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

Markets and Financial Analysis Team

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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.
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.

![Graph showing Brent crude oil and Henry Hub natural gas prices from Q1 2013 to Q3 2018.]

Source: Bloomberg
Cash from operations in second-quarter 2018 was $118 billion, a 27% increase from second-quarter 2017.

Source: U.S. Energy Information Administration, Evaluate Energy
Capital expenditure in second-quarter 2018 was $70 billion, 2% higher than in second-quarter 2017.

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

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.
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.

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.

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.

Royal Dutch Shell merged with BG Group in first-quarter 2016. Mergers are typically large, non-recurring expenditures. The $52 billion merger accounted for almost half of all combined company upstream capital expenditure, which contributed to the large increase in the ratio of upstream capital expenditure/boe to Brent price from fourth-quarter 2015 to first-quarter 2016.

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.

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.

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

Abraxas Petroleum Corporation  
Adams Resources & Energy Inc.  
Aker BP ASA  
Amplify Energy Corp.  
Anadarko Petroleum Corporation  
Antero Resources Corporation  
Apache Corporation  
Approach Resources Inc  
Athlon Energy Inc.  
Bankers Petroleum Ltd  
Baytex Energy Corp.  
Berry Petroleum Company LLC  
BG Group  
Blue Ridge Mountain Resources, Inc.  
BP Plc.  
BP2 Resources Inc  
Breitburn Energy Partners LP  
California Resources Corporation  
Callon Petroleum  
Canacol Energy Ltd.  
Canadian Natural Resources Limited  
Carrozio Oil & Gas, Inc.  
Cenovus Energy Inc.  
Centennial Resource Development, Inc.  
Chevron Corporation  
Cimarex Energy Co.  
Clayton Williams Energy, Inc.  
Comstock Resources  
Concho Resources Inc  
ConocoPhillips  
Contango Oil and Gas Company  
Continental Resources  
Denbury Resources Inc.  
Devon Energy Corporation  
Diamondback Energy Inc.  
Earthstone Energy Inc.  
Ecopetrol  
Encana Corporation  
Endeavour International Corp  
Energen Corp  
Energy XXI Gulf Coast, Inc.  
Enerplus Corporation  
ENI  
EOG Resources  
EP Energy Corporation  
EPL Oil & Gas Inc.  
Equinor ASA  
Erin Energy Corporation  
Extraction Oil & Gas, Inc.  
ExxonMobil  
Forest Oil Corporation  
Frontera Energy Corporation  
Gazprom Neft  
Goodrich Petroleum Corporation  
Gran Tierra Energy Inc.  
Gulfport Energy Corporation  
Halcon Resources Corporation  
Harvest Natural Resources Inc.  
Hess Corp  
HighPoint Resources Corporation  
Houston American Energy Corp  
Husky Energy Inc.  
Irsanco, Inc.  
Jagged Peak Energy Inc.  
Jones Energy, Inc.  
Kodiak Oil & Gas Corp.  
Kosmos Energy  
Laredo Petroleum  
Legacy Reserves LP  
Lilis Energy Inc.  
Linn Energy  
Lonestar Resources US, Inc.  
Lukoil (IFRS)  
Lundin Petroleum  
Marathon Oil Corp.  
Matador Resources Company  
Mid-Con Energy Partners, LP  
Murphy Oil Corporation  
Newfield Exploration Company  
Noble Energy  
Northern Oil & Gas, Inc  
Novatek  
Oasis Petroleum Inc.  
Obsidian Energy Ltd.  
Occidental Petroleum Corporation  
OMV  
Parex Energy Inc.  
PDC Energy, Inc.  
PEDEVCO Corp.  
Penn Virginia Corporation  
Petrobras (IFRS US$ Current)  
PetroChina  
Petrominerales Ltd.  
PetroQuest Energy, Inc.  
Pioneer Natural Resources Company  
QEP Resources Inc  
Range Resources Corporation  
Respoil  
Resolute Energy Corporation  
Ring Energy Inc.  
Rosetta Resources Inc.  
Rosneft  
Royal Dutch Shell  
RSP Permian Inc.  
Sabine Oil & Gas Corporation  
Sanchez Energy Corp  
SandRidge Energy, Inc.  
SilverBow Resources, Inc.  
Sinopec  
SM Energy Company  
Sonde Resources Corp.  
SRC Energy Inc  
Stone Energy Corporation  
Suncor Energy Inc.  
Total  
TransAtlantic Petroleum Ltd.  
TransGlobe Energy Corporation  
T-Rex Oil, Inc.  
Unit Corp  
Vaalco Energy Inc  
Vanguard Natural Resources, Inc.  
Vermillion Energy Inc.  
W & T Offshore  
Whiting Petroleum Corporation  
WildHorse Resource Development Corporation  
WPX Energy, Inc.  
YPF Sociedad Anonima  
Yuma Energy, Inc. (Pre Davis)

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