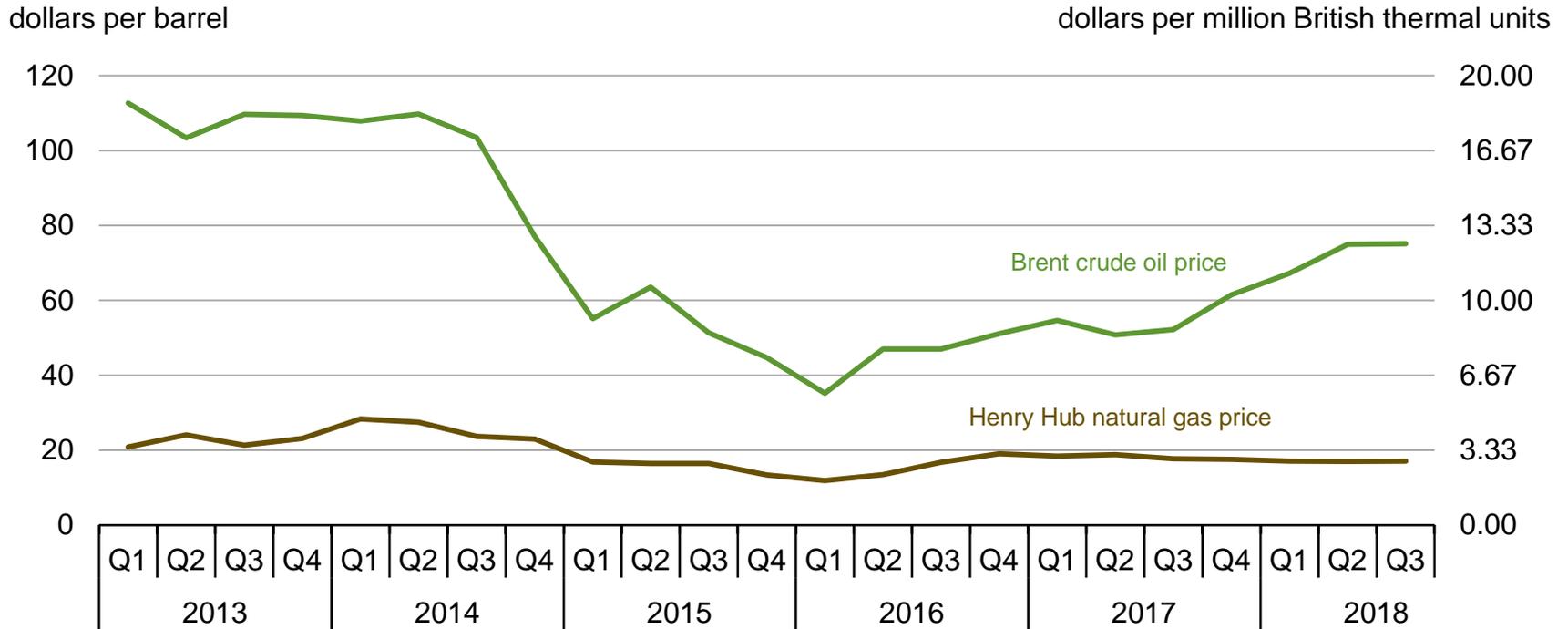
Global liquids production increased 2.3% and natural gas production increased 1.8% year-over-year in second-quarter 2018

liquids and natural gas production
year-over-year change



Source: U.S. Energy Information Administration, Evaluate Energy

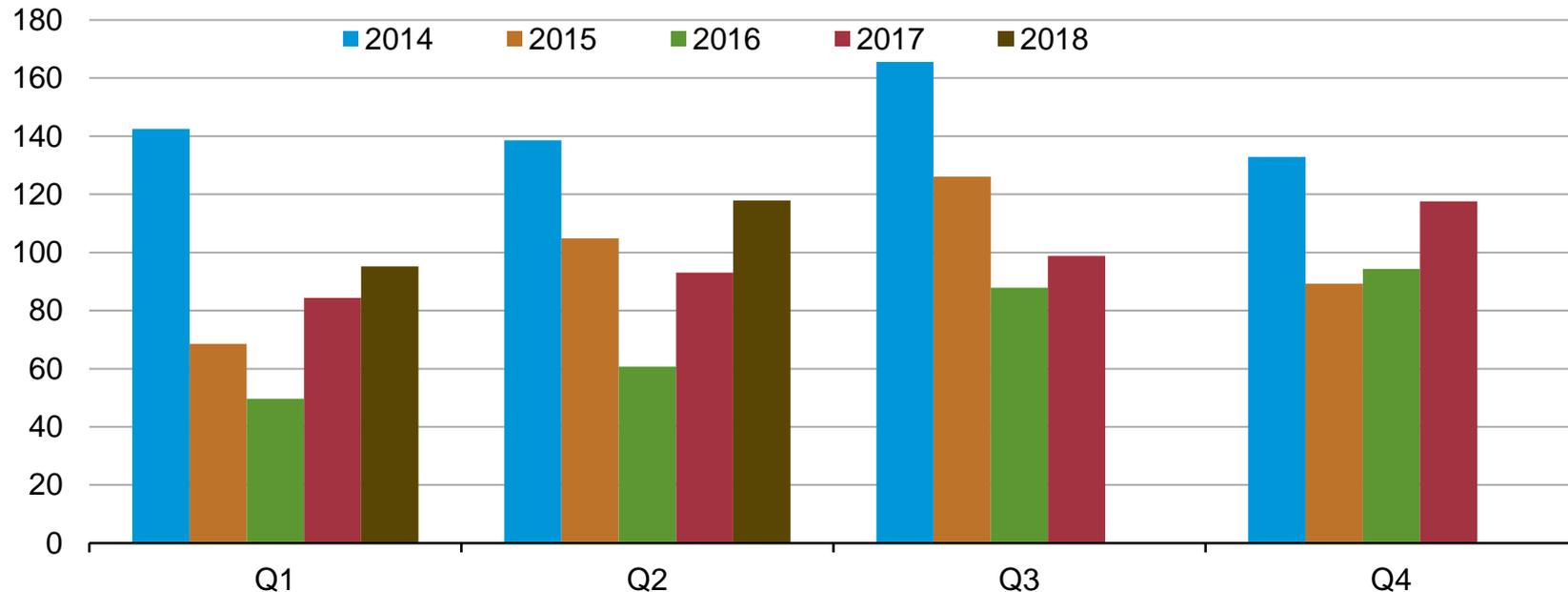
Second-quarter 2018 crude oil prices were 48% higher than in second-quarter 2017, and natural gas prices declined 10% during the same period



Source: Bloomberg

Cash from operations in second-quarter 2018 was \$118 billion, a 27% increase from second-quarter 2017

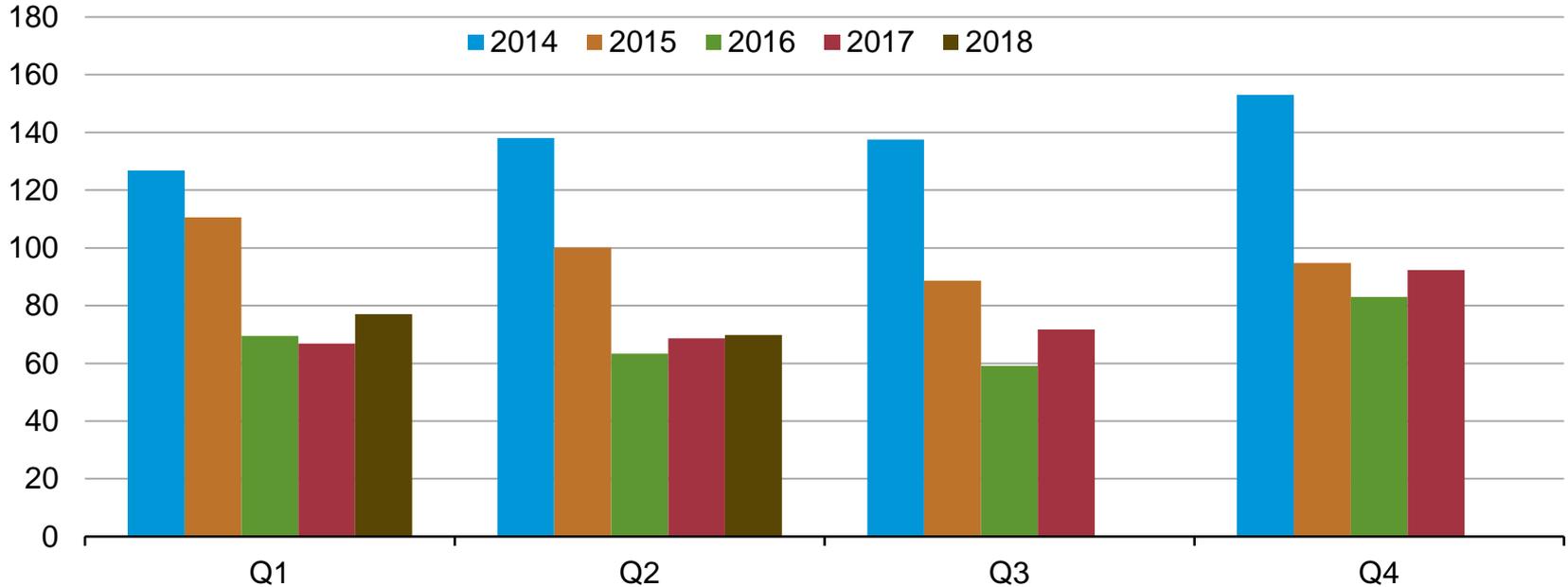
cash from operations
billion dollars



Source: U.S. Energy Information Administration, Evaluate Energy

Capital expenditure in second-quarter 2018 was \$70 billion, 2% higher than in second-quarter 2017

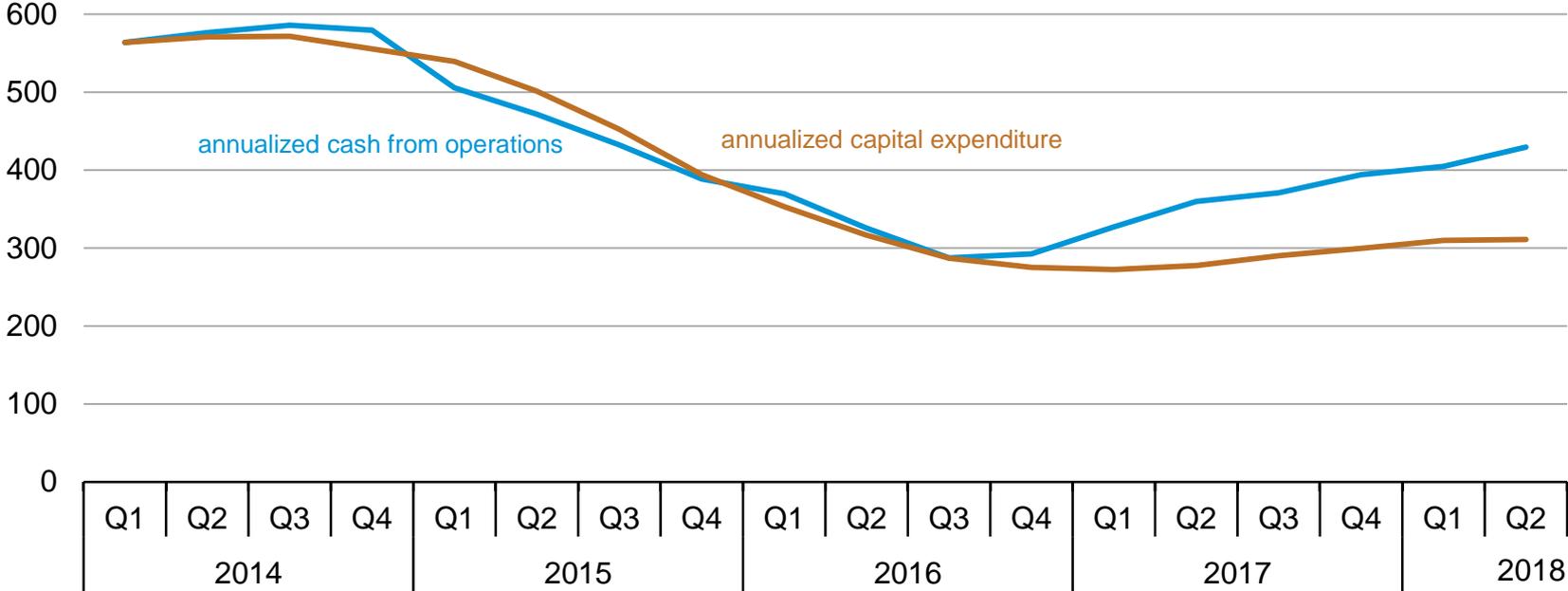
capital expenditure
billion dollars



Source: U.S. Energy Information Administration, Evaluate Energy

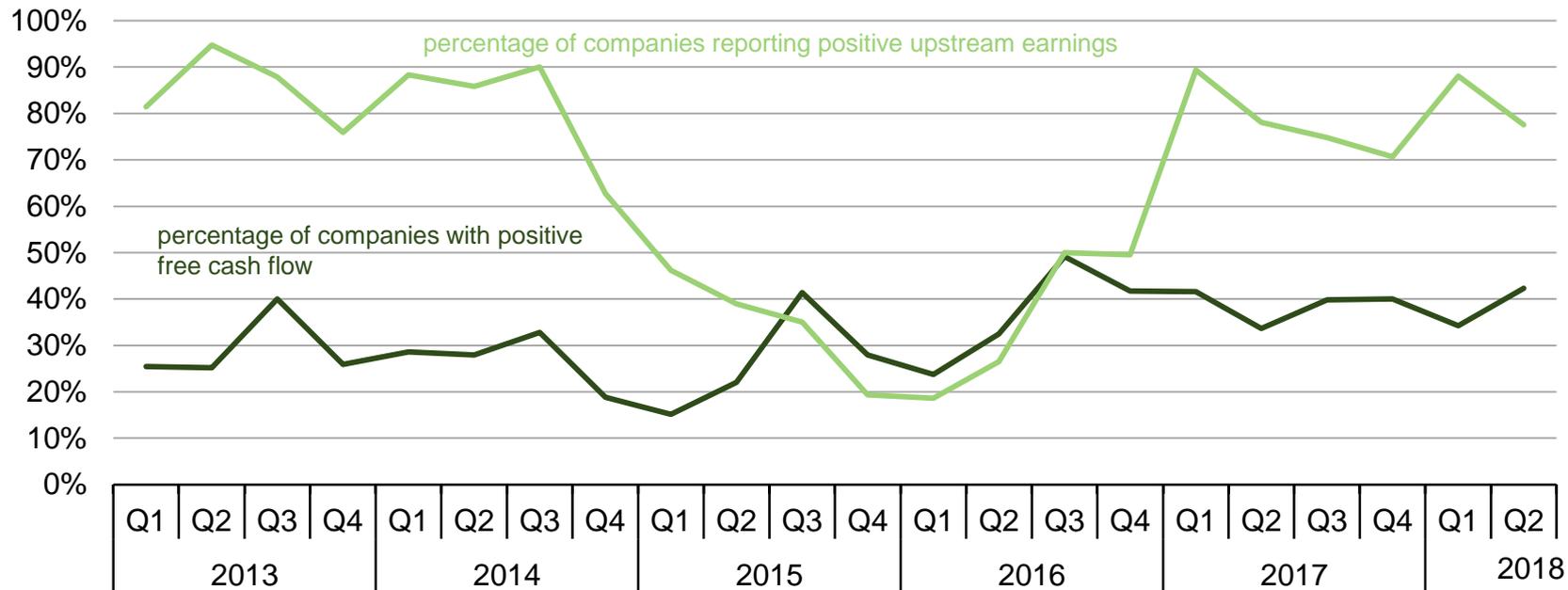
Cash from operations was \$119 billion higher than capital expenditures for the sum of the four quarters ending June 30, 2018

annualized cash flow items
billion dollars



Source: U.S. Energy Information Administration, Evaluate Energy

About two-fifths of companies had positive free cash flow, and 78% reported positive upstream earnings in second-quarter 2018

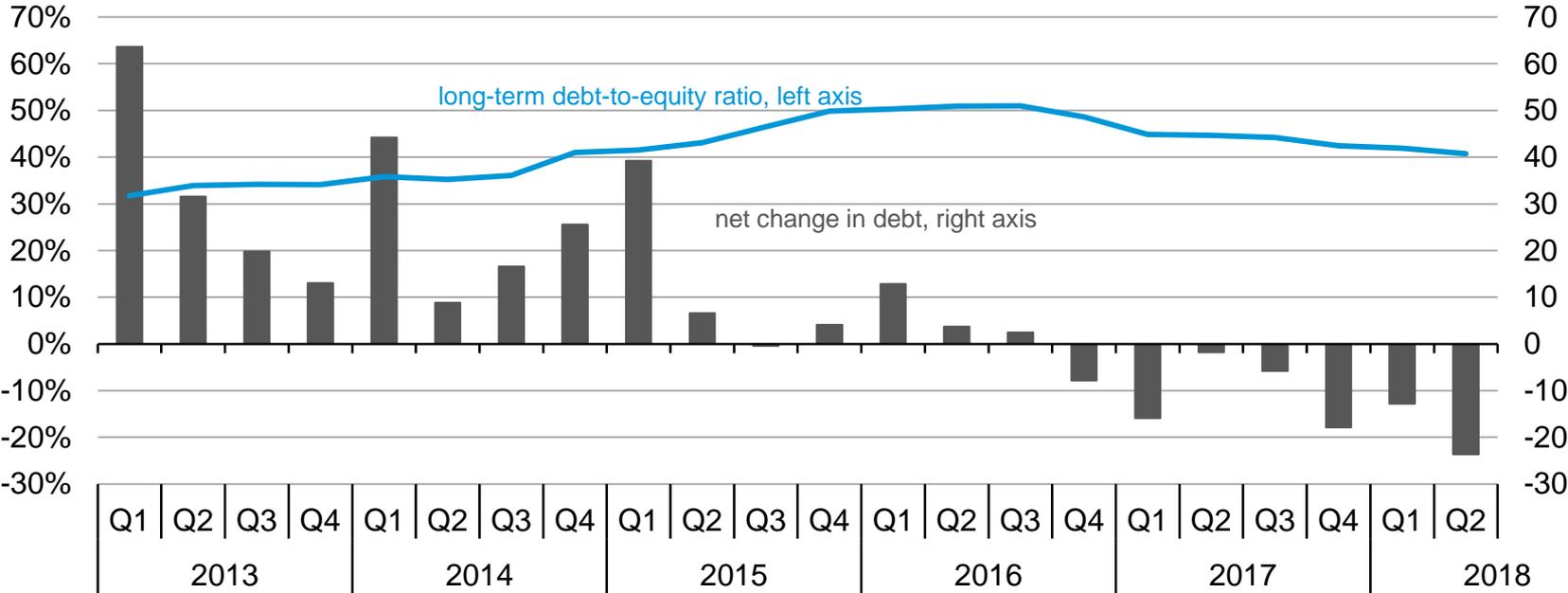


Source: U.S. Energy Information Administration, Evaluate Energy

Note: free cash flow=cash from operations minus capital expenditures

Companies reduced debt for seven consecutive quarters, contributing to the lowest long-term debt-to-equity ratio since first-quarter 2015

billion dollars

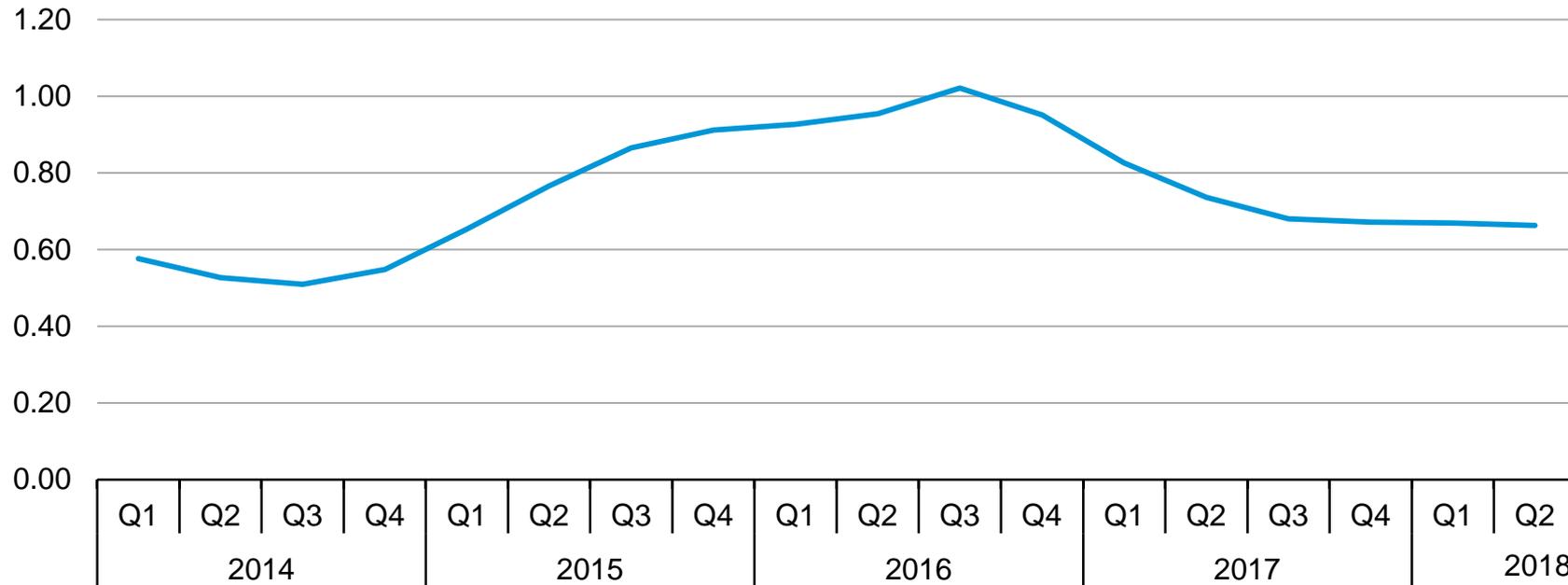


Source: U.S. Energy Information Administration, Evaluate Energy

Higher cash flow reduced the ratio of debt repayments to cash flow in second-quarter 2018

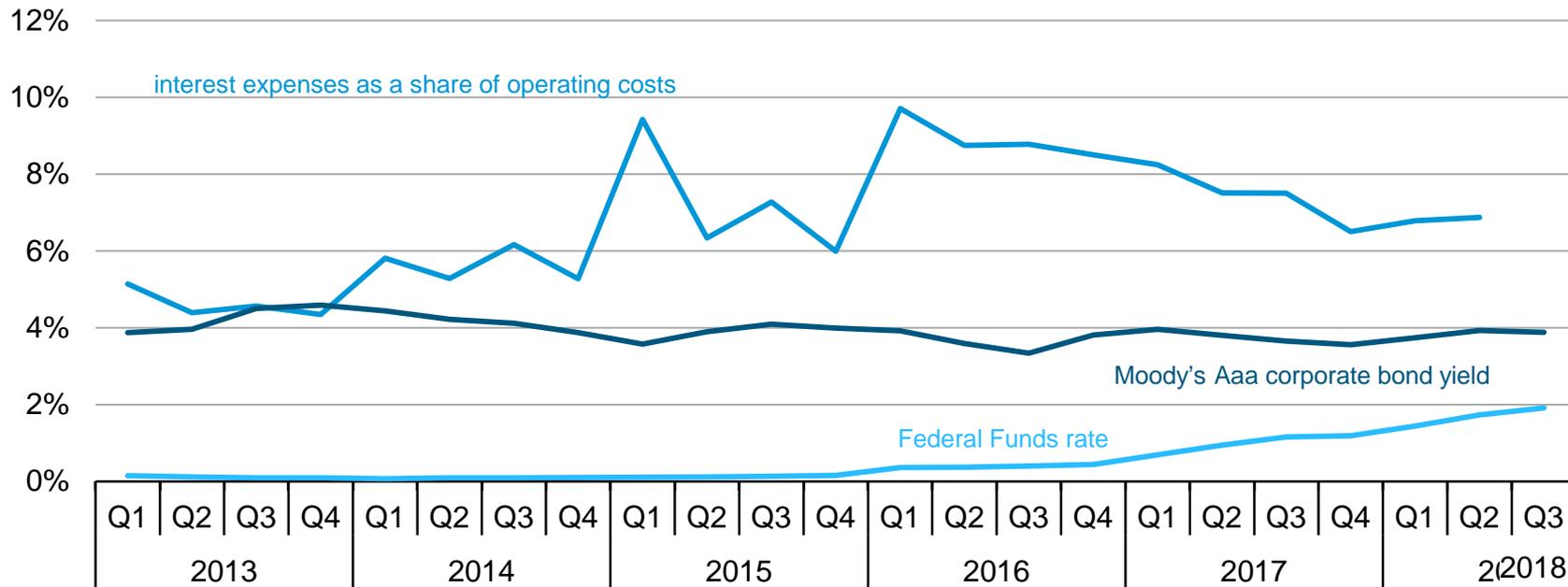
annualized debt repayments to cash flow

ratio



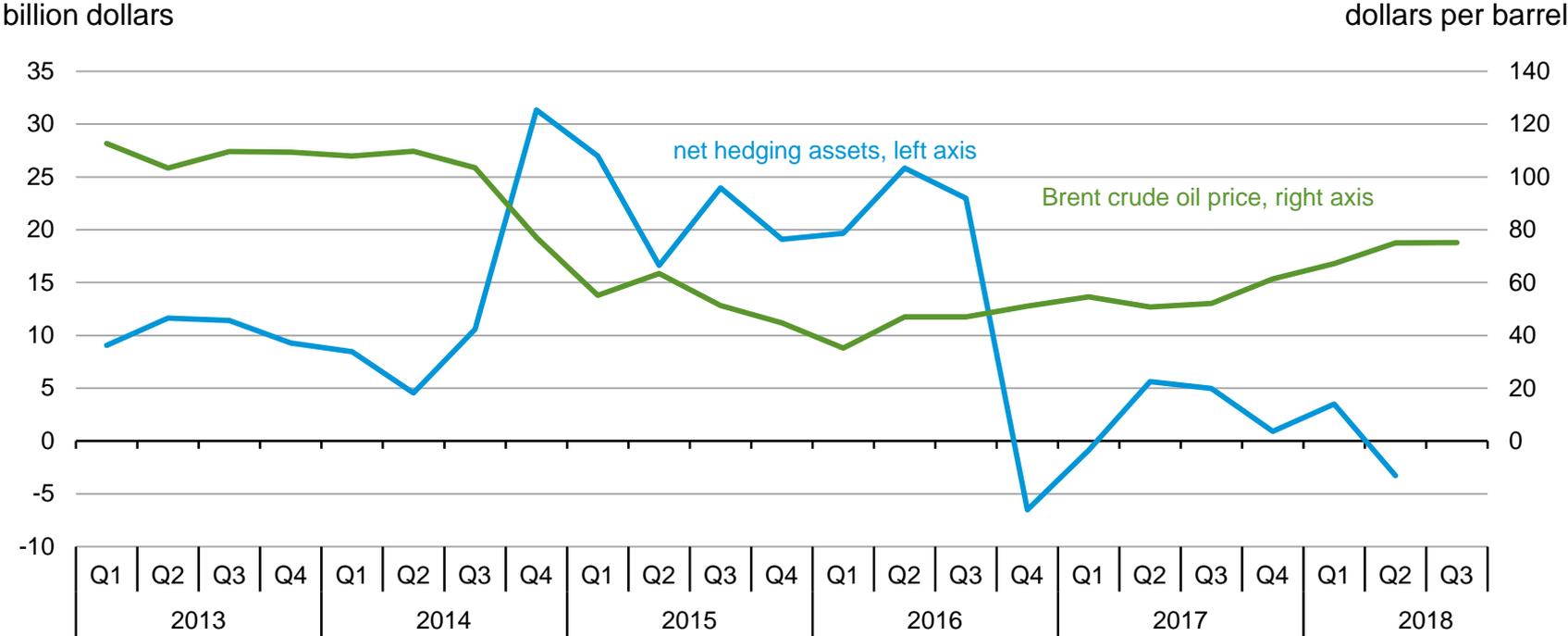
Source: U.S. Energy Information Administration, *Evaluate Energy*

Higher interest rates since 2017 did not lead to an increase in interest expenses as a share of operating costs



Source: U.S. Energy Information Administration, Evaluate Energy, Federal Reserve Bank of St. Louis

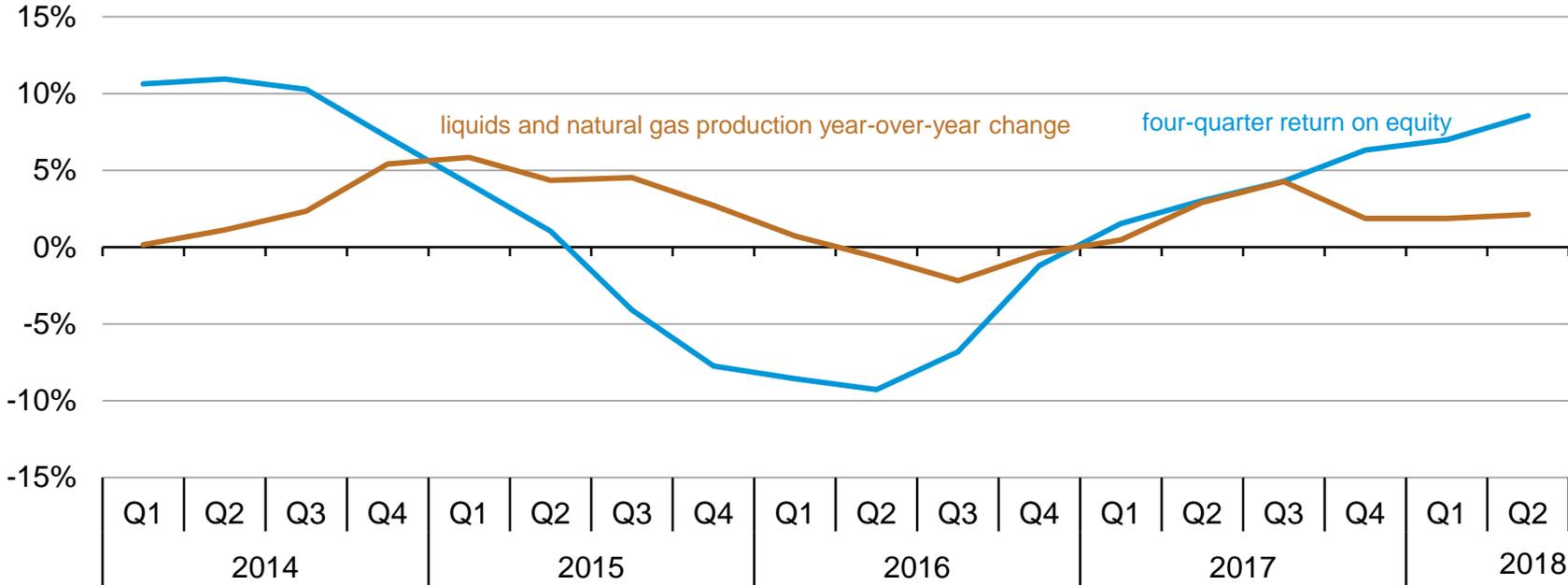
Hedging and derivative assets declined in value in second-quarter 2018 as crude oil prices increased



Source: U.S. Energy Information Administration, Evaluate Energy

The energy companies' return on equity increased to 9% in second-quarter 2018, the largest level since third-quarter 2014

return on equity and production

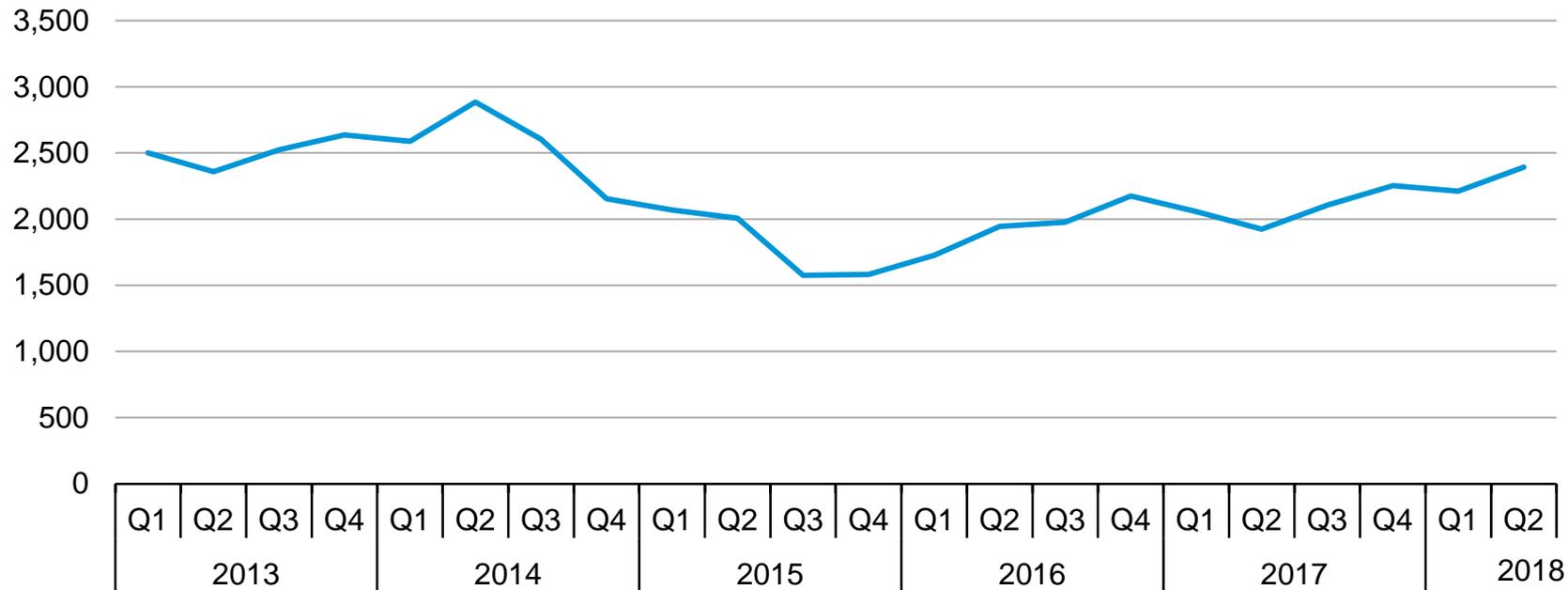


Source: U.S. Energy Information Administration, Evaluate Energy

The energy companies' combined market capitalization increased 24% from second-quarter 2017 to second-quarter 2018

combined market capitalization

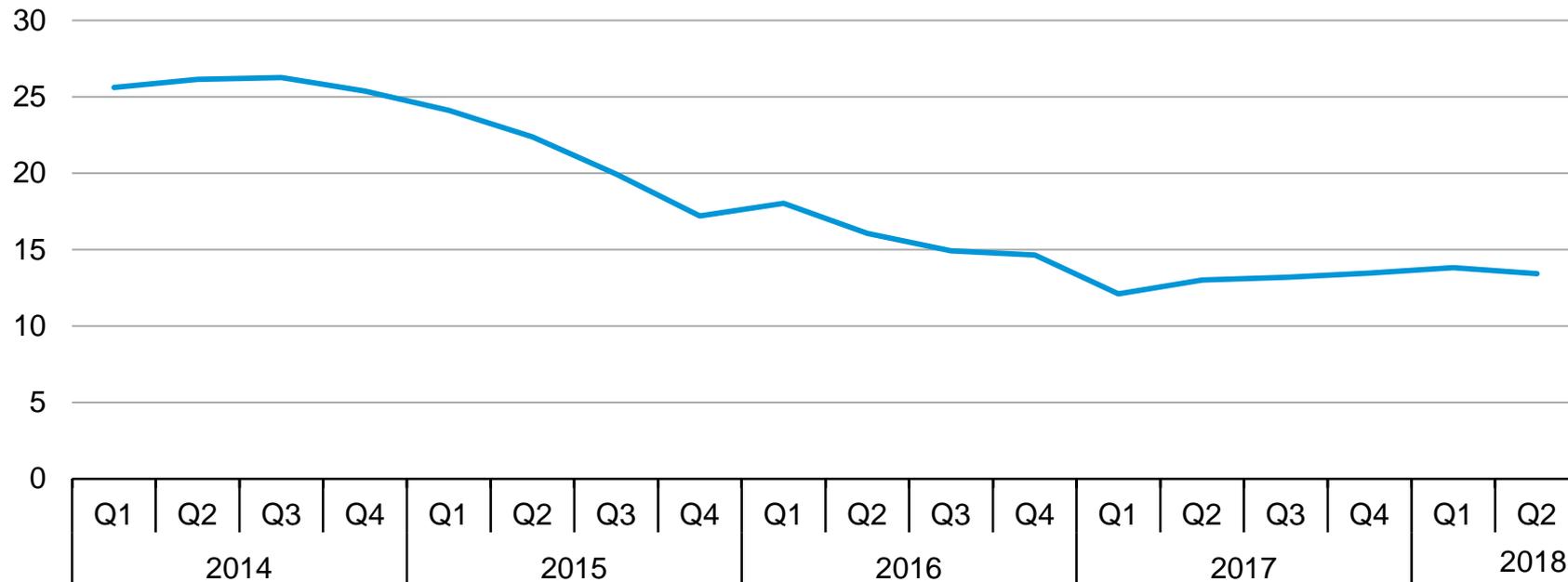
billion dollars



Source: U.S. Energy Information Administration, Evaluate Energy

Average upstream capital expenditures on a per-barrel basis increased 42 cents per barrel of oil equivalent from second-quarter 2017 to second-quarter 2018

upstream capital expenditure/boe produced
dollars per boe four-quarter moving average

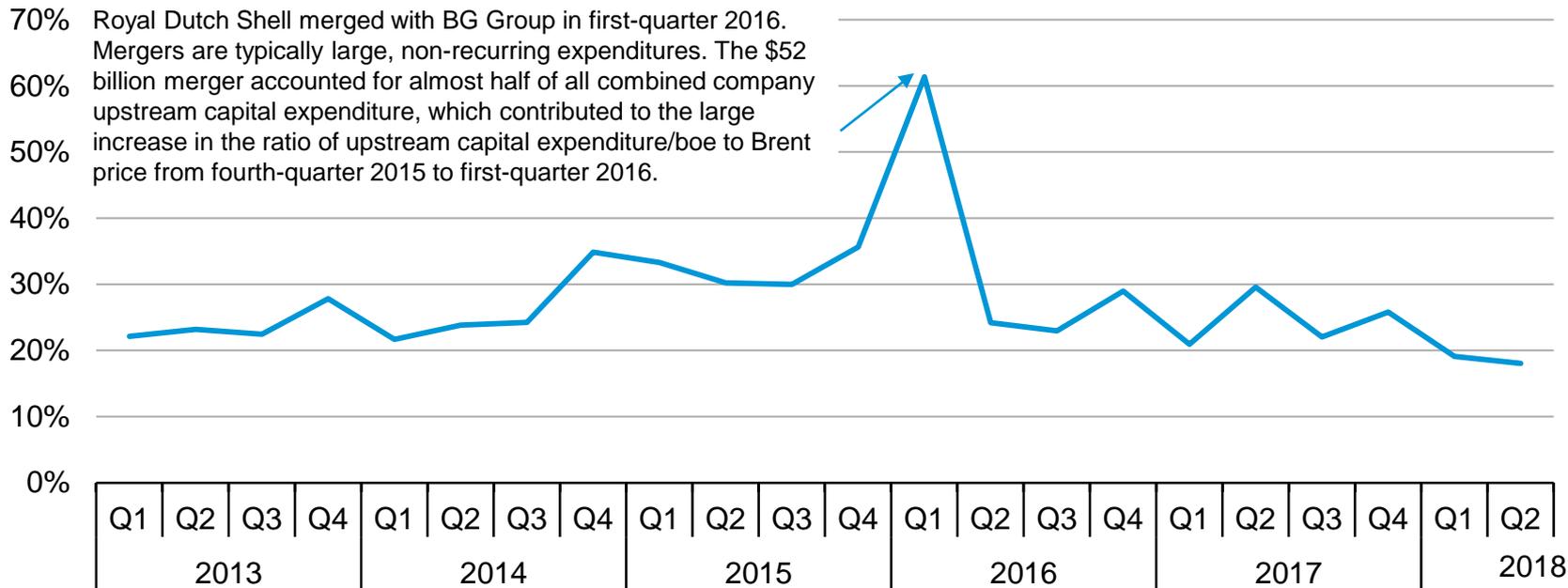


Source: U.S. Energy Information Administration, Evaluate Energy

Note: boe=barrel of oil equivalent

Upstream capital expenditures per barrel of oil equivalent were 18% of crude oil prices, the lowest share in the 2013–18 period

ratio of upstream capital expenditure/boe to Brent price

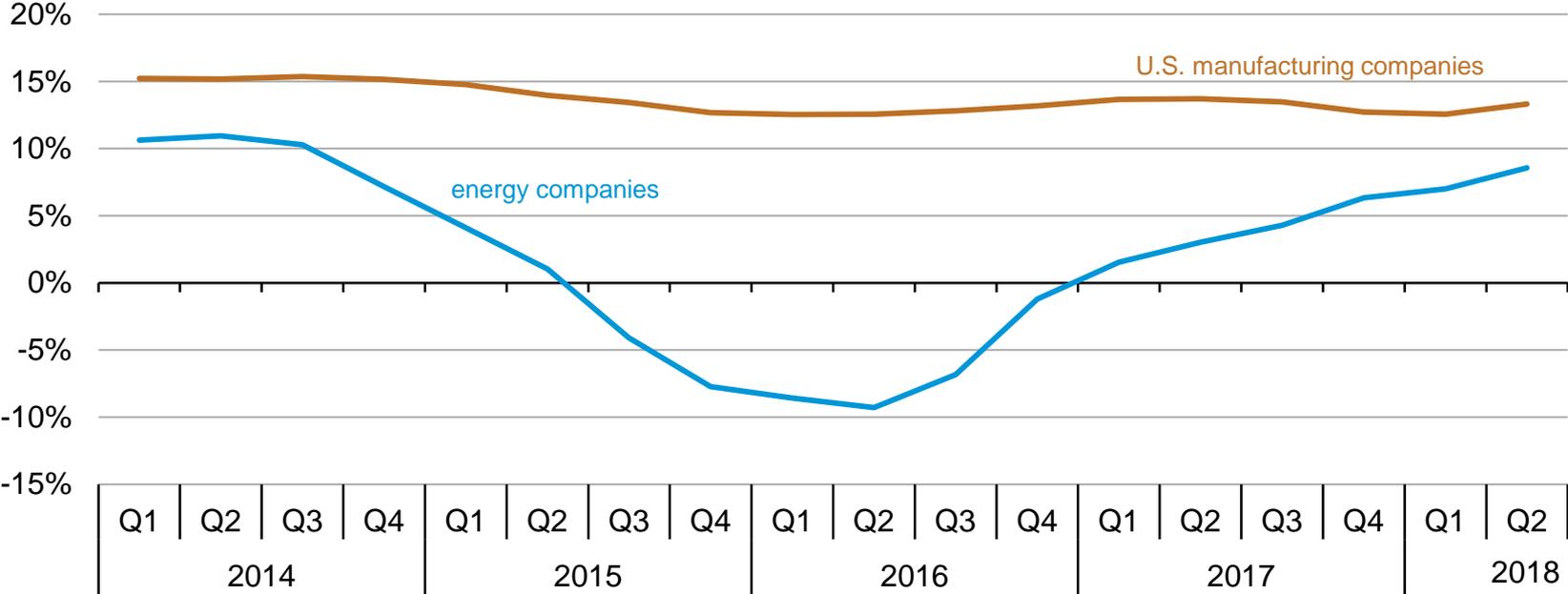


Source: U.S. Energy Information Administration, *Evaluate Energy*

Note: boe=barrel of oil equivalent

The return on equity for energy companies was the highest since third-quarter 2014 but remains lower than U.S. manufacturing company returns

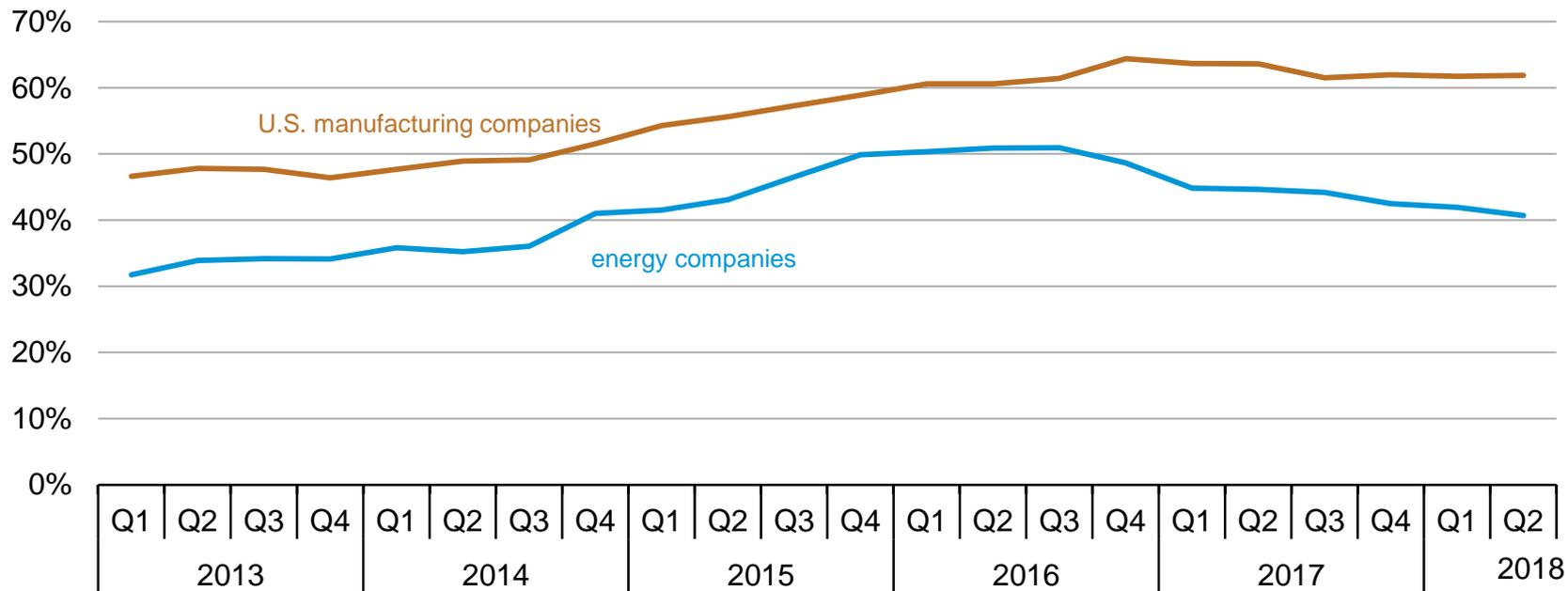
four-quarter return on equity



Source: U.S. Energy Information Administration, Evaluate Energy, U.S. Census Bureau

The long-term debt-to-equity ratio for energy companies declined to 41% in second-quarter 2018

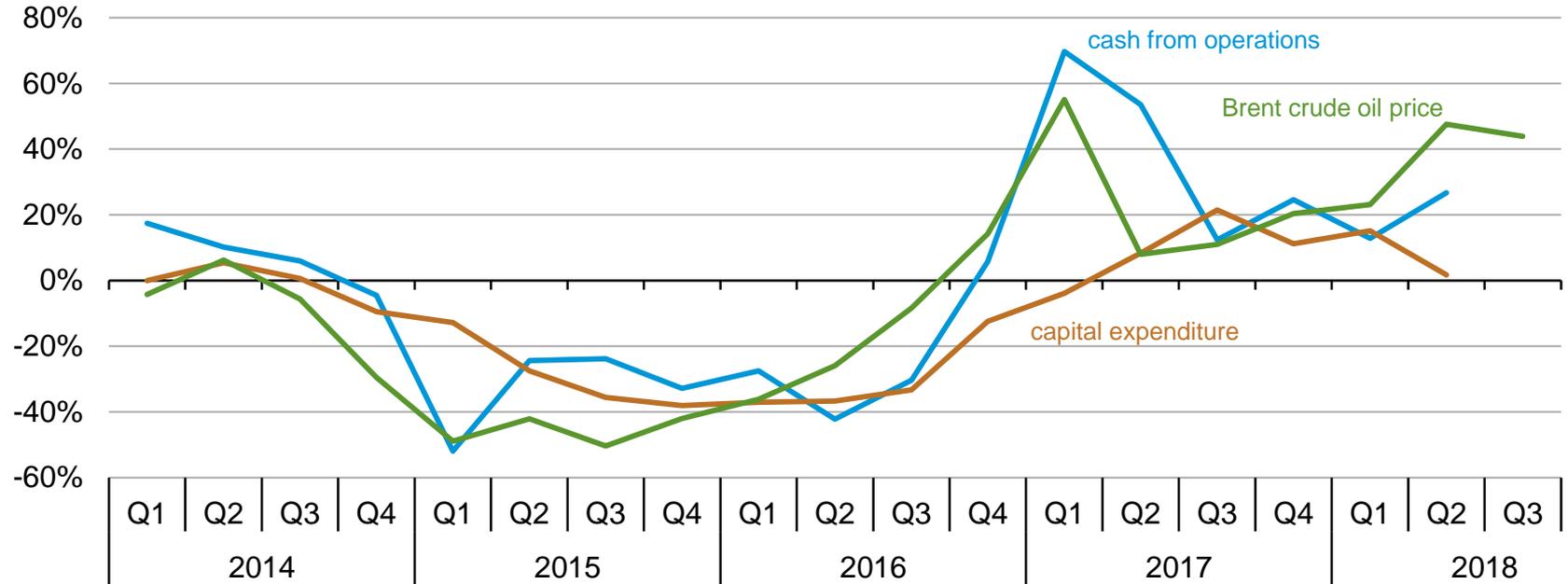
long-term debt-to-equity ratio



Source: U.S. Energy Information Administration, Evaluate Energy, U.S. Census Bureau

Crude oil price growth in third-quarter 2018 could contribute to increases in cash from operations and capital expenditures

cash flow items and Brent prices
year-over-year change



Source: U.S. Energy Information Administration, Evaluate Energy, Bloomberg

Appendix: List of companies

Abxas Petroleum Corporation	Canadian Natural Resources Limited	Energen Corp	HighPoint Resources Corporation	Noble Energy	Ring Energy Inc	Unit Corp
Adams Resources & Energy Inc.	Carrizo Oil & Gas, Inc	Energy XXI Gulf Coast, Inc.	Houston American Energy Corp	Northern Oil & Gas, Inc	Rosetta Resources Inc.	Vaalco Energy Inc
Aker BP ASA	Cenovus Energy Inc.	Enerplus Corporation	Husky Energy Inc.	Novatek	Rosneft	Vanguard Natural Resources, Inc.
Amplify Energy Corp.	Centennial Resource Development, Inc.	ENI	Isramco, Inc	Oasis Petroleum Inc.	Royal Dutch Shell	Vermilion Energy Inc.
Anadarko Petroleum Corp.	Chesapeake Energy Corp.	EOG Resources	Jagged Peak Energy Inc.	Obsidian Energy Ltd.	RSP Permian Inc	W & T Offshore
Antero Resources Corporation	Chevron Corporation	EP Energy Corporation	Jones Energy, Inc.	Occidental Petroleum Corporation	Sabine Oil & Gas Corporation	Whiting Petroleum Corporation
Apache Corporation	Cimarex Energy Co.	EPL Oil & Gas Inc	Kodiak Oil & Gas Corp.	OMV	Sanchez Energy Corp	WildHorse Resource Development Corporation
Approach Resources Inc	Clayton Williams Energy, Inc.	Equinor ASA	Kosmos Energy	Parsley Energy Inc.	SandRidge Energy, Inc.	WPX Energy, Inc.
Athlon Energy Inc.	Comstock Resources	Erin Energy Corporation	Laredo Petroleum	PDC Energy, Inc.	SilverBow Resources, Inc.	YPF Sociedad Anonima
Bankers Petroleum Ltd	Concho Resources Inc	Extraction Oil & Gas, Inc.	Legacy Reserves LP	PEDEVCO Corp.	Sinopec	Yuma Energy, Inc. (Pre Davis)
Baytex Energy Corp.	ConocoPhillips	ExxonMobil	Lilis Energy Inc.	Penn Virginia Corporation	SM Energy Company	
Berry Petroleum Company LLC	Contango Oil and Gas Company	Forest Oil Corporation	Linn Energy	Petrobras (IFRS US\$ Current)	Sonde Resources Corp.	
BG Group	Continental Resources	Frontera Energy Corporation	Lonestar Resources US, Inc.	PetroChina	SRC Energy Inc	
Blue Ridge Mountain Resources, Inc.	Denbury Resources Inc.	Gazprom Neft	Lukoil (IFRS)	Petrominerales Ltd.	Stone Energy Corporation	
BP Plc.	Devon Energy Corporation	Goodrich Petroleum Corporation	Lundin Petroleum	PetroQuest Energy, Inc	Suncor Energy Inc.	
BPZ Resources Inc	Diamondback Energy Inc.	Gran Tierra Energy Inc.	Marathon Oil Corp.	Pioneer Natural Resources Company	Total	
Breitburn Energy Partners LP	Earthstone Energy Inc.	Gulfport Energy Corporation	Matador Resources Company	QEP Resources Inc	TransAtlantic Petroleum Ltd.	
California Resources Corporation	Ecopetrol	Halcon Resources Corporation	Mid-Con Energy Partners, LP	Range Resources Corporation	TransGlobe Energy Corporation	
Callon Petroleum	Encana Corporation	Harvest Natural Resources Inc.	Murphy Oil Corporation	Repsol	T-Rex Oil, Inc.	
Canacol Energy Ltd.	Endeavour International Corp	Hess Corp	Newfield Exploration Company	Resolute Energy Corporation	Triangle Petroleum Corporation	

Source: U.S. Energy Information Administration, Evaluate Energy

Note: Some companies merged, split, or de-listed before 2018. A total of 107 companies existed in second-quarter 2018.

Background

- This analysis focuses on the financial and operating trends of 107 global oil and natural gas companies (called the *energy companies*)
- The data come from the public financial statements each company submits to the U.S. Securities and Exchange Commission, which a data service (Evaluate Energy) aggregates for ease of data analysis
- For consistency, a company's assets that were acquired by another company in the group after first-quarter 2013 were kept in the prior-year data
- Several charts show comparisons between energy companies and the U.S. manufacturing industry, published in U.S. Census Bureau's *Quarterly Financial Report*

Brief description of terms

- *Cash from operations* is a measure of income from the company's regular business activities
- *Capital expenditure* represents cash used to purchase property, plant, and equipment
- *Financing activities* measure inflows and outflows in debt or equity markets, including dividends, share issuances or repurchases, and debt issuances or repayments
- *Return on equity* is a measure of the profit a company earns on money shareholders have invested
- *Market capitalization* is the total value of all of a company's outstanding, publicly traded shares

Brief description of terms

- *Net income* represents profits after taxes and depreciation
- *Asset impairments* occur when a company lowers the estimated value of a property to reflect current market value, which may result from the loss of production potential or a decline in oil prices
- *Upstream activities* refers to crude oil exploration, production, and other operations before refining
- *Downstream activities* refers to refinery operations, product sales, and marketing at the wholesale and retail levels