

Financial Review: Third-quarter 2014



Markets and Financial Analysis Team

December 16, 2014

Overview

- This analysis focuses on the financial and operating trends of 120 oil and natural gas companies (“energy companies”).
- The data come from 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, companies that were later acquired by another company in the group were kept in the prior year data. For example, Frontier Oil and Holly Corporation’s individual numbers were kept through 2011, and afterwards became HollyFrontier Corporation.
- A slide that represents a figure on an annualized basis means it is the sum of the four quarters ending for that time period. The purpose of this is to smooth volatility and seasonality.
- Cash flow statements list various sources and uses of cash; this analysis focuses on three main sources (operations; net debt; and sales of assets) and three main uses (capital expenditure, dividends to shareholders, and net share issuance).

Brief description of terms

- Cash from operations is a measure of income.
- Capital expenditures represent cash used for property, plant, and equipment (investing activities).
- Financing activities measure inflows/outflows in debt or equity markets including dividends, share issuance or repurchases, and debt issuance 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 publicly traded shares outstanding.
- Net income or earnings represent profit after taxes and depreciation.
- Asset impairments are when a company writes down the value of a property to reflect current market value, which may decline from loss of production potential or price declines.
- "Upstream" refers to crude oil exploration, production, and other operations prior to refining. "Downstream" refers to refinery operations, product sales, and marketing.

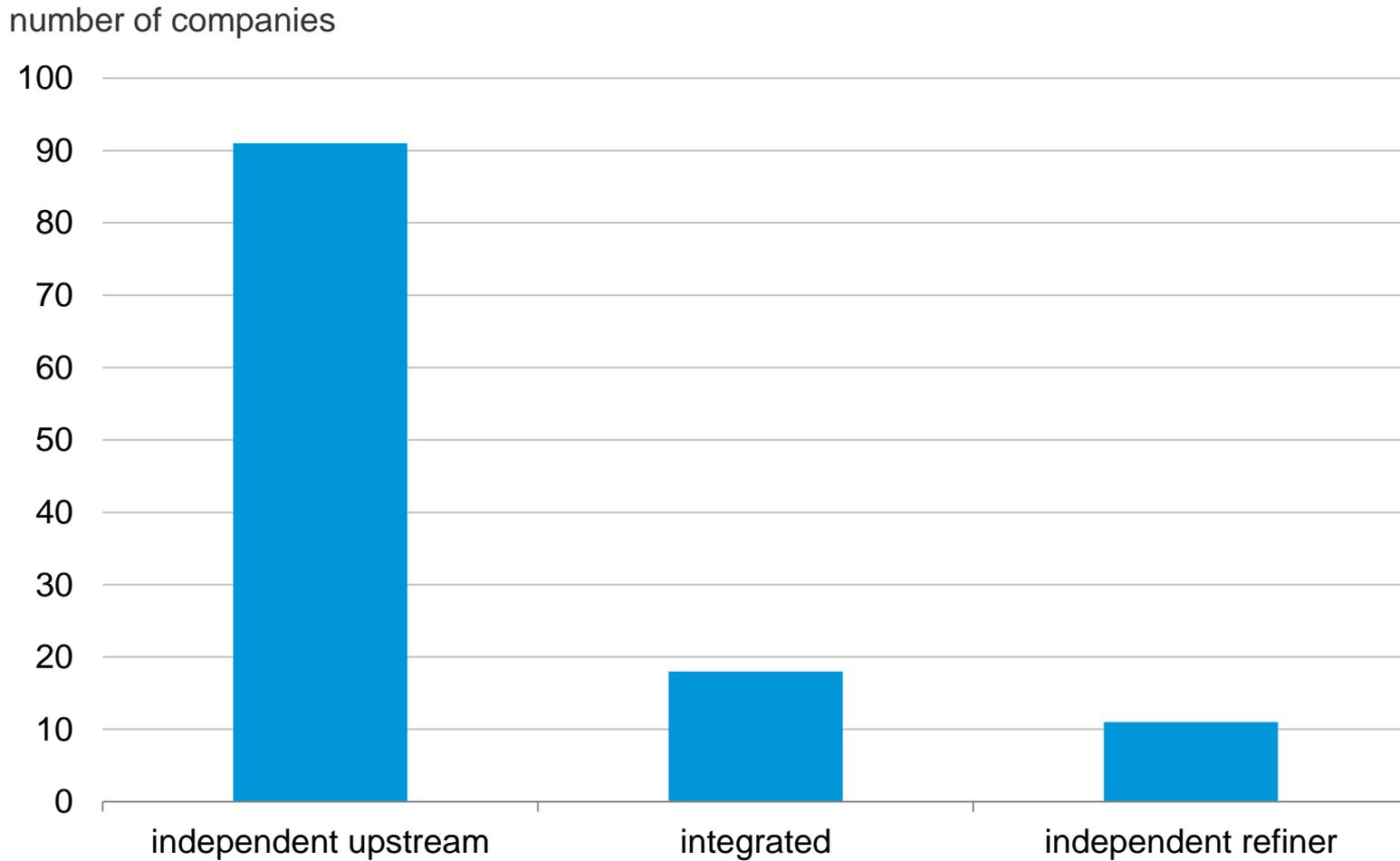
Changes since the second-quarter review

- Four companies were removed from the analysis because of delays in submitting financial statements to the Securities and Exchange Commission, bankruptcy, or mergers and acquisitions.
- This removes approximately 2 million barrels per day from the analysis compared to last quarter, which also changes some financial comparisons.

Key takeaways

- Increased cash from operations has improved the industry's free cash flow in recent quarters.
- However, increased free cash flow has not been enough to pay for share repurchases and dividends, which were met by increasing debt and sales of assets.
- Increased production and cost control, despite lower prices, led to stable profitability.
- Profits decreased in upstream segments and increased in the downstream.
- Companies with more debt than equity had a relatively large share of the production growth over the past year.
- Because of continuing oil price declines, fourth-quarter results could show high asset impairments, decreased profitability and cash flow, and decreased investment.

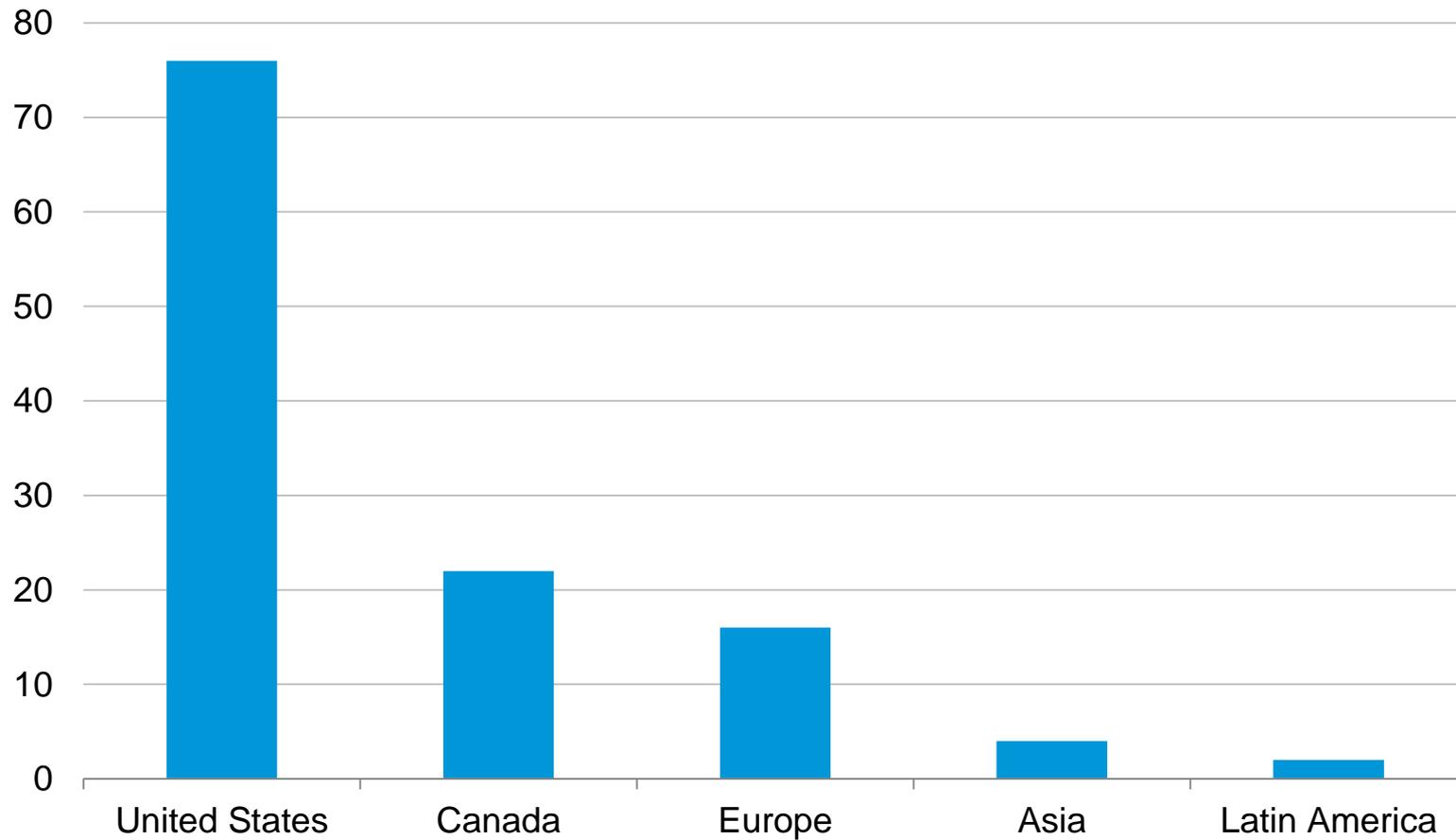
Distribution of the 120 companies by type



Source: U.S. Energy Information Administration, based on Evaluate Energy database

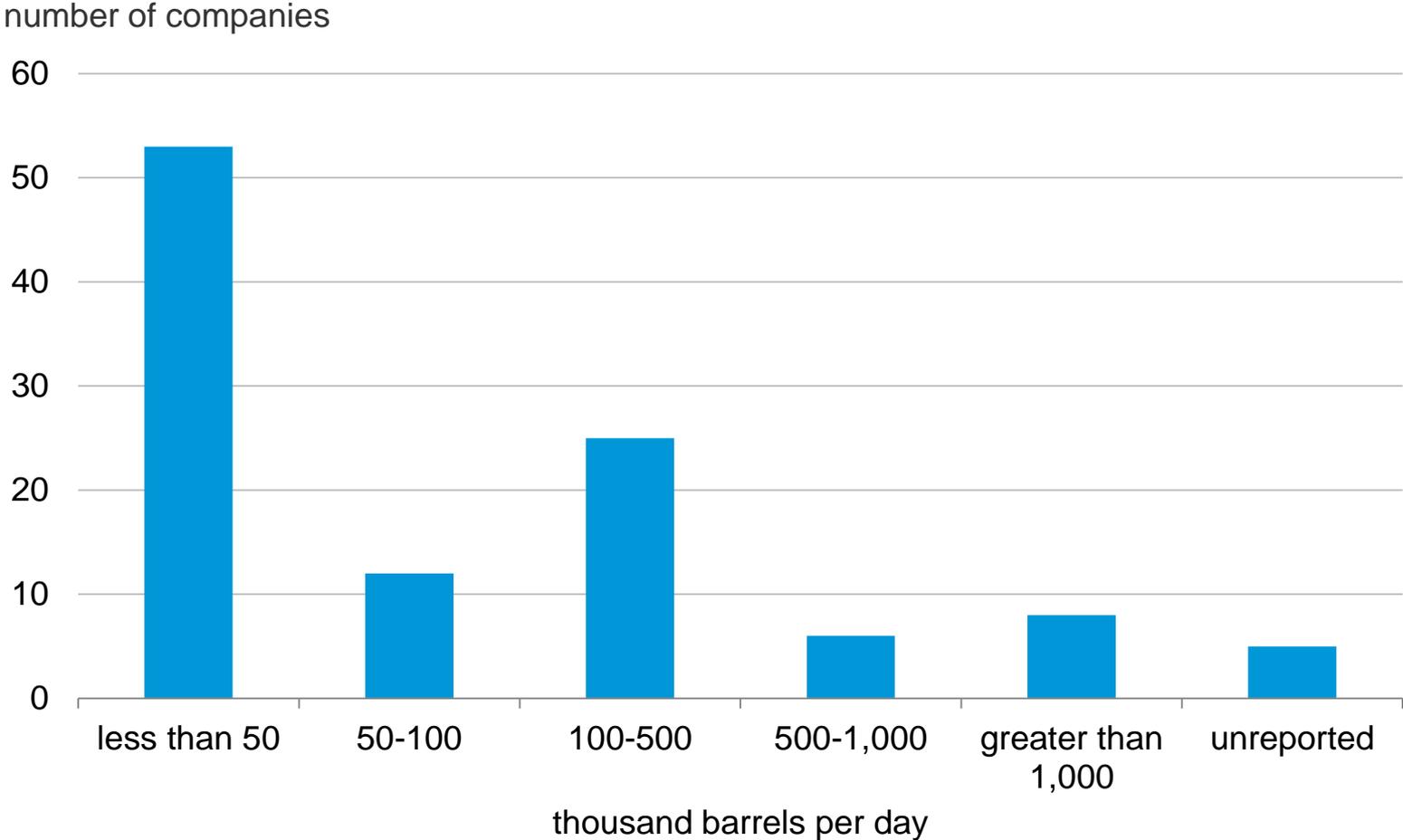
Geographic distribution

number of companies



Source: U.S. Energy Information Administration, based on Evaluate Energy database

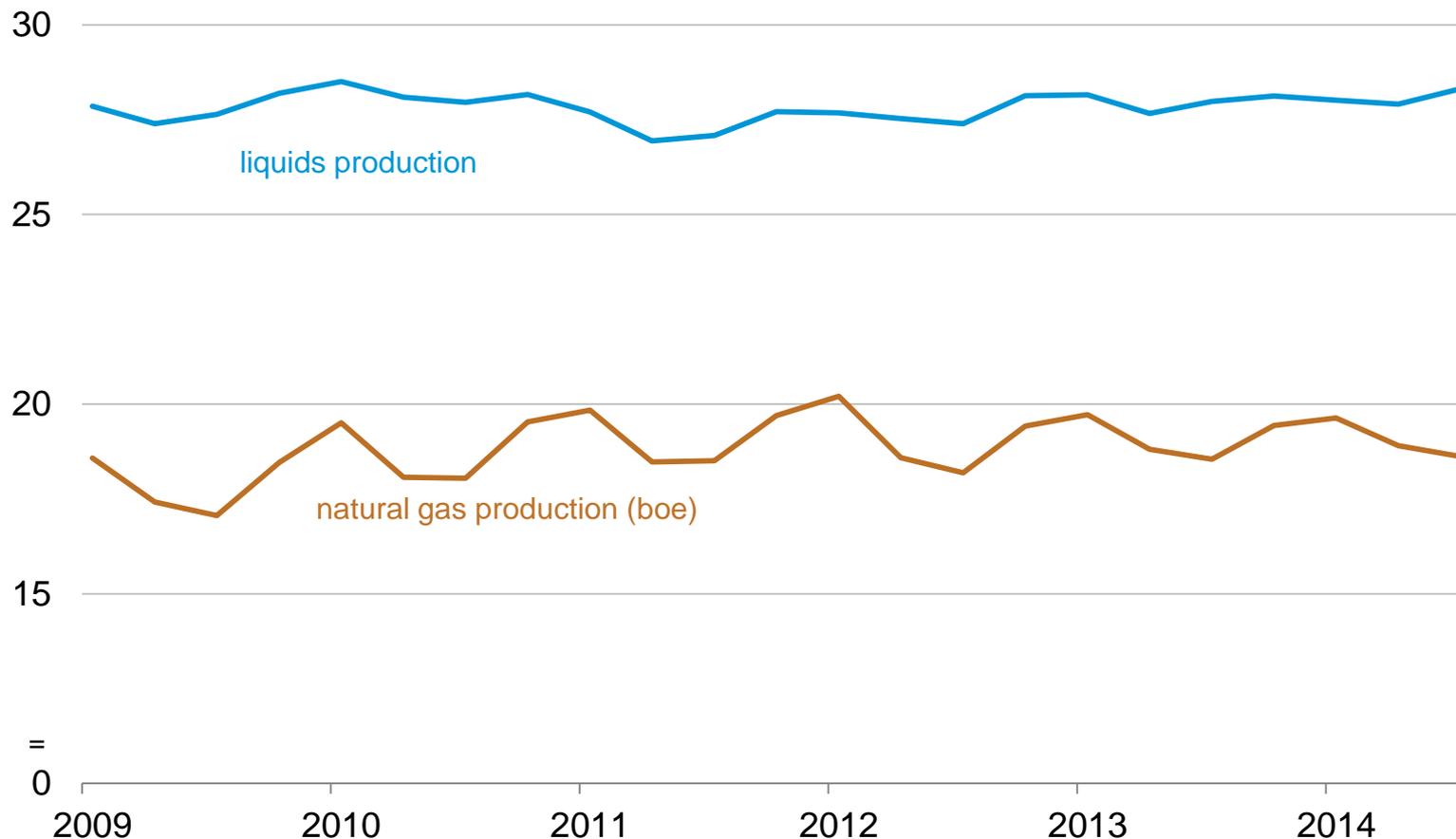
Liquids distribution for producing companies



Source: U.S. Energy Information Administration, based on Evaluate Energy database

The energy companies produced 28.3 million barrels per day of liquids in the third quarter

million barrels per day

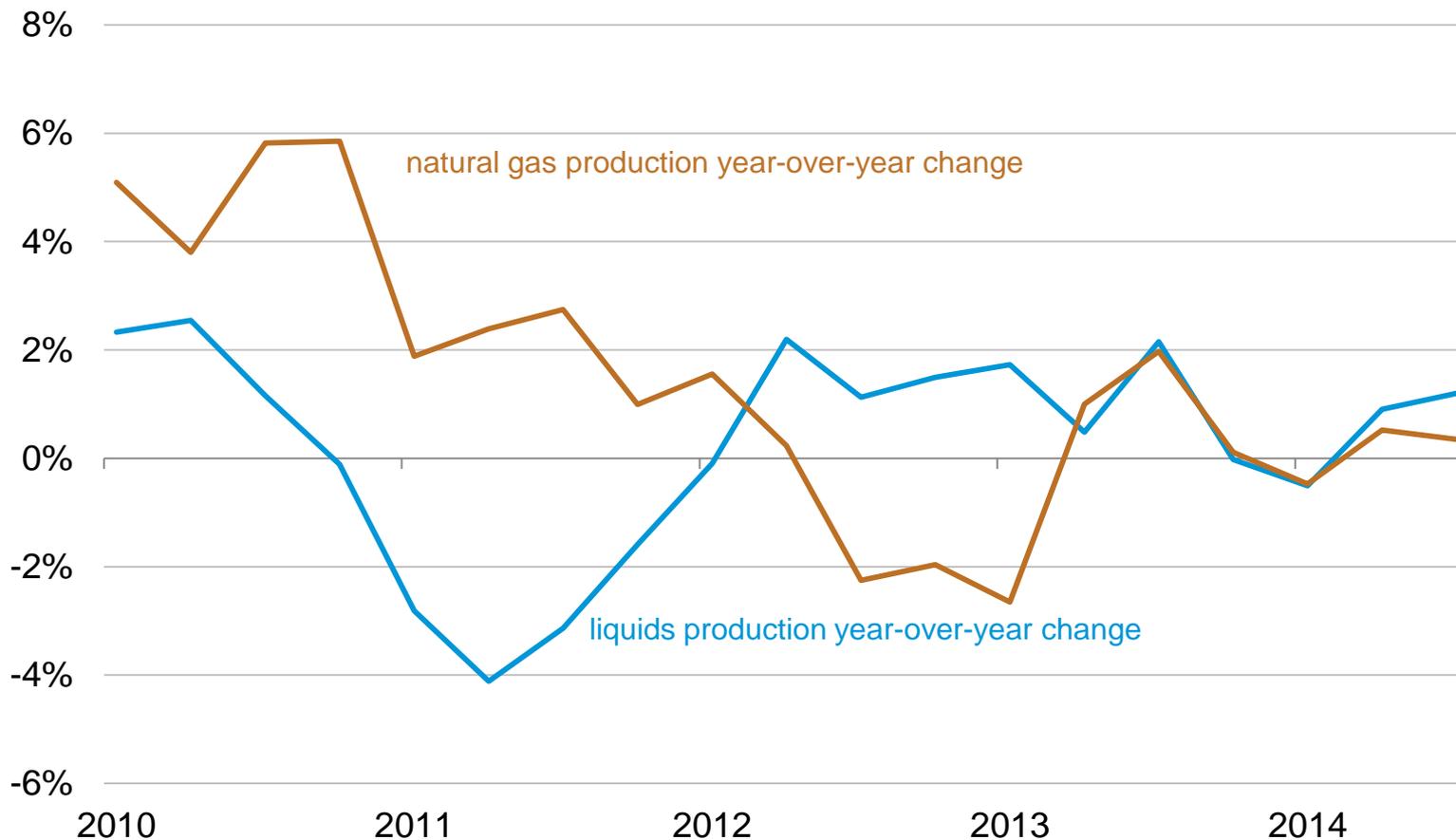


Source: U.S. Energy Information Administration, based on Evaluate Energy database

Note: boe=barrels of oil equivalent

Third-quarter 2014 liquids and natural gas production increased 1.2% and 0.4%, respectively, over third-quarter 2013.

year-over-year change

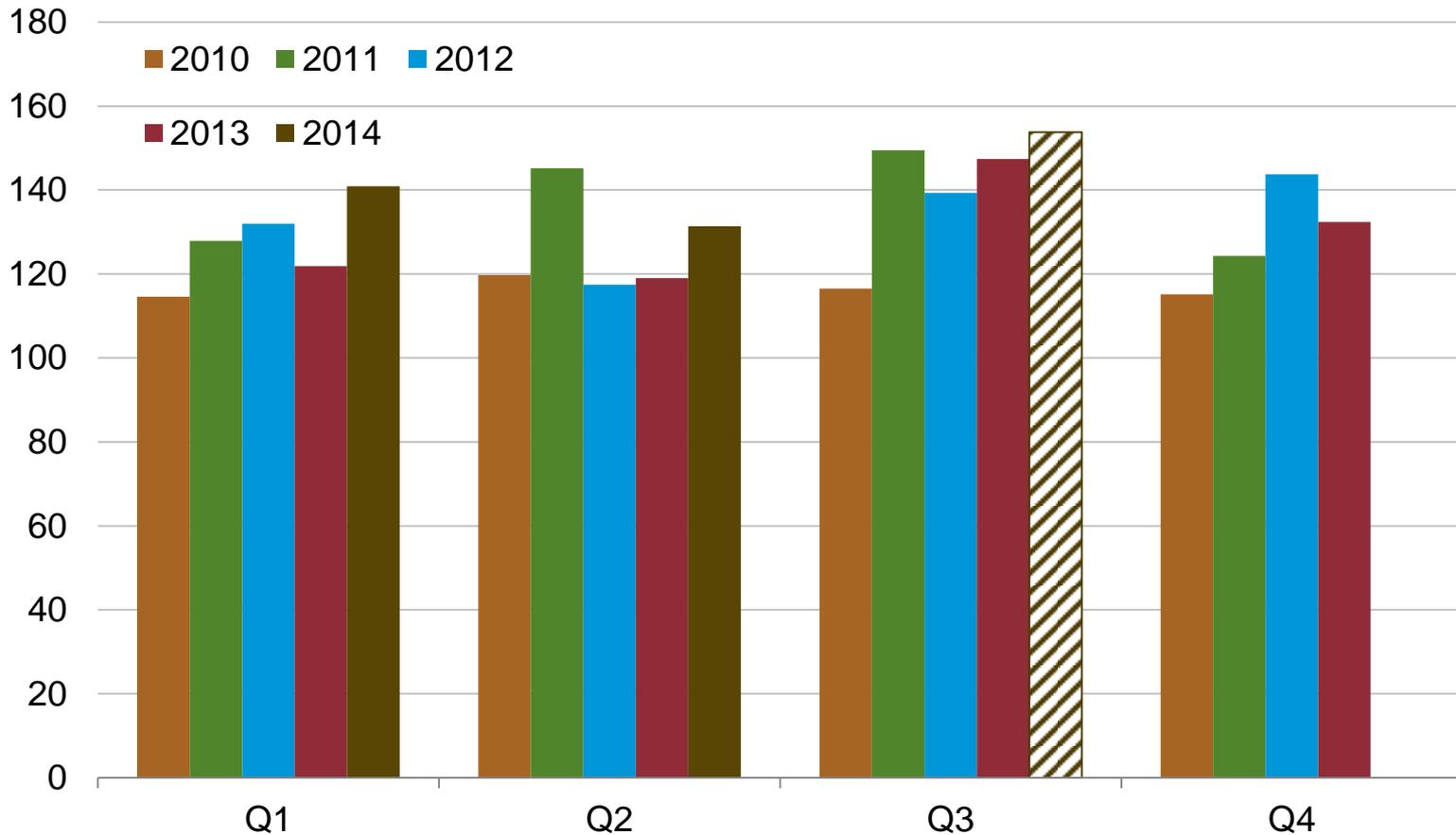


Source: U.S. Energy Information Administration, based on Evaluate Energy database

Cash from operations was 3% higher than the same quarter last year and the highest for any quarter over the past five years.

cash from operations

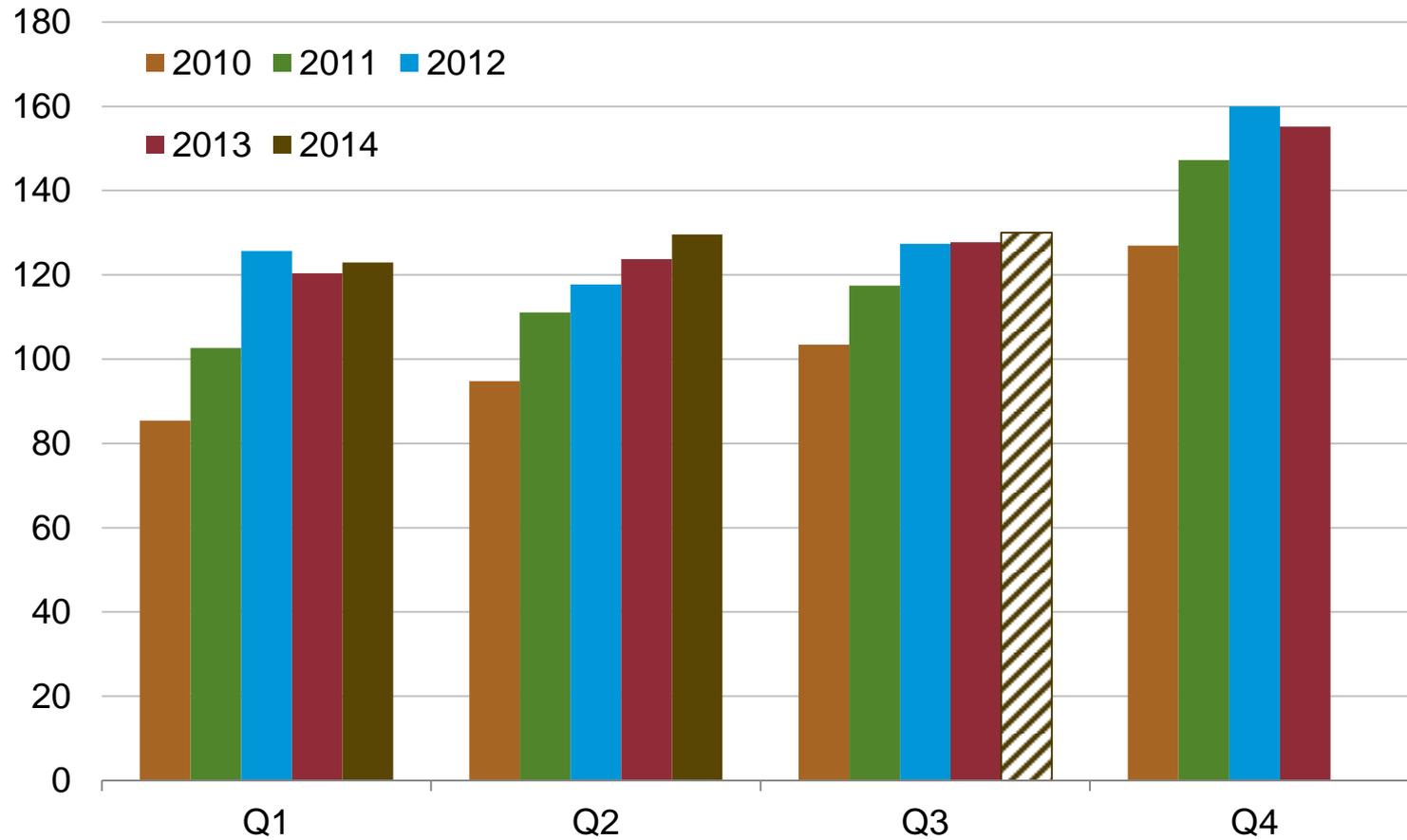
billion 2014\$



Source: U.S. Energy Information Administration, based on Evaluate Energy database

Third-quarter 2014 capital expenditure increased 2% from the same period last year.

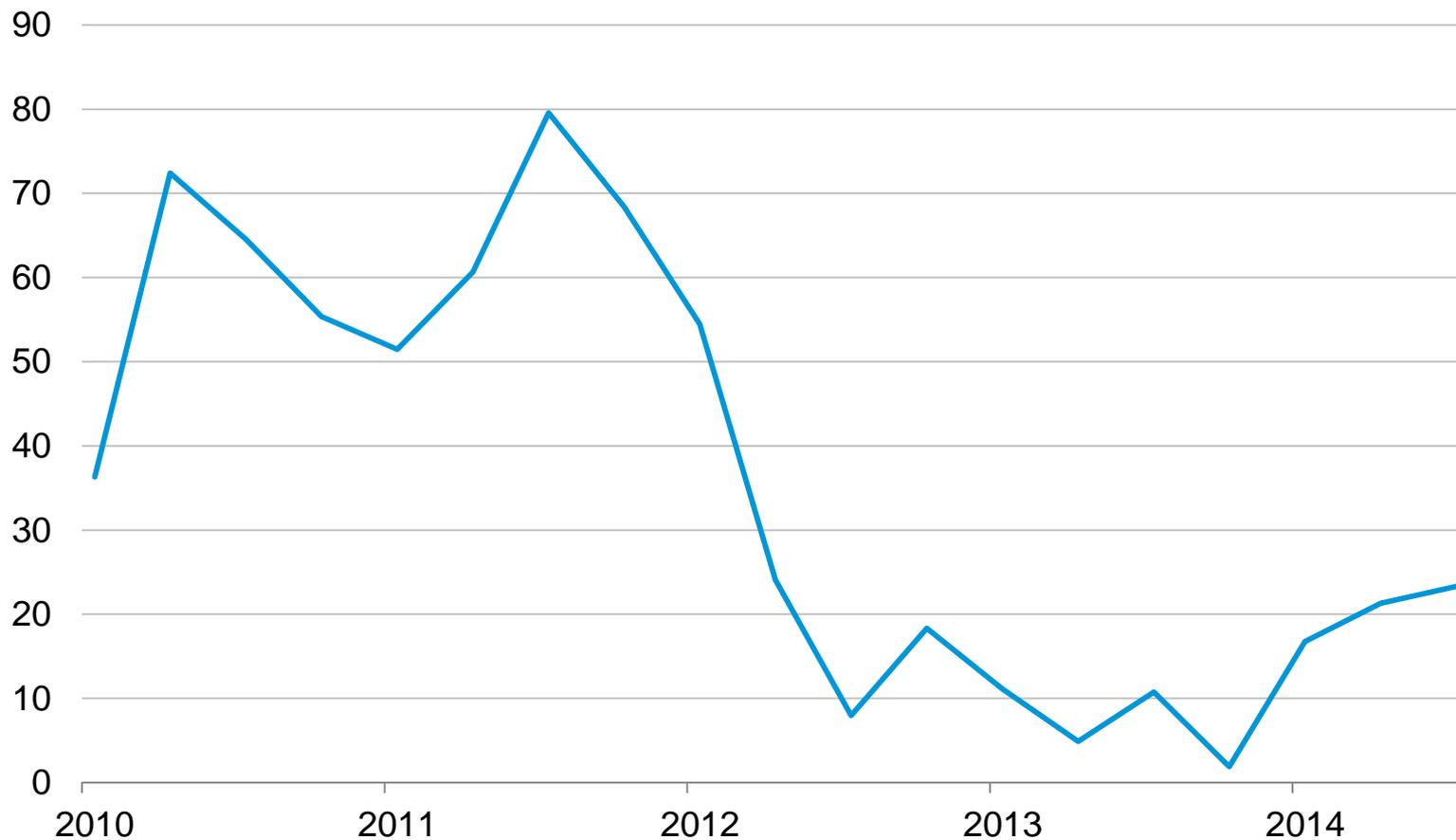
capital expenditure
billion 2014\$



Source: U.S. Energy Information Administration, based on Evaluate Energy database

For the four quarters ending 9/30/14, cash from operations less capital expenditure totaled \$23.3 billion

annualized free cash flow
billion 2014\$

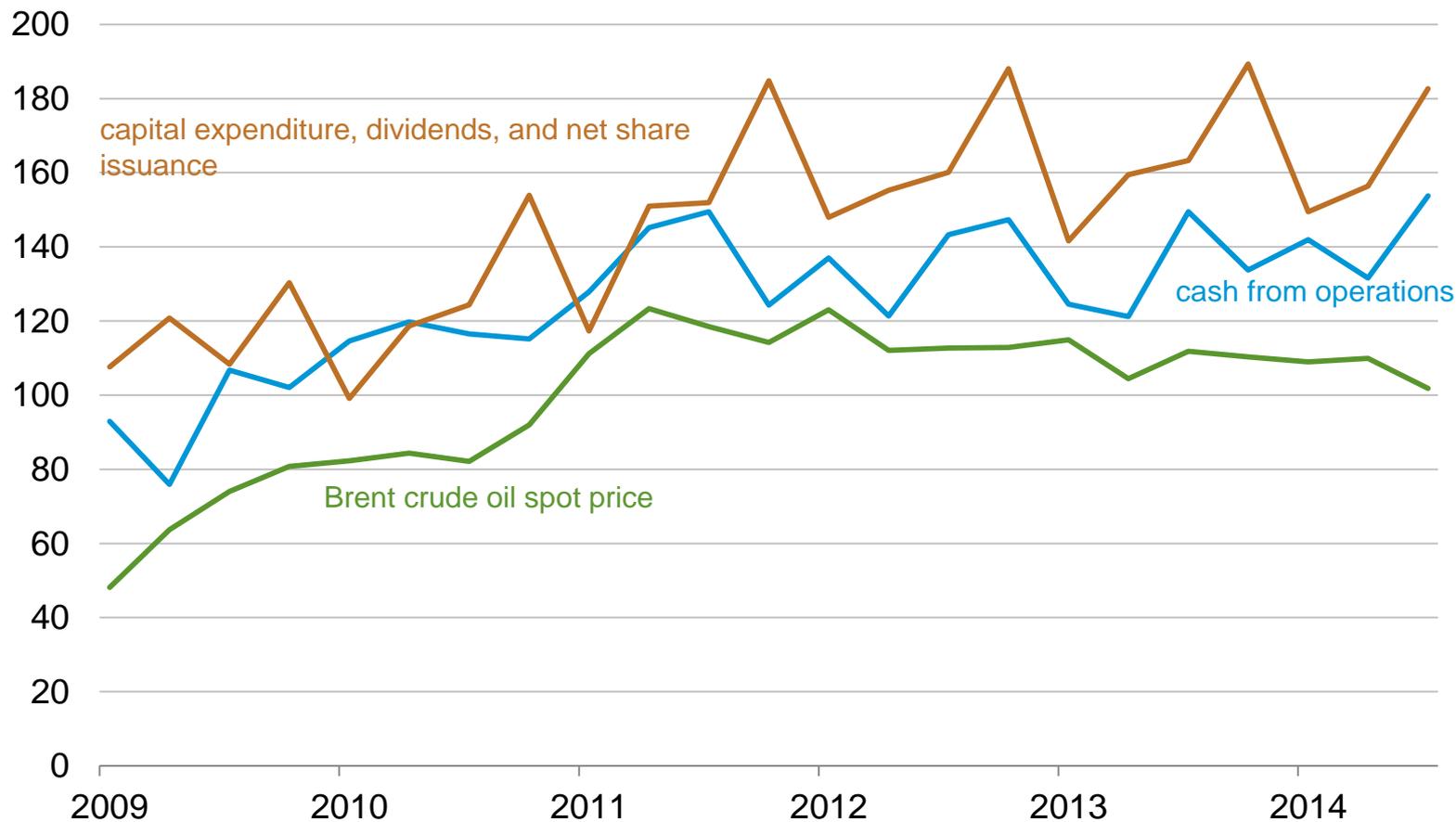


Source: U.S. Energy Information Administration, based on Evaluate Energy database

Note: Free cash flow=cash from operations minus capital expenditure

Main uses of cash increased \$19.3 billion from last year, the largest annual increase since 2012.

billion 2014\$, Brent in 2014\$/barrel

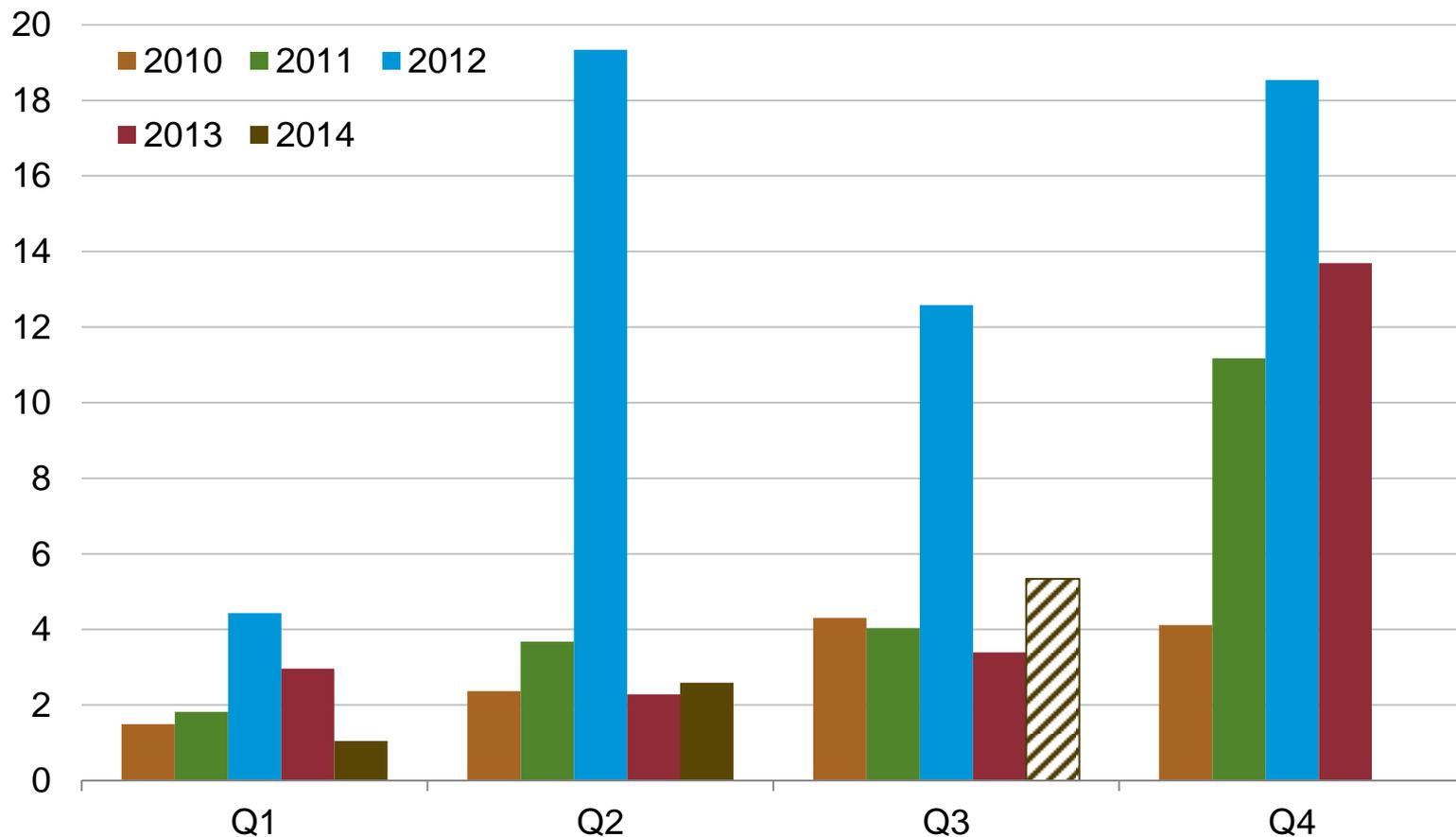


Sources: Thomson Reuters; and U.S. Energy Information Administration, based on Evaluate Energy database

Asset impairments were the largest for the third quarter since 2012, at \$5.3 billion

asset impairments

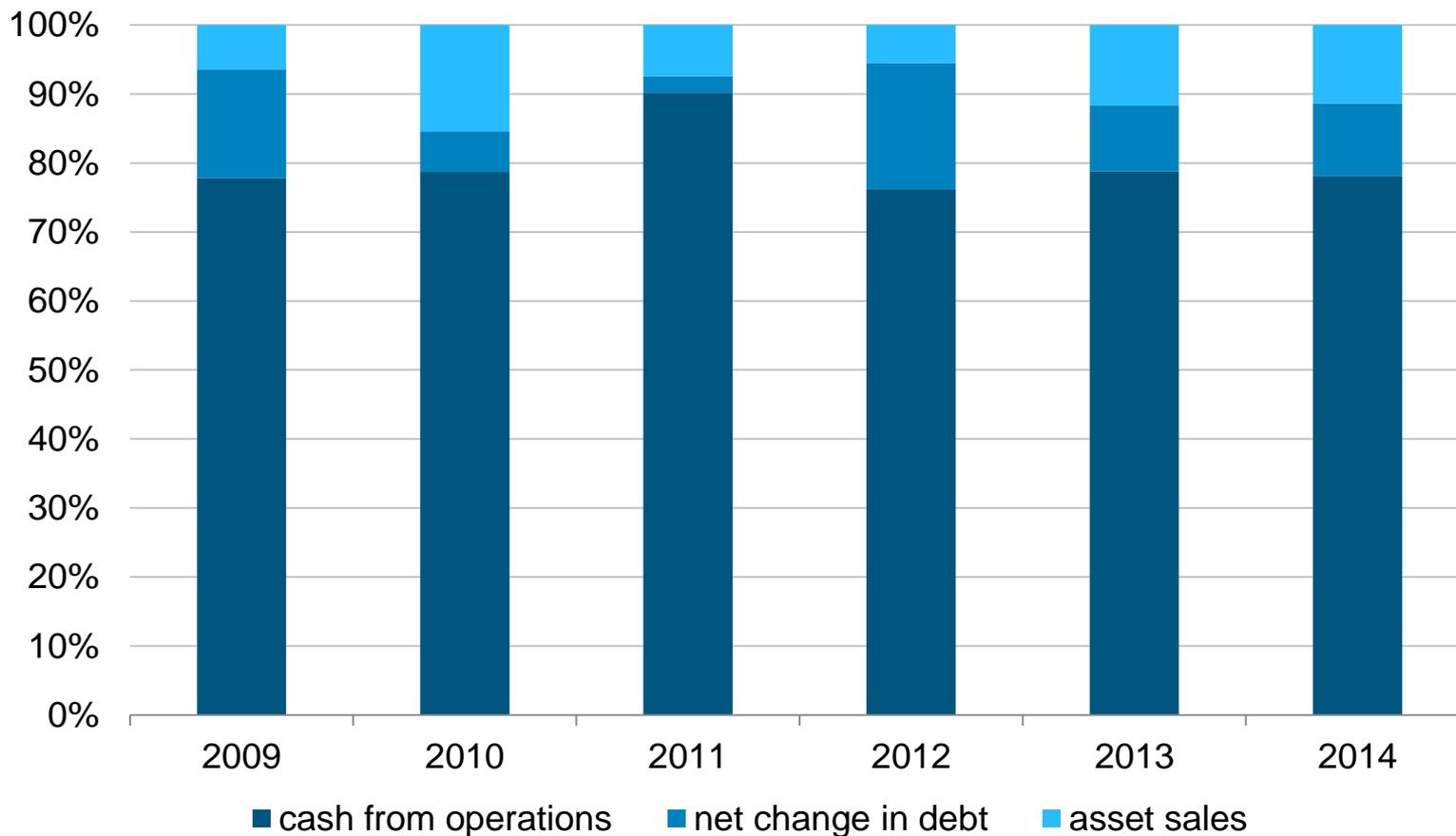
billion 2014\$



Source: U.S. Energy Information Administration, based on Evaluate Energy database

Cash from operations comprised 78% of cash sources, similar to last year

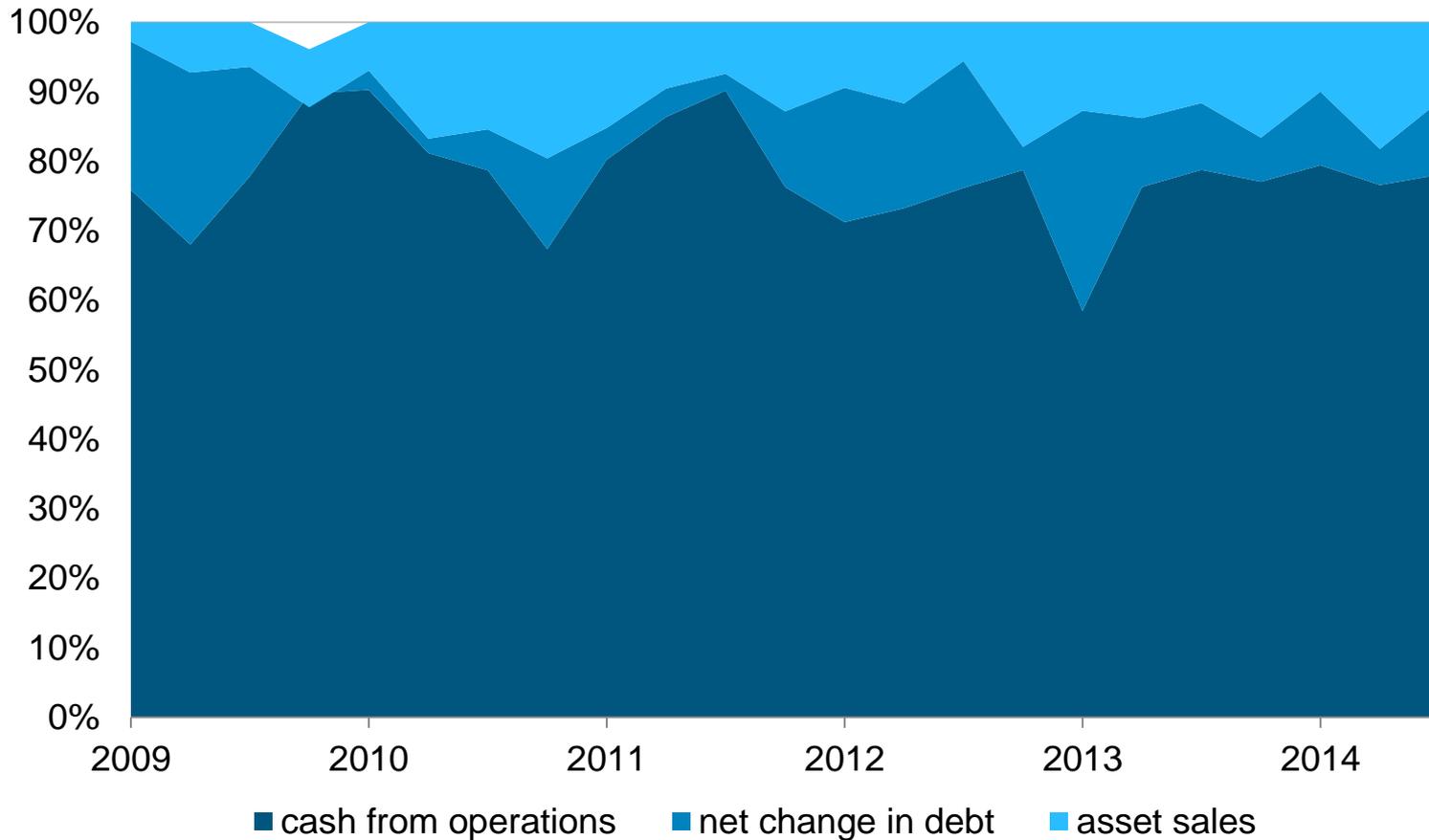
third-quarter sources of cash



Source: U.S. Energy Information Administration, based on Evaluate Energy database

Cash from operations dropped from 80% of cash sources on average from 2009-11 to 75% since 2012.

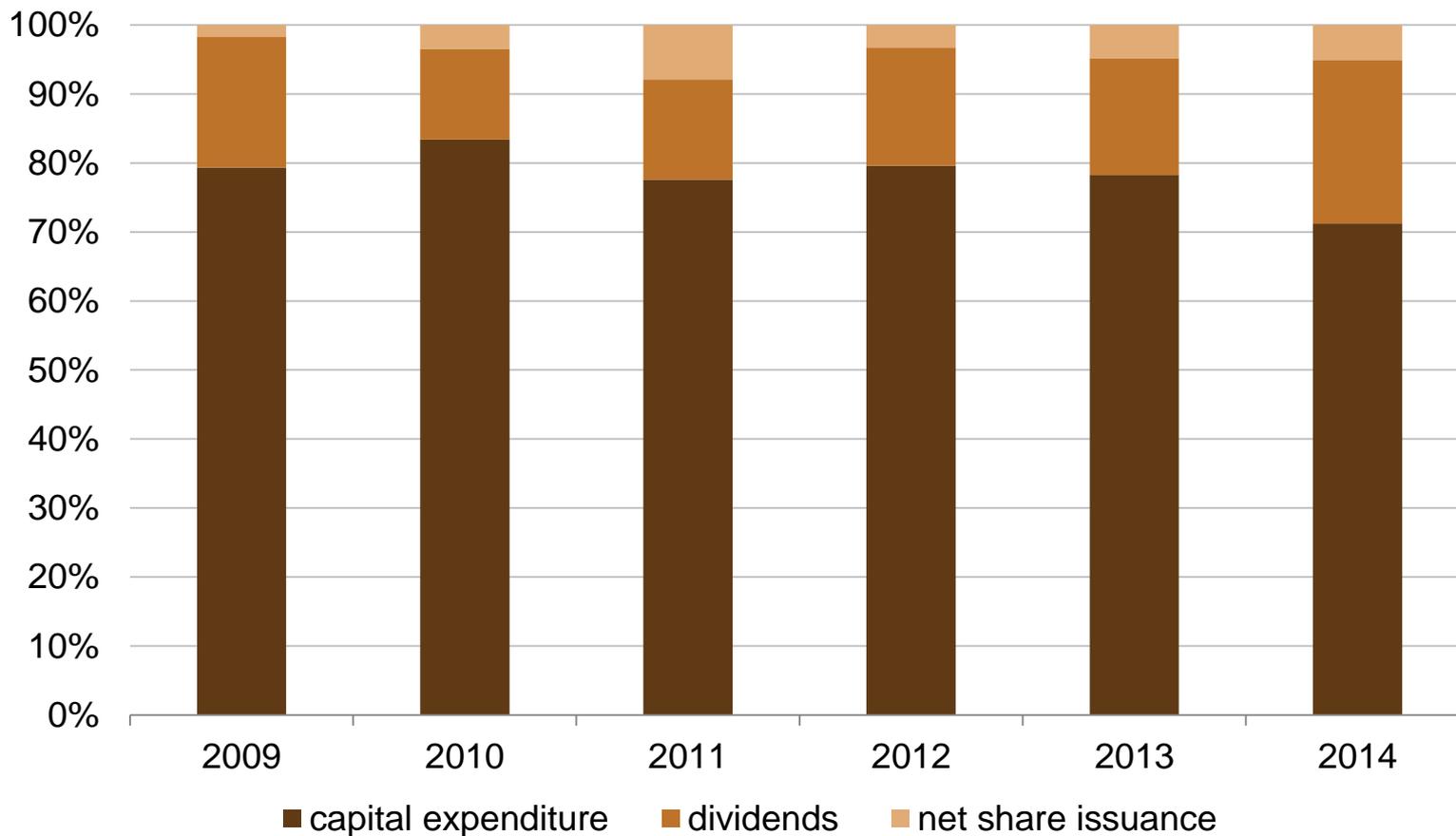
sources of cash



Source: U.S. Energy Information Administration, based on Evaluate Energy database

Dividends to shareholders increased to their largest share of cash use for the third quarter since 2009, at 24%.

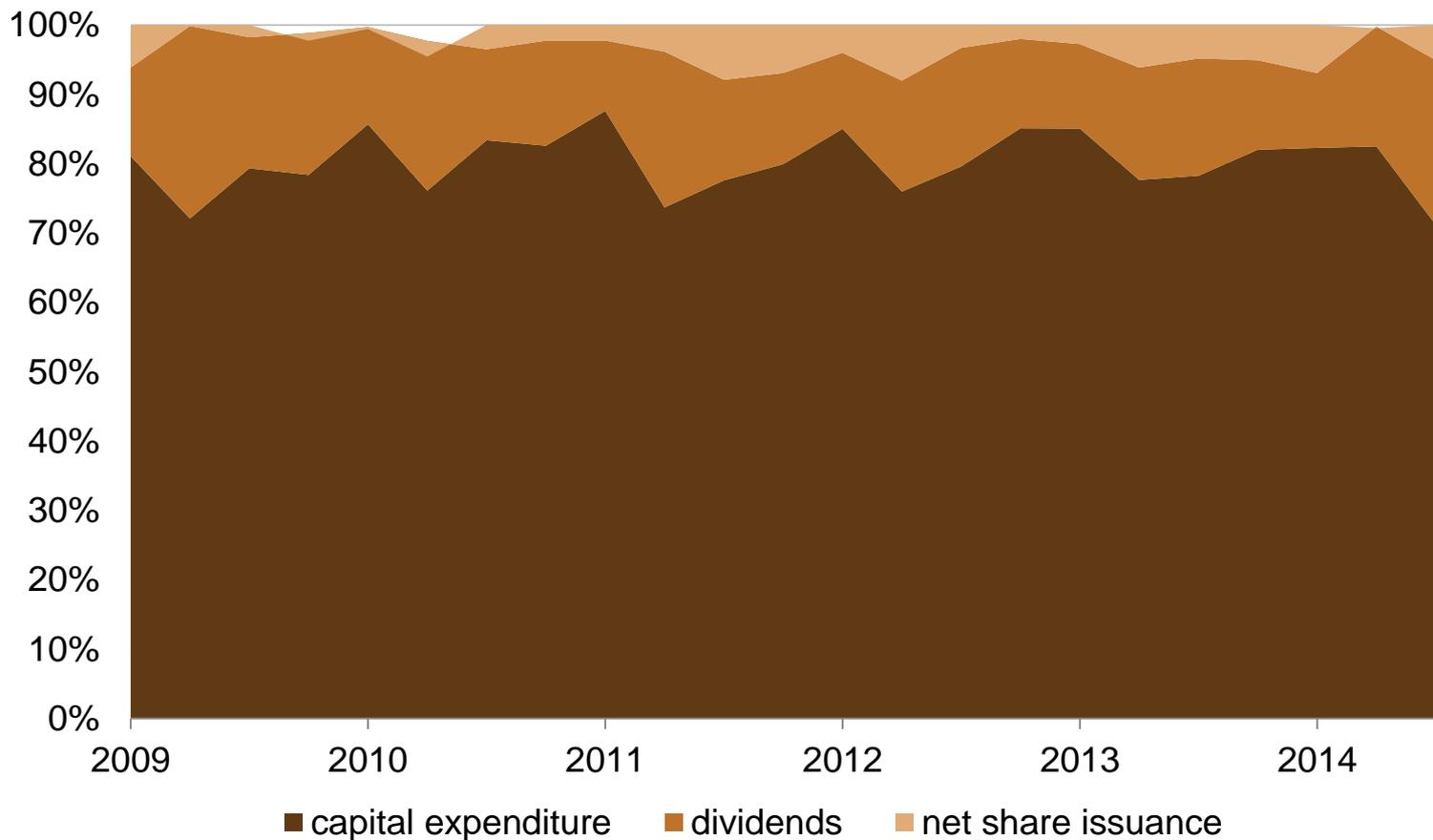
third-quarter uses of cash



Source: U.S. Energy Information Administration, based on Evaluate Energy database

Dividends to shareholders increased \$15.8 billion from last year, leading to their largest share of cash use since 2009.

uses of cash

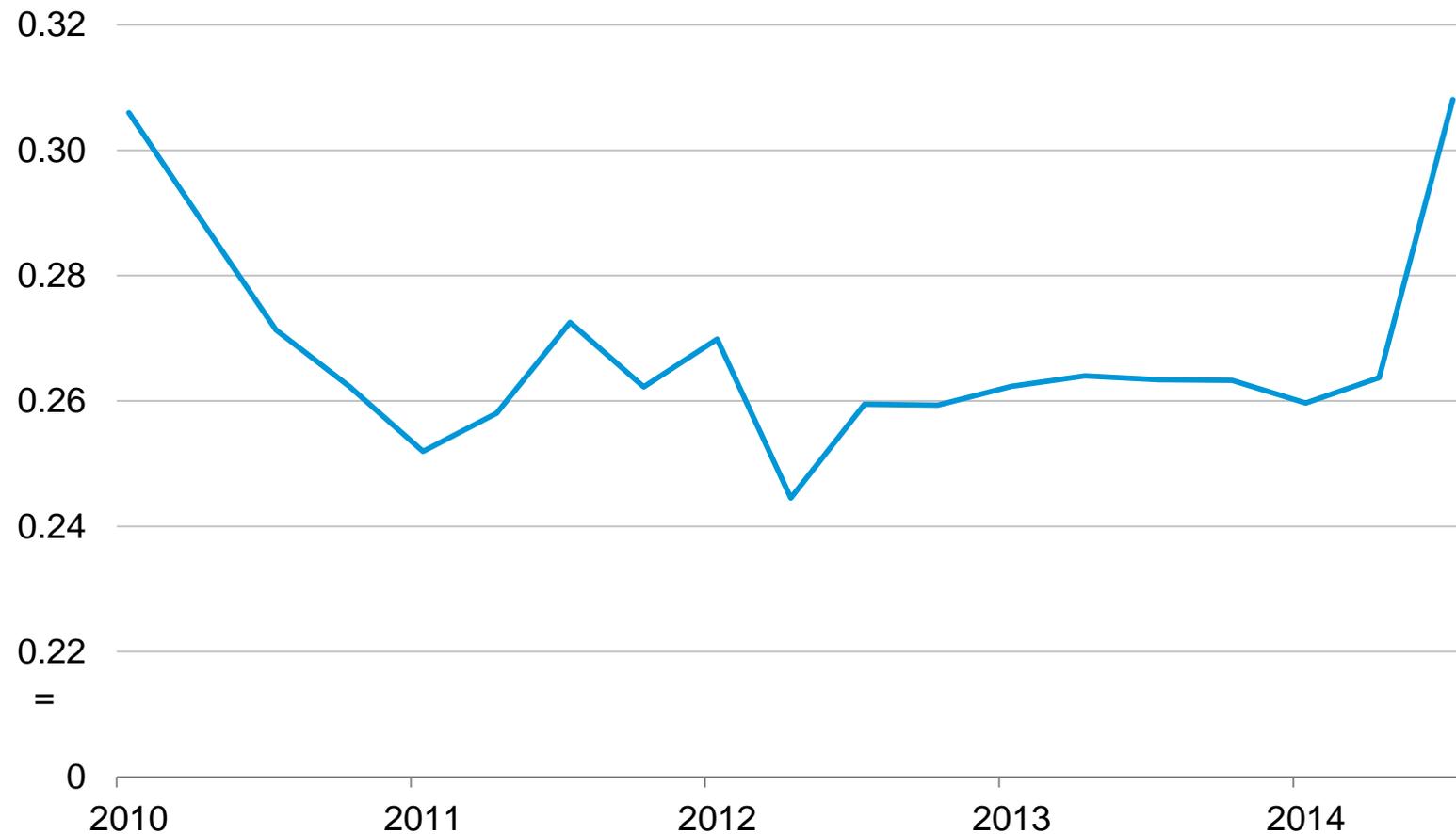


Source: U.S. Energy Information Administration, based on Evaluate Energy database

Dividend increases combined with share repurchases increased dividends per share to 2009 levels

annualized dividends per share

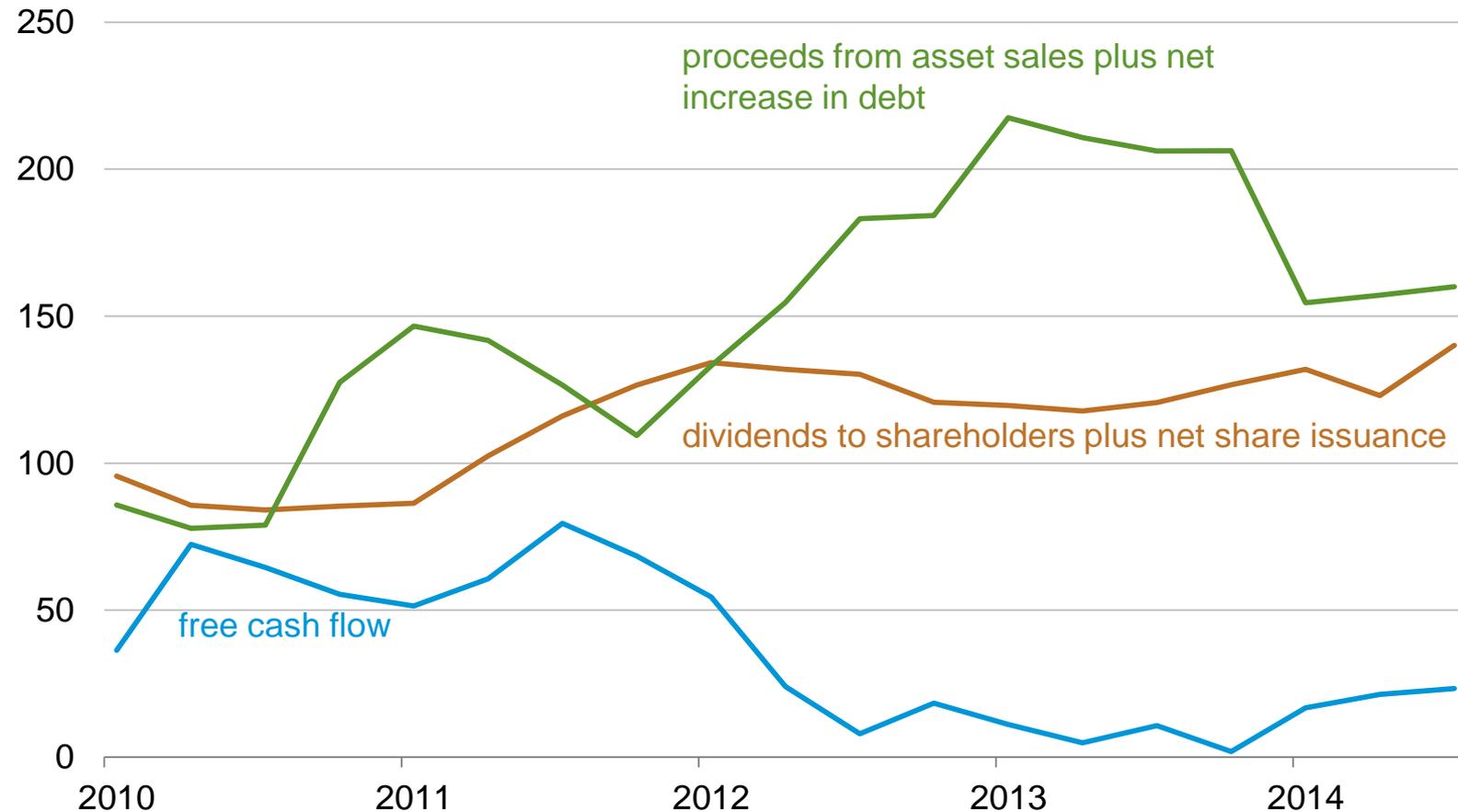
2014\$



Source: U.S. Energy Information Administration, based on Evaluate Energy database

After paying for investment, cash generated from operations has not been enough to pay for dividends and share repurchases

annualized sources and uses of cash
billion 2014\$



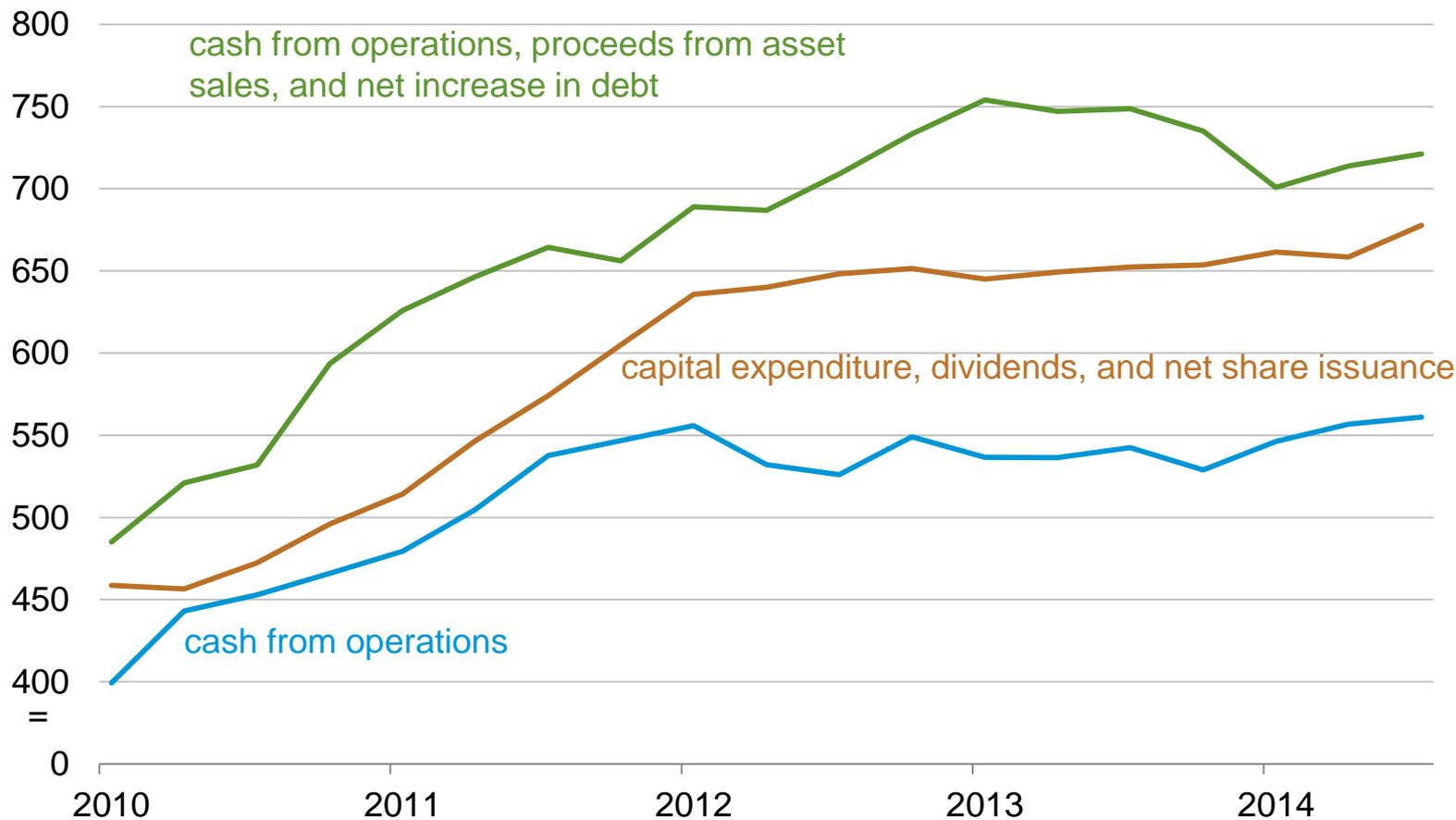
Source: U.S. Energy Information Administration, based on Evaluate Energy database

Note: Free cash flow=cash from operations minus capital expenditure

For the four quarters ending 9/30/14, cash from operations totaled \$561 billion, and major uses of cash totaled \$678 billion

annualized major sources and uses of cash

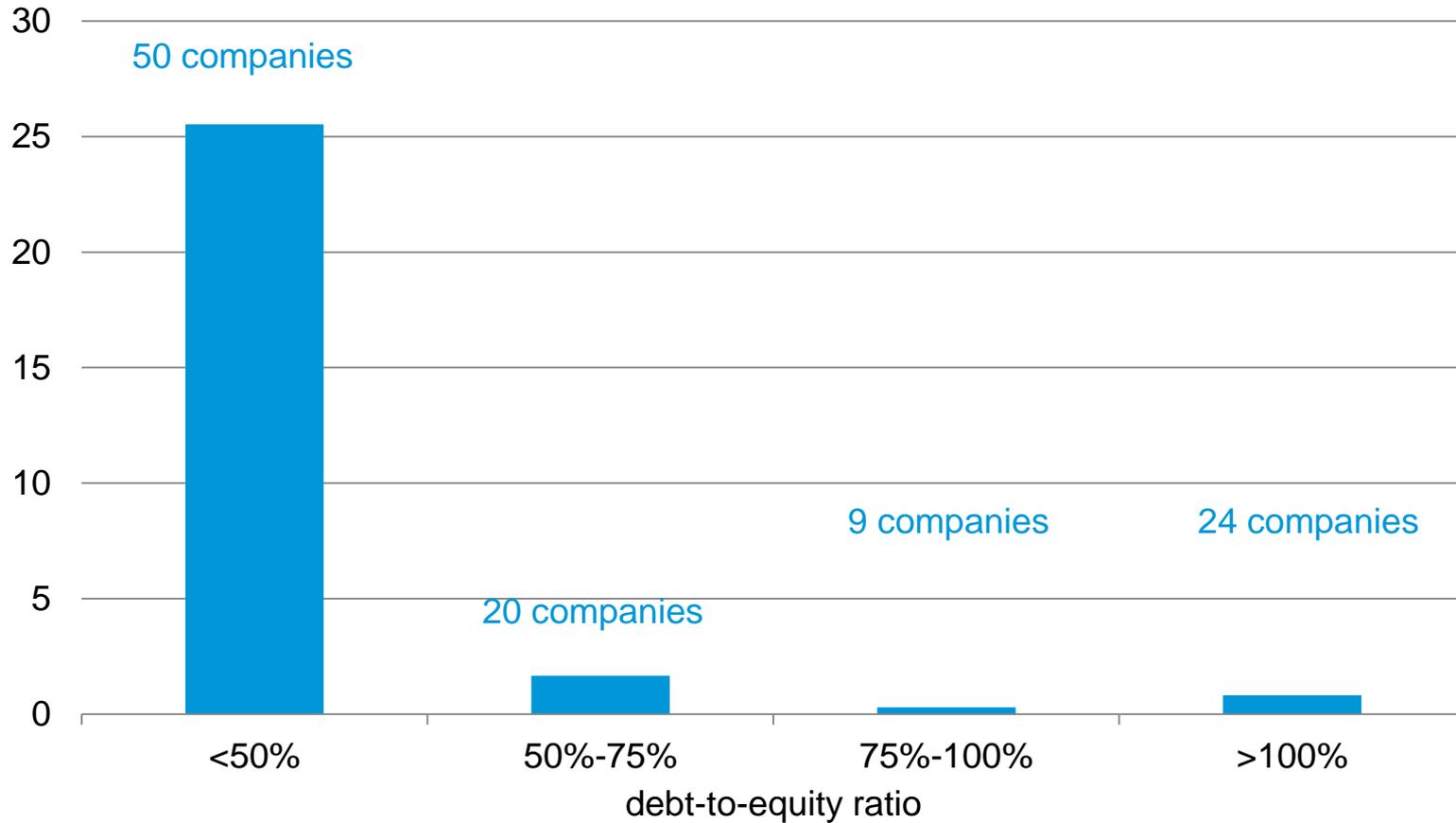
billion 2014\$



Source: U.S. Energy Information Administration, based on Evaluate Energy database

Companies with a debt to equity ratio less than 50% produced the highest amount of liquids in third-quarter, 2014

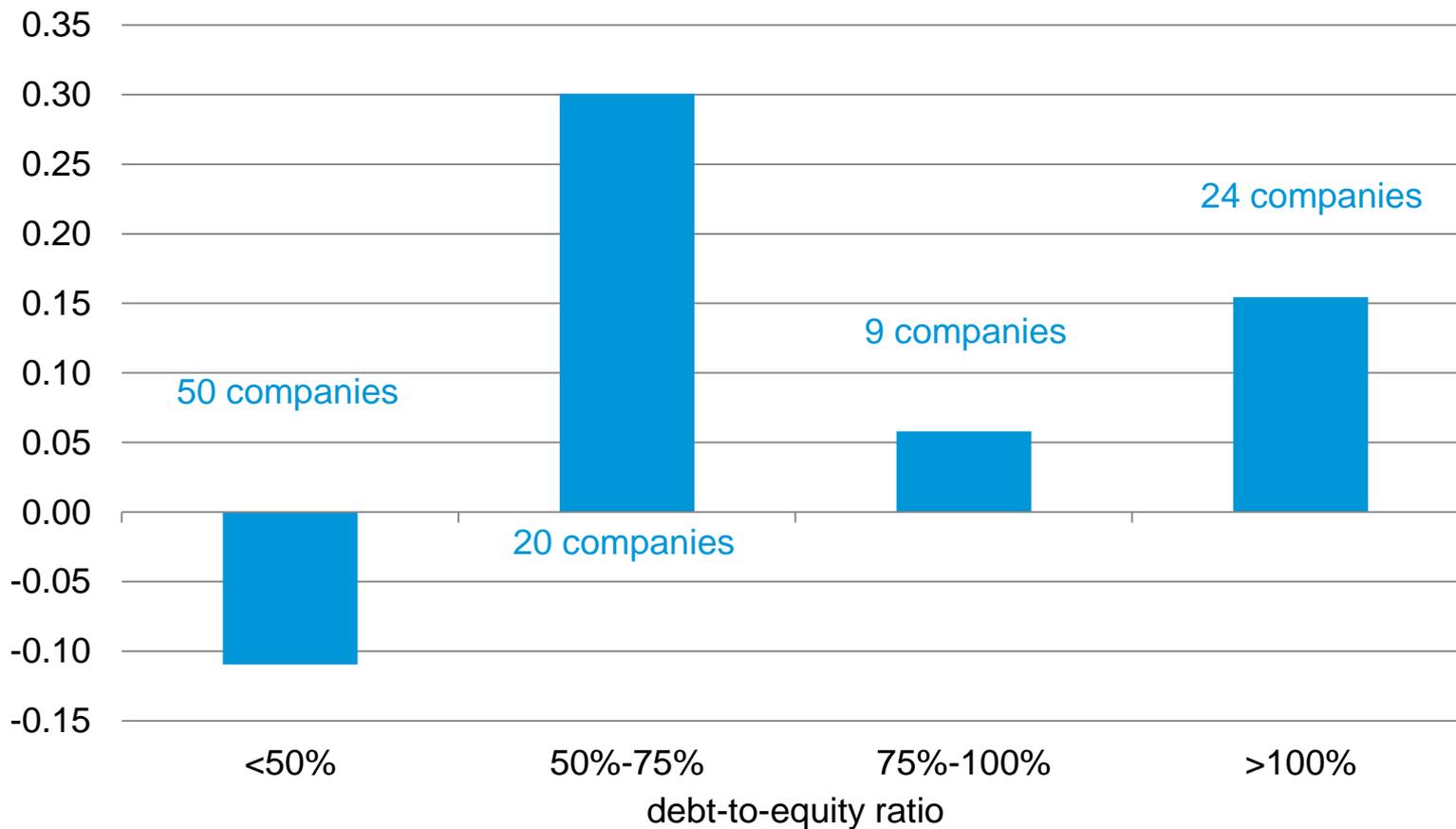
liquids production, million barrels per day



Source: U.S. Energy Information Administration, based on Evaluate Energy database

However, companies with higher debt to equity ratios increased their production over the previous year

liquids production year-over-year change, million barrels per day

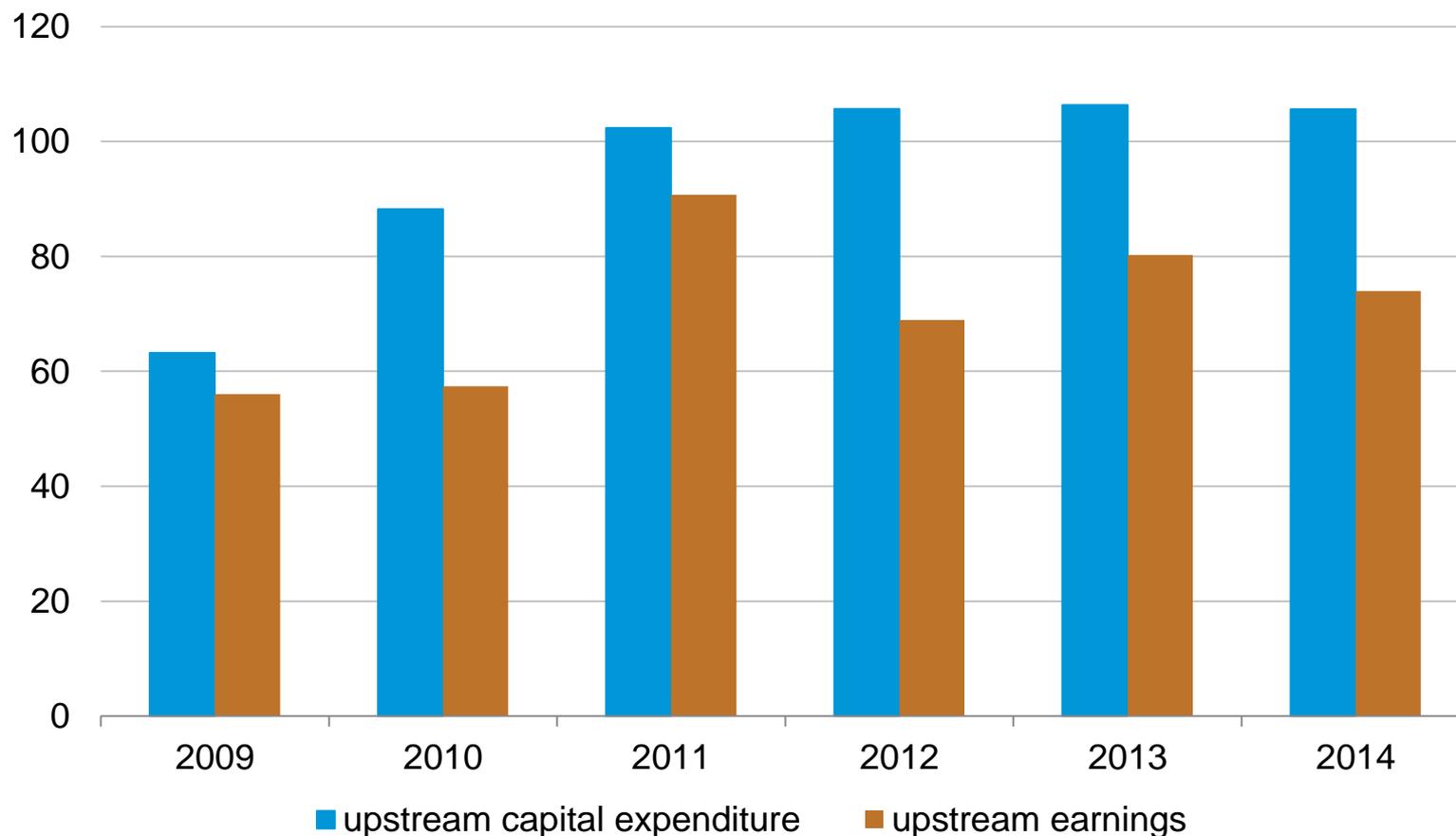


Source: U.S. Energy Information Administration, based on Evaluate Energy database

Upstream capital expenditure stayed flat, whereas earnings in the upstream sector declined 8% over third-quarter 2013

third-quarter upstream capital expenditure and earnings

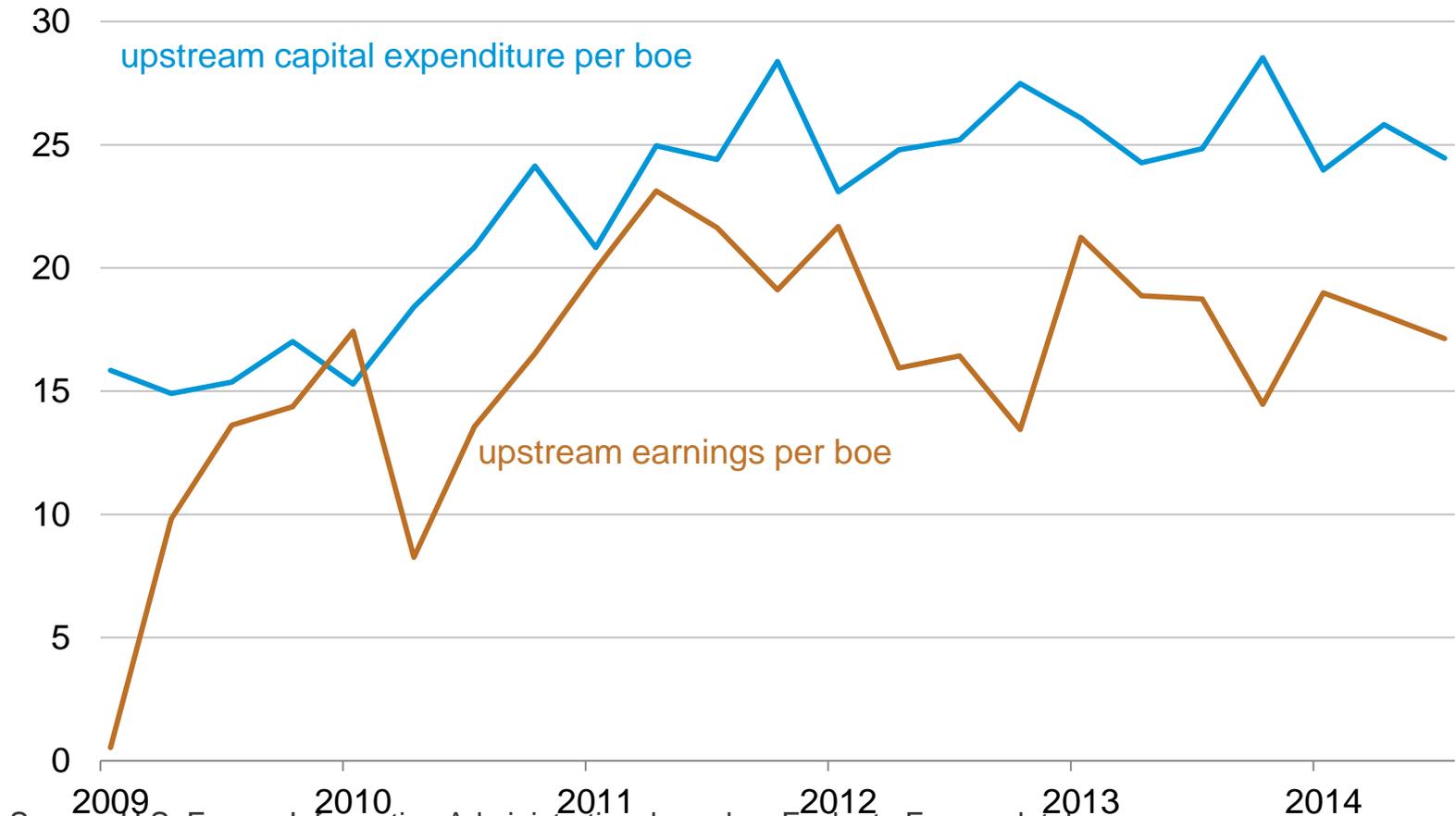
billion 2014\$



Source: U.S. Energy Information Administration, based on Evaluate Energy database

Earnings in the upstream sector declined since reaching a peak of \$23/boe in 2011

2014\$/barrel

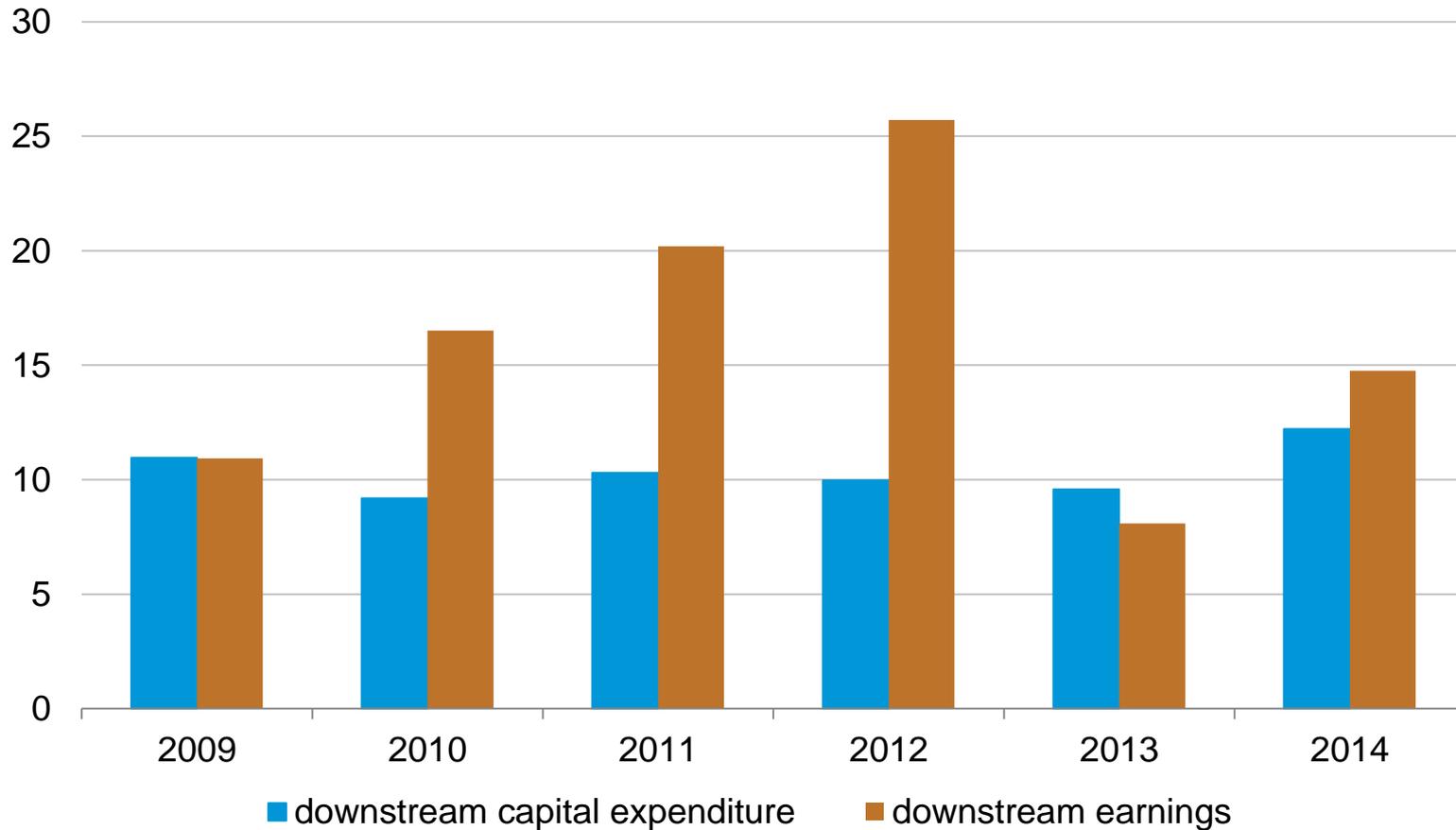


Source: U.S. Energy Information Administration, based on Evaluate Energy database

Note: boe=barrels of oil equivalent

Capital expenditure in the downstream sector was the highest since 2009, at over \$12 billion

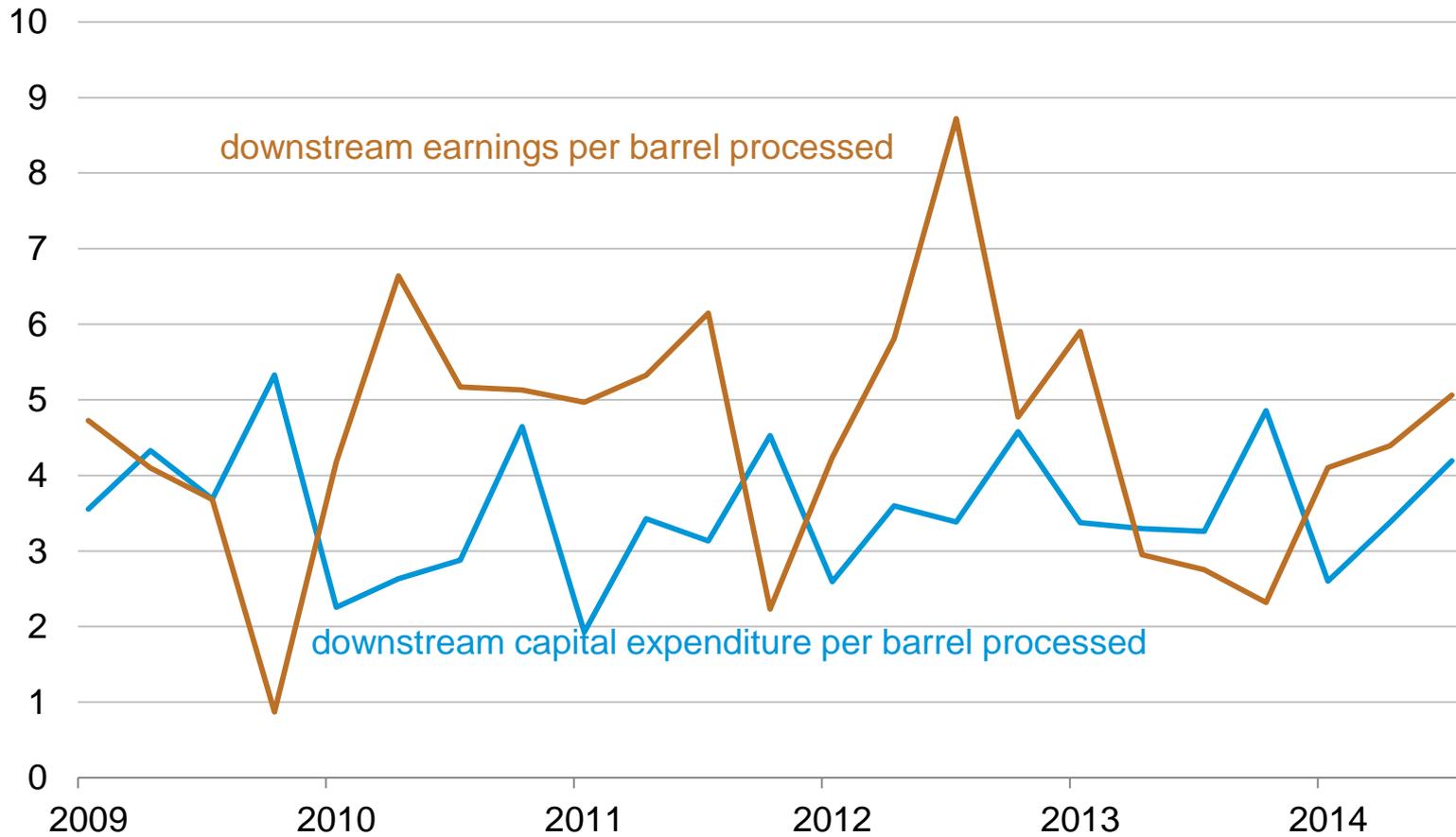
third-quarter downstream capital expenditure
and earnings
billion 2014\$



Source: U.S. Energy Information Administration, based on Evaluate Energy database

Profits in the downstream increased for the fourth straight quarter.

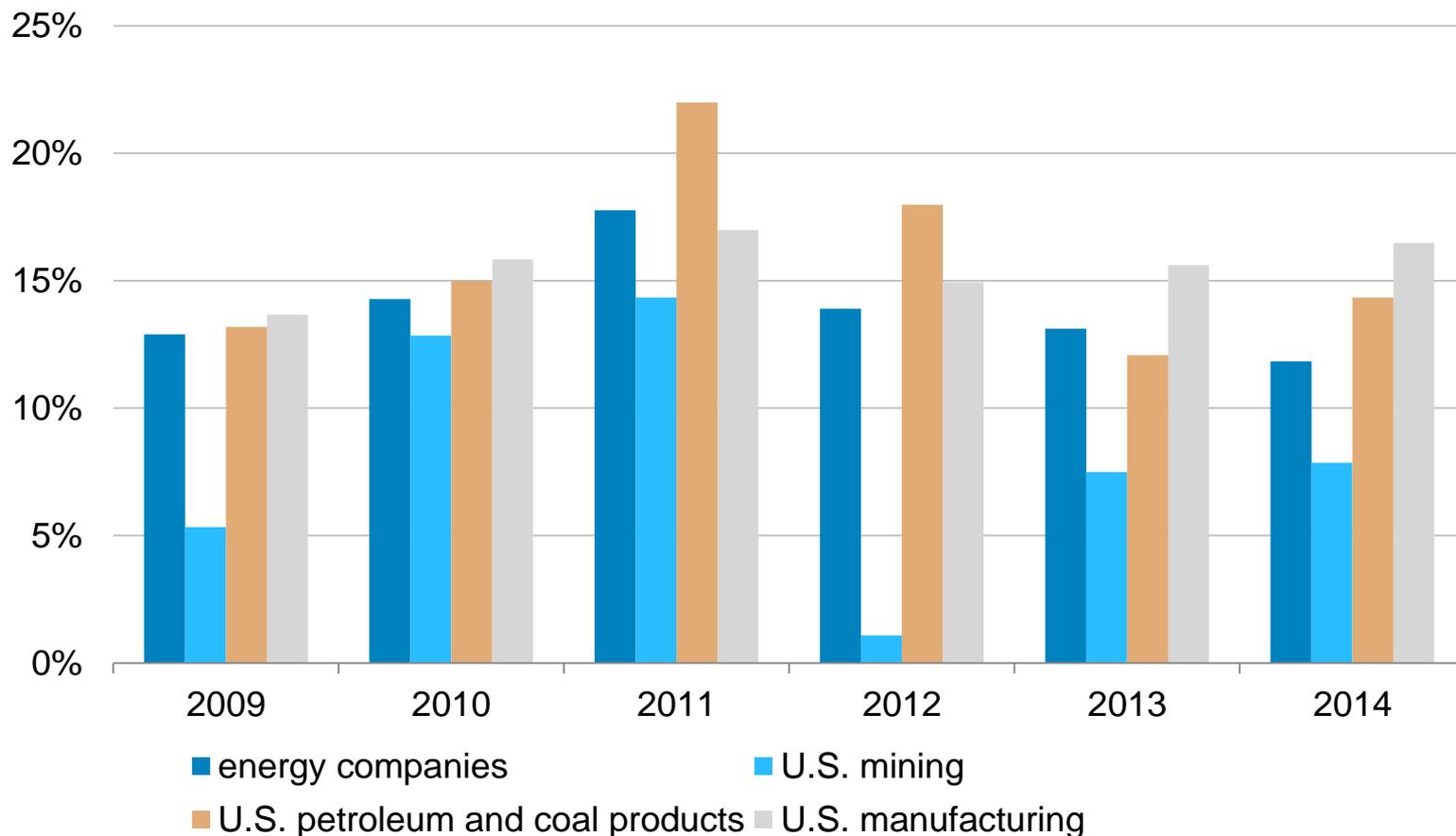
2014\$/barrel



Source: U.S. Energy Information Administration, based on Evaluate Energy database

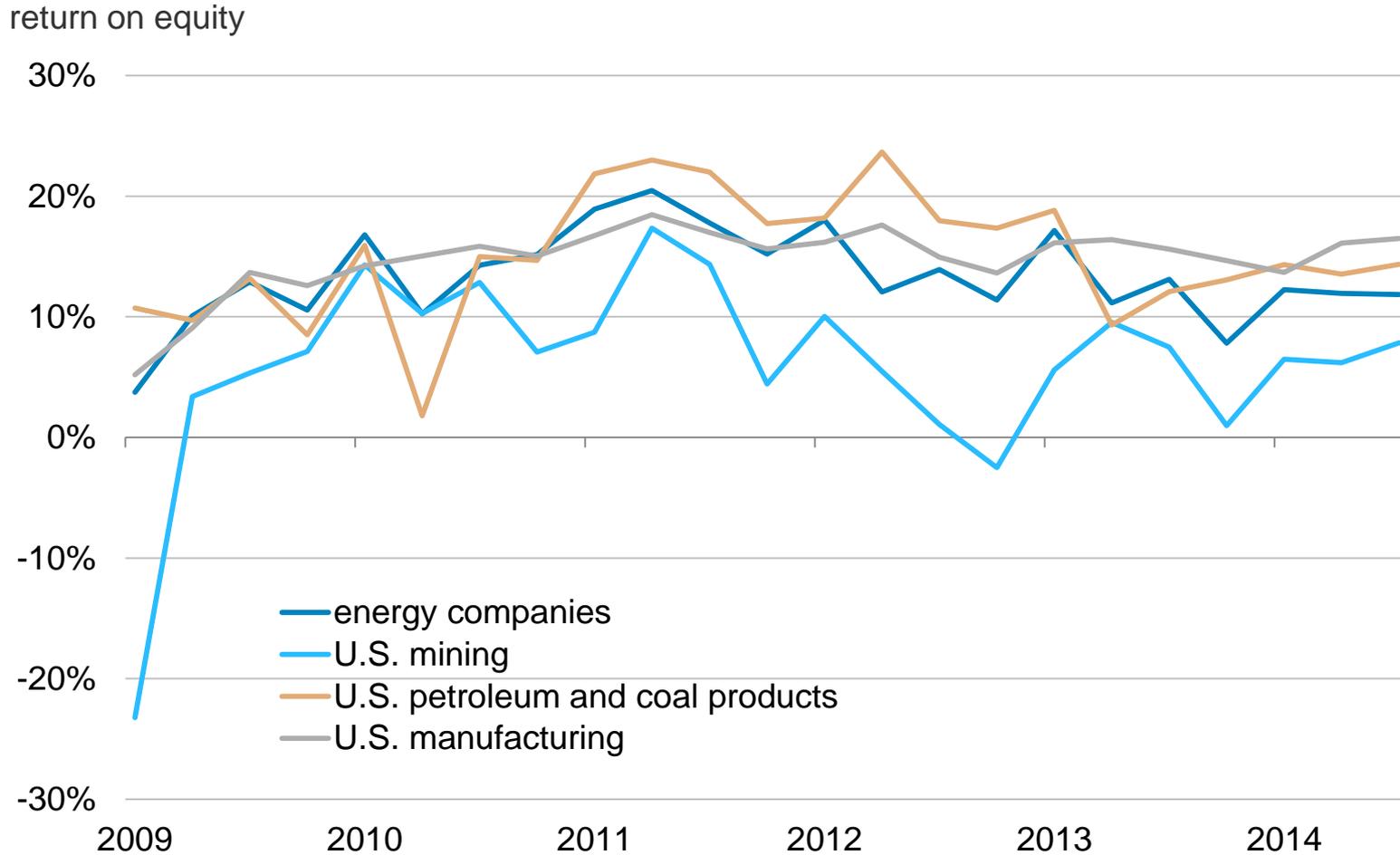
U.S. manufacturing companies were more profitable in aggregate than the 120 energy companies for a third year

third-quarter return on equity



Source: U.S. Energy Information Administration, based on Evaluate Energy database; U.S. Census Bureau, *Quarterly Financial Report*.

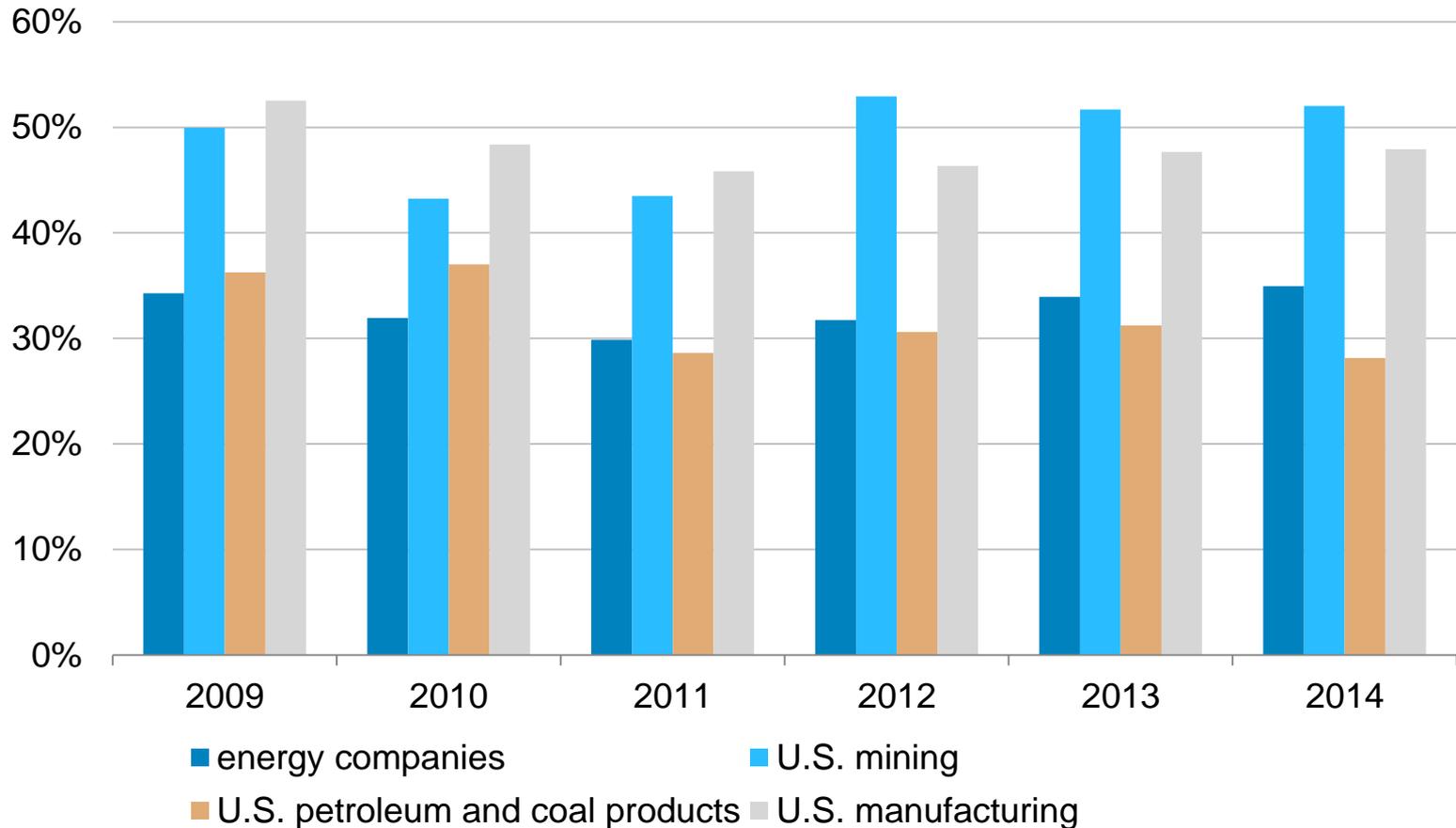
U.S. petroleum and coal companies were more profitable than these 120 energy companies



Source: U.S. Energy Information Administration, based on Evaluate Energy database; U.S. Census Bureau, *Quarterly Financial Report*.

U.S. petroleum and coal products companies decreased their long-term debt-to-equity 3 percentage points since last year.

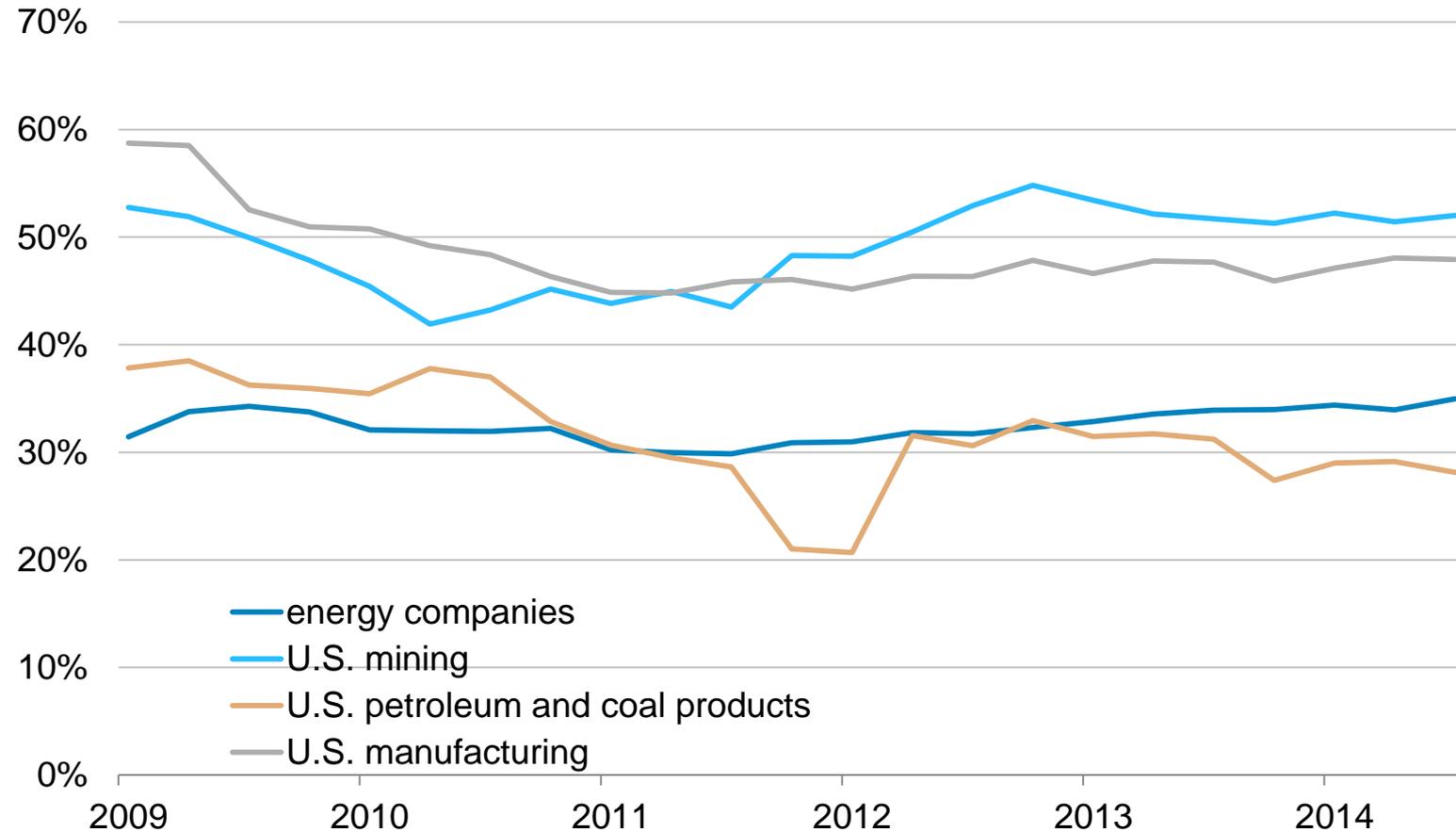
third-quarter long-term debt-to-equity



Source: U.S. Energy Information Administration, based on Evaluate Energy database; U.S. Census Bureau, *Quarterly Financial Report*.

Each sector's debt-to-equity ratio remained fairly stable throughout 2014

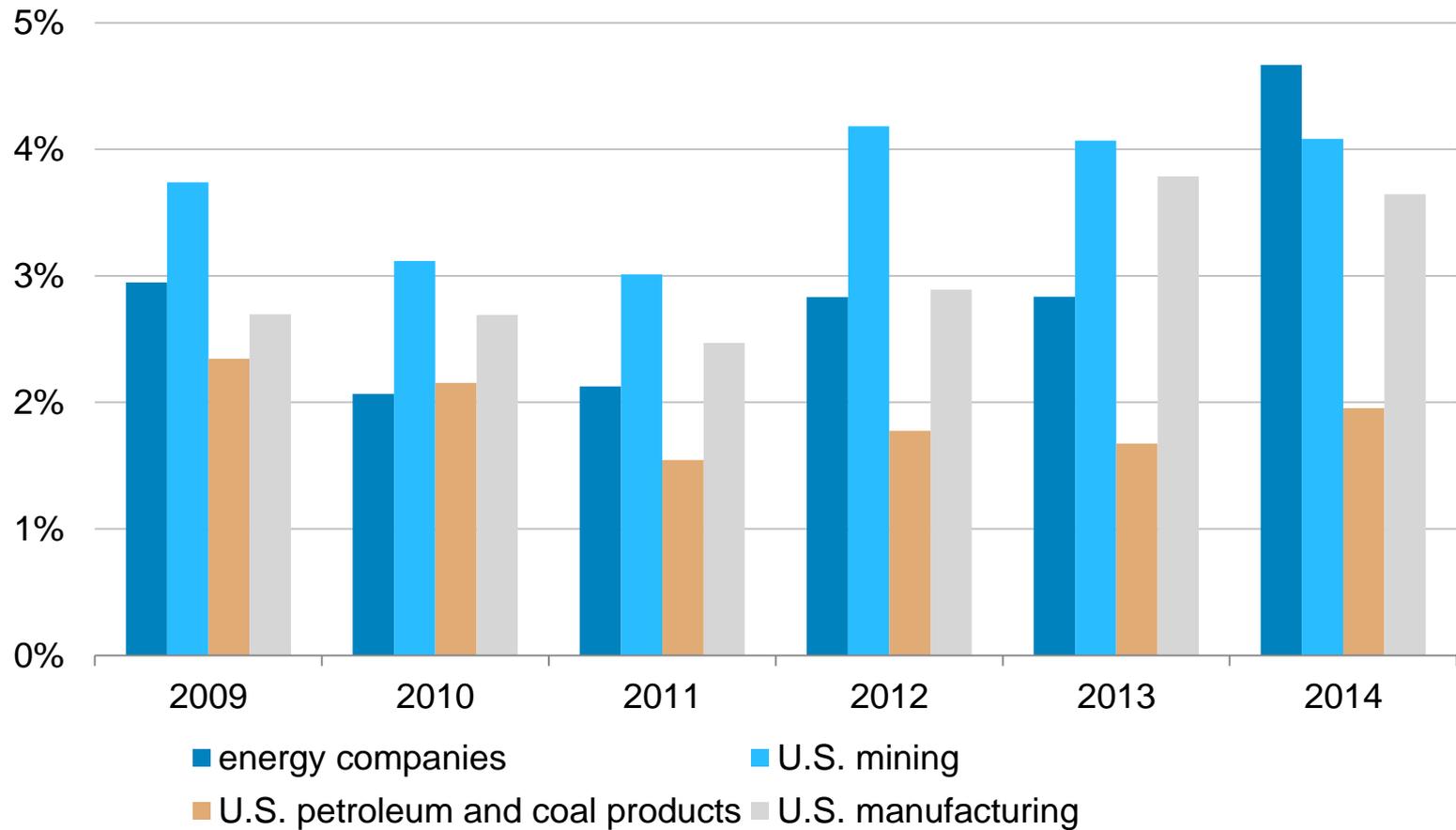
long-term debt-to-equity



Source: U.S. Energy Information Administration, based on Evaluate Energy database; U.S. Census Bureau, *Quarterly Financial Report*.

The 120 energy companies increased dividend payouts as a share of revenue the most in 2014 compared to other sectors

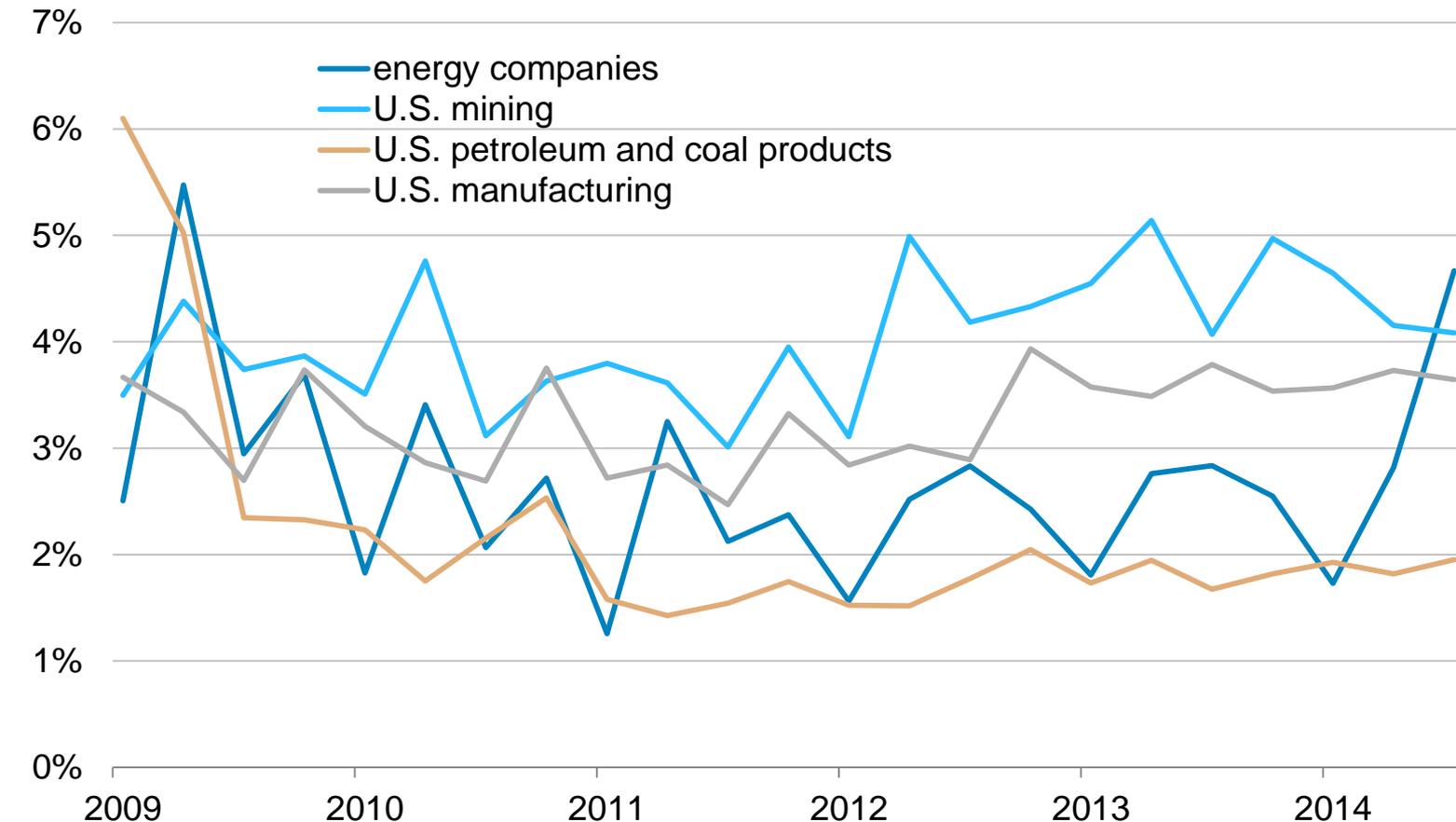
third-quarter dividend share of revenue



Source: U.S. Energy Information Administration, based on Evaluate Energy database; U.S. Census Bureau, *Quarterly Financial Report*.

All sectors' dividend share of revenue increased since 2011

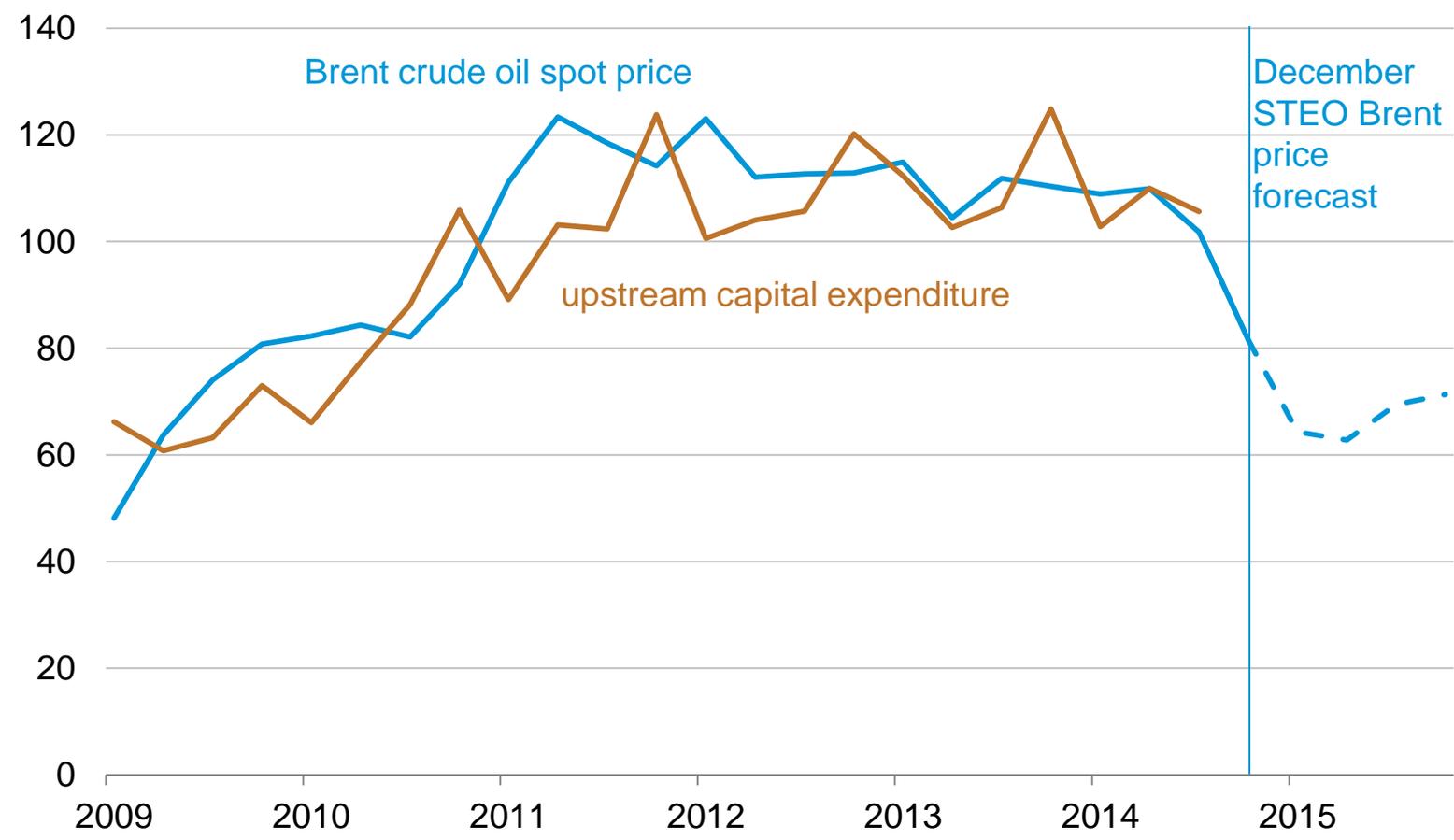
dividend share of revenue



Source: U.S. Energy Information Administration, based on Evaluate Energy database; U.S. Census Bureau, *Quarterly Financial Report*.

Brent crude prices averaged \$81.55 per barrel in the fourth quarter through December 8. Fourth-quarter results will be released in February 2015

billion 2014\$, Brent in 2014\$/barrel



Sources: Thomson Reuters; and U.S. Energy Information Administration, based on Evaluate Energy database

Appendix: List of companies included in this analysis

Africa Oil Corp	Delek US Holdings	Marathon Oil Corp.	Questar
Alon USA Energy	Denbury Resources Inc.	Marathon Petroleum Corporation	Quicksilver Resources Inc
Anadarko Petroleum Corp.	Det Norske	Mariner Energy	Range Resources Corp
Antrim Energy Inc.	Devon Energy Corporation	McMoRan Exploration Co.	Repsol
Apache Corporation	DNO International ASA	MDU Resources Group	Rosetta Resources Inc.
Apco Oil and Gas International Inc	Dong Energy	Medco Energi International tbk PT	Rosneft
Approach Resources Inc	Dorchester Minerals LP	Murphy Oil Corporation	Royal Dutch Shell
ATP Oil & Gas Corp.	Ecopetrol	National Fuel Gas	Sherritt International Corp
Bankers Petroleum Ltd	El Paso Corp	Newfield Exploration Company	SM Energy Company
Baytex Energy Corp.	Encana Corporation	Niko Resources Ltd.	Sojitz Corp
Berry Petroleum Co.	Endeavour International Corp	Noble Energy	Sonde Resources Corp.
BG Group	Energen Corp	Northern Oil & Gas, Inc	Southwestern Energy Co.
Bill Barrett Corporation	Energy XXI	Novatek	Statoil ASA
Black Hills Corp	Enerplus Corporation	Oasis Petroleum Inc.	Stone Energy
BP	ENI	Occidental	Suncor Energy Inc.
BPZ Resources Inc	EOG Resources	OMV	Sunoco
Breitbart Energy Partners	EPL Oil & Gas Inc	Pacific Rubiales Energy Corp.	Swift Energy Co
Brigham Exploration Company	EQT Corp	Paramount Resources Ltd.	Talisman Energy Inc.
Cabot Oil & Gas Corp.	EXCO Resources	PDC Energy	Tesoro Petroleum Corp.
Callon Petroleum	ExxonMobil	Penn Virginia	Thunderbird Resources Equity Inc.
Calumet Specialty Products Partners	Forest Oil Corporation	Penn West Petroleum Ltd.	TNK-BP International Ltd
Canacol Energy Ltd.	Frontier Oil Corp	Petro Vista Energy Corp.	Total
Canadian Natural Resources Limited	Goodrich Petroleum Corp	Petro-Canada	TransAtlantic Petroleum Ltd.
Carrizo Oil & Gas, Inc	Gran Tierra Energy Inc.	PetroChina	TransGlobe Energy Corporation
Cenovus Energy Inc.	Gulfport Energy Corporation	Petrohawk Energy Corp	Ultra Petroleum Corporation
CGX Energy Inc.	Hess Corp	Petrolifera Petroleum Ltd.	Unit Corp
Chesapeake Energy Corp.	HollyFrontier Corp	PetroMagdalena Energy Corp.	Vaalco Energy Inc
Chevron	Husky Energy Inc.	Petrominerales Ltd.	Valero Energy
Cimarex Energy Co.	Imperial Oil Limited	PetroQuest Energy, Inc	Vermilion Energy Inc.
Clayton Williams Energy	Ithaca Energy Inc.	Phillips 66	W & T Offshore
Cobalt International Energy, Inc.	Kinder Morgan Energy Partners, L.P.	Pioneer Natural Resources Company	Western Refining
Comstock Resources	Kodiak Oil & Gas Corp.	PKN Orlen	Whiting Petroleum Corporation
Concho Resources Inc	Linn Energy	Plains Exploration & Production	Williams Companies
ConocoPhillips	Lukoil (US GAAP)	PT Energi Mega Persada Tbk	XTO
Continental Resources	Lundin Petroleum	QEP Resources Inc	YPF Sociedad Anonima
* CVR Energy	Magnum Hunter Resources		

Source: U.S. Energy Information Administration, based on Evaluate Energy database

Note: Some companies appear that merged, were acquired by another company, or declared bankruptcy before third quarter 2014.