

Financial Review of the Global Oil and Natural Gas Industry: Third-Quarter 2018



Markets and Financial Analysis Team

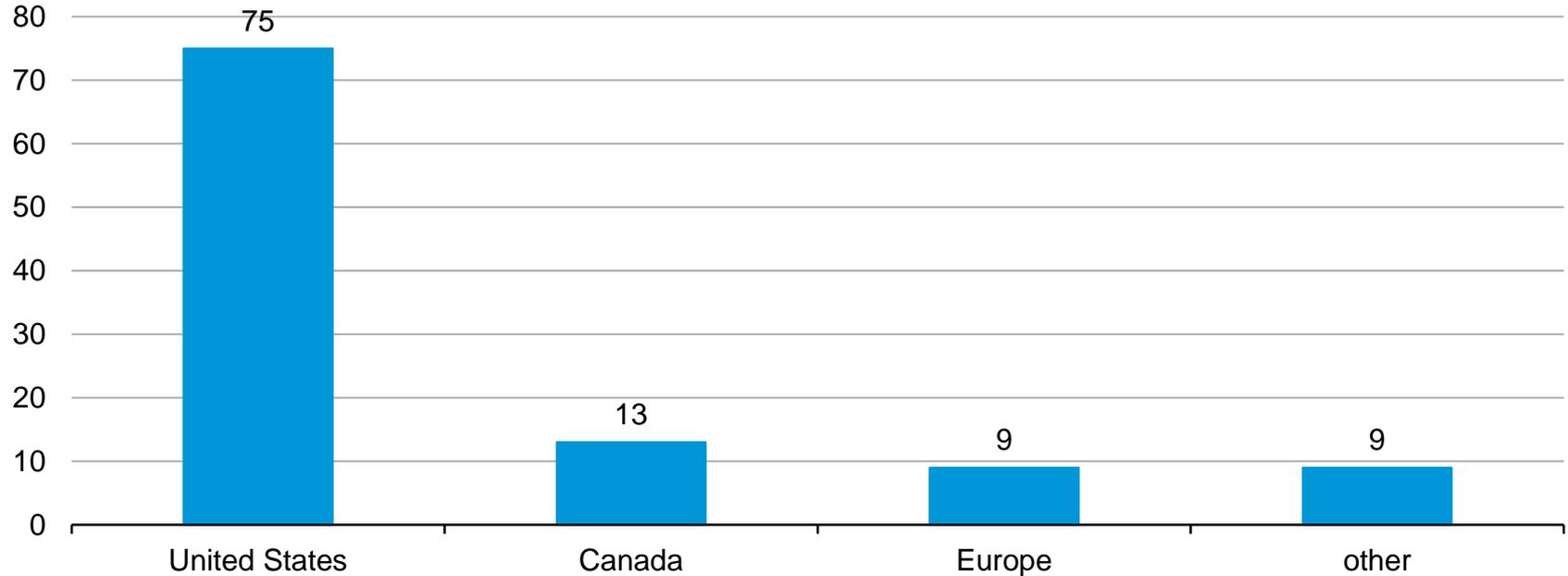
December 2018

Key findings for third-quarter 2018

- Brent crude oil prices were 45% higher in third-quarter 2018 than in third-quarter 2017 and averaged \$76 per barrel, the highest since fourth-quarter 2014.
- Liquids production increased 2.7% in third-quarter 2018 from third-quarter 2017, and natural gas production increased 3.9% during the same period.
- Energy companies' free cash flow—the difference between cash from operations and capital expenditure—was \$149 billion for the four quarters ending September 30, 2018, the largest four-quarter sum during 2013–18.
- Companies reduced debt for eight 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, third-quarter 2018

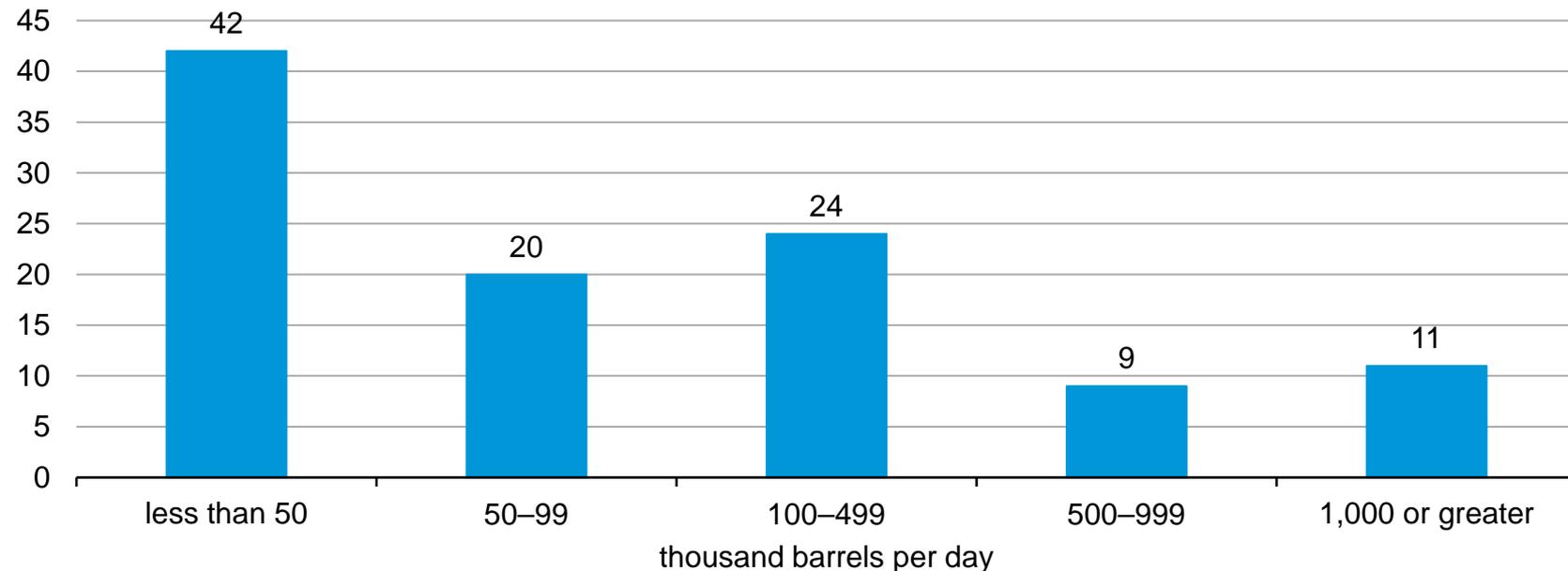
number of companies



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

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

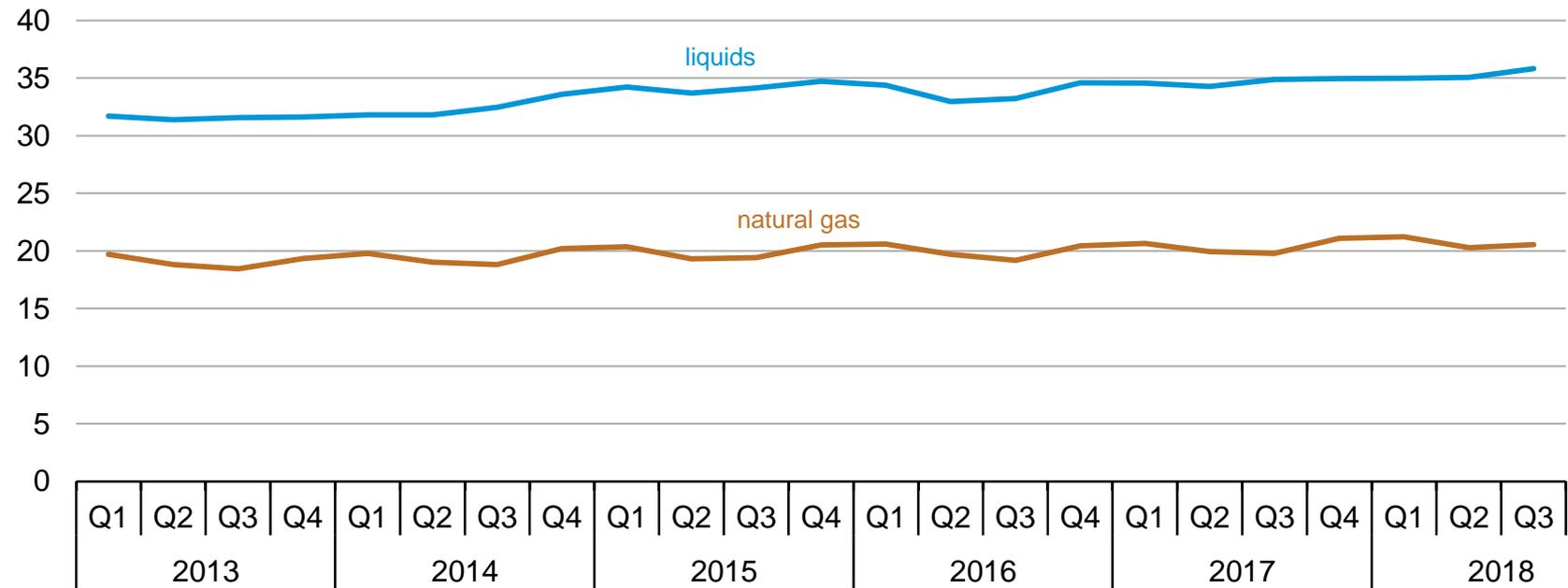
number of companies



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

Liquids and natural gas production was 36 million barrels per day and 21 million barrels of oil equivalent per day, respectively, in third-quarter 2018

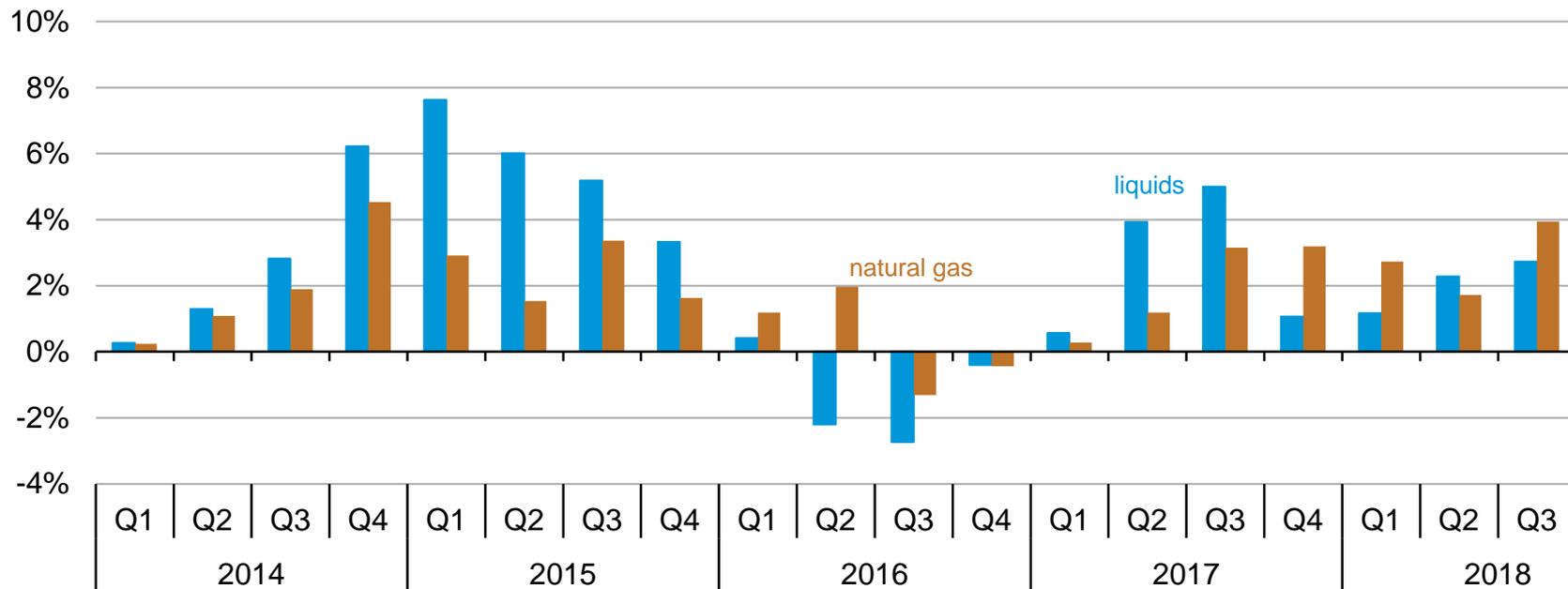
liquids and natural gas production
million barrels of oil equivalent per day



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

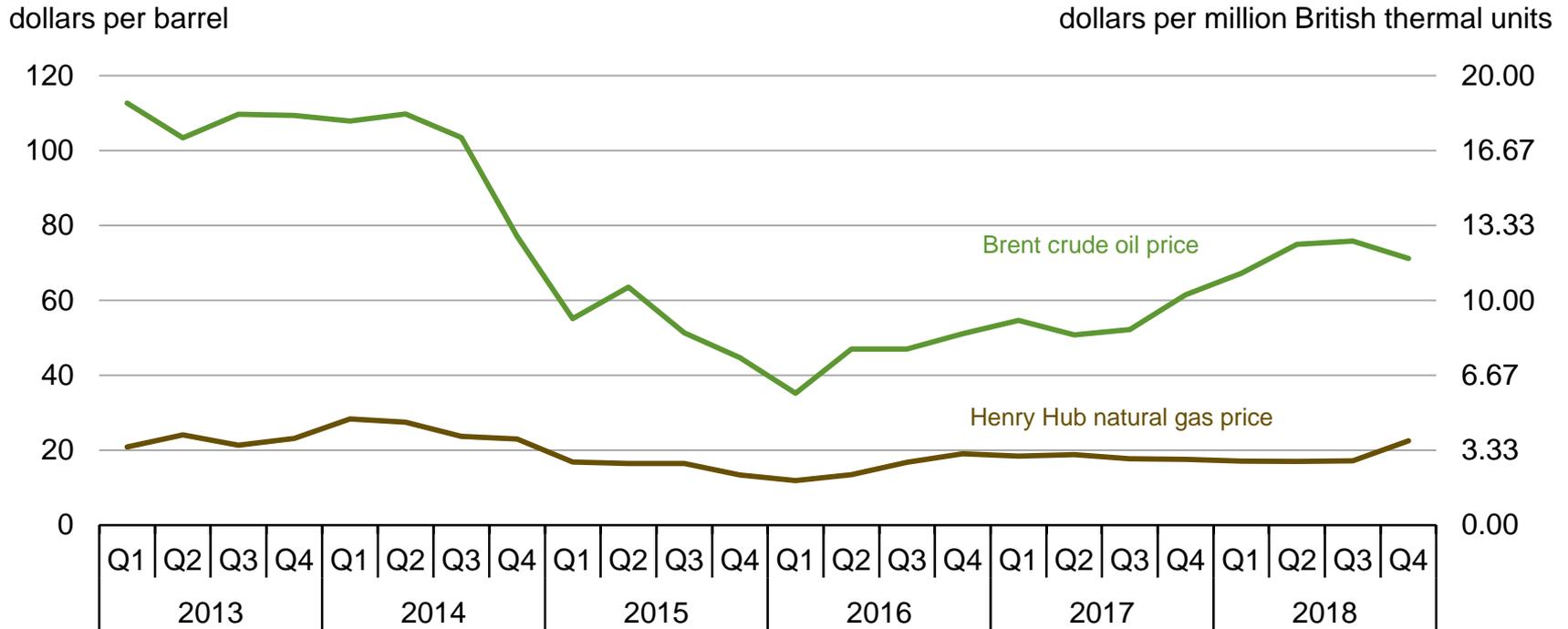
Global liquids production increased 2.7% and natural gas production increased 3.9% year over year in third-quarter 2018

liquids and natural gas production
year-over-year change



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

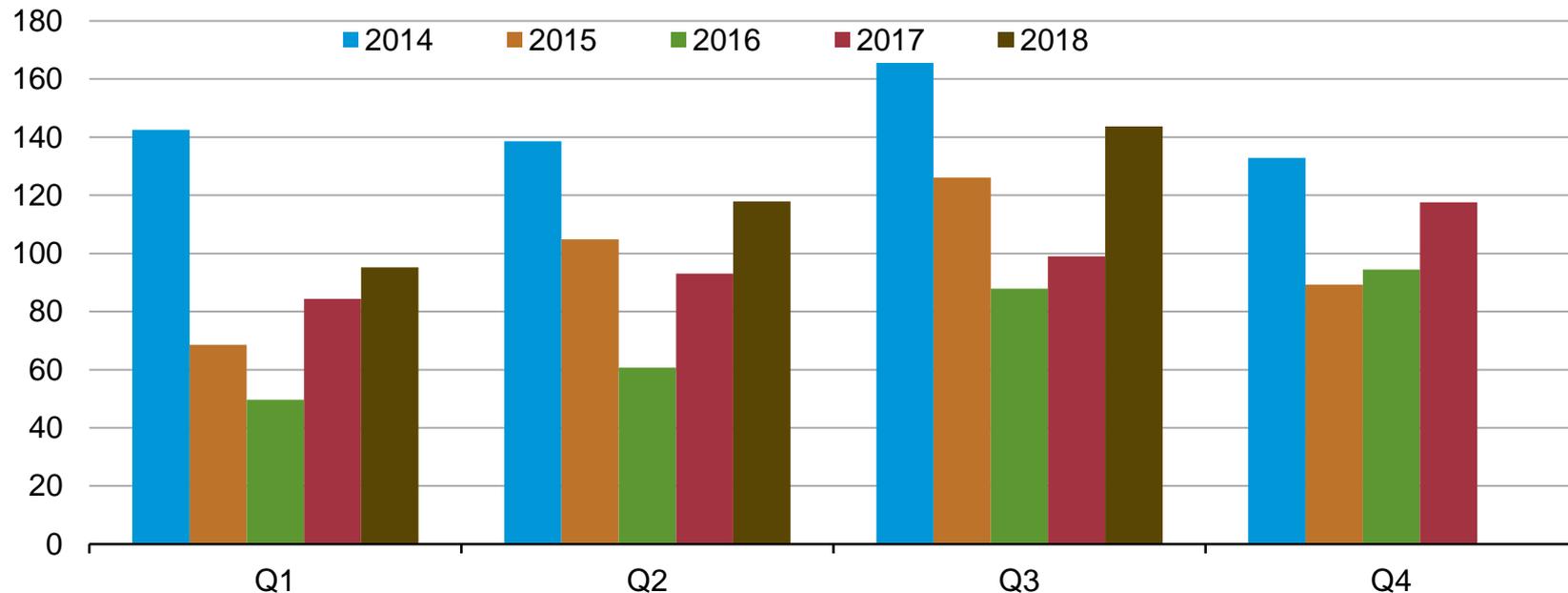
Third-quarter 2018 crude oil prices were 45% higher than in third-quarter 2017, and natural gas prices declined 3% during the same period



Source: Bloomberg

Cash from operations in second-quarter 2018 was \$144 billion, a 45% increase from third-quarter 2017

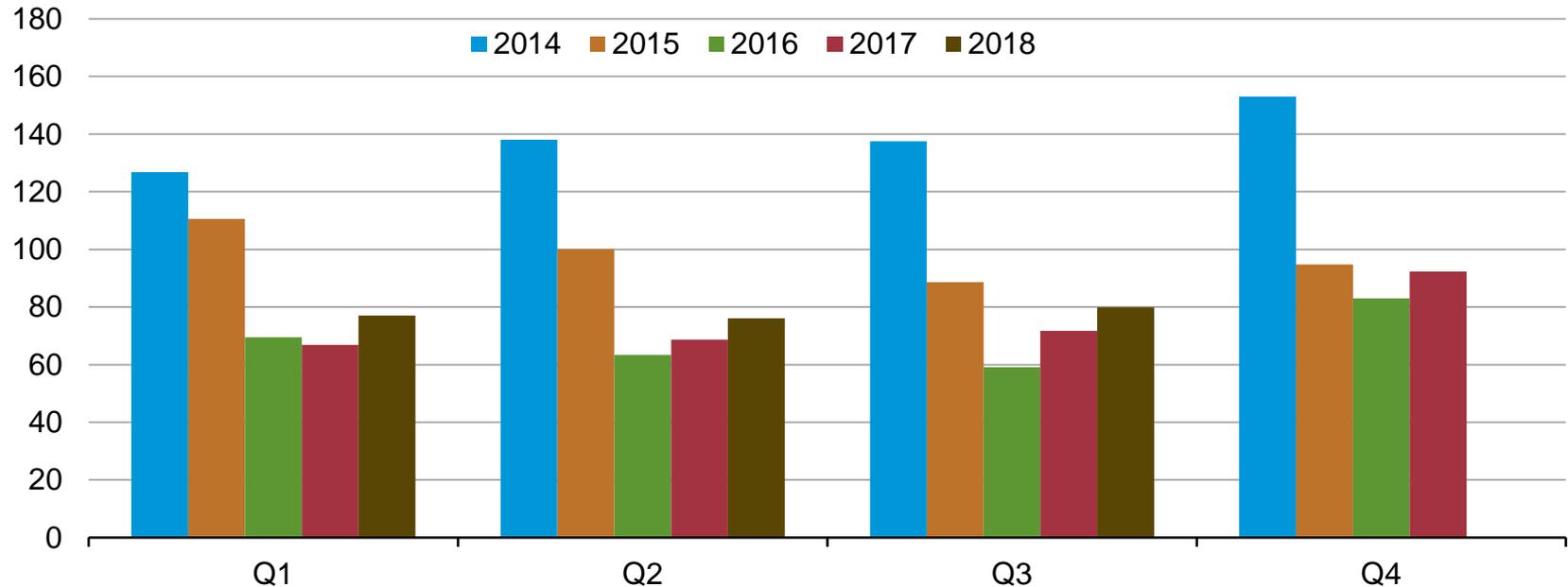
cash from operations
billion dollars



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

Capital expenditure in second-quarter 2018 was \$80 billion, 11% higher than in third-quarter 2017

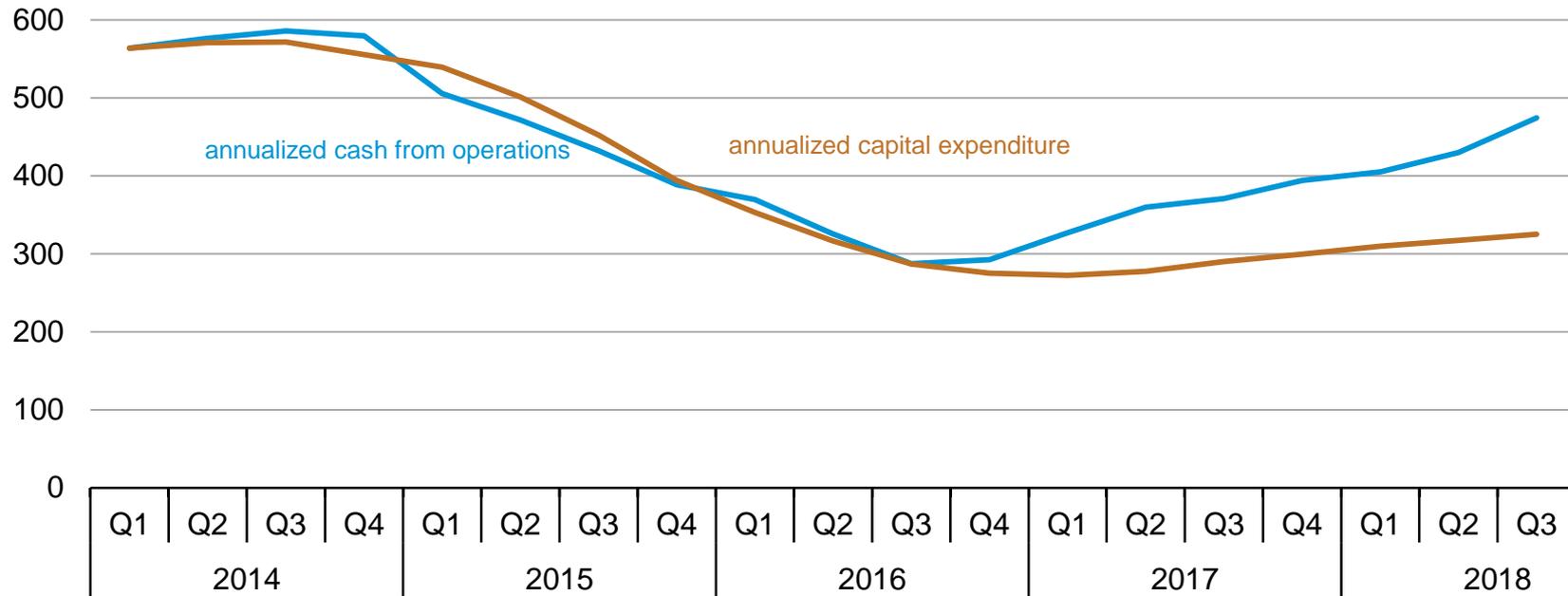
capital expenditure
billion dollars



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

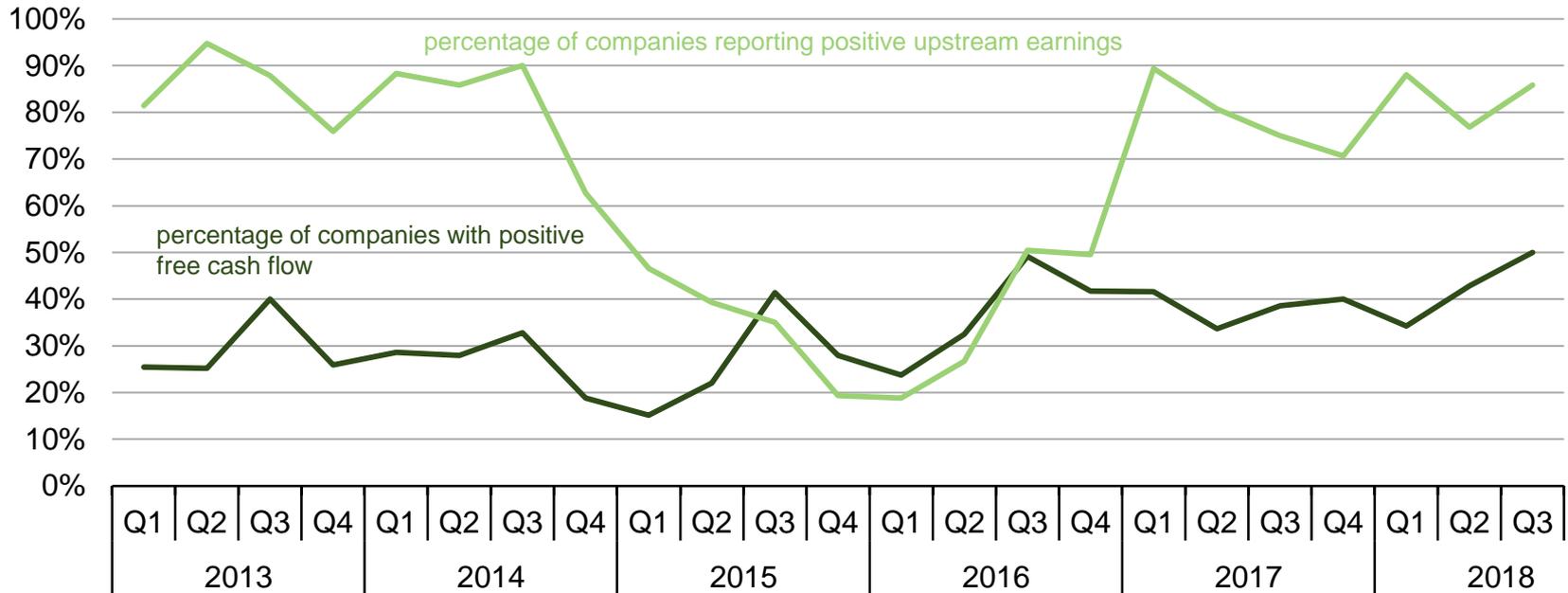
Cash from operations was \$149 billion higher than capital expenditures for the sum of the four quarters ending September 30, 2018

annualized cash flow items
billion dollars



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

Half of companies had positive free cash flow, and 86% reported positive upstream earnings in third-quarter 2018

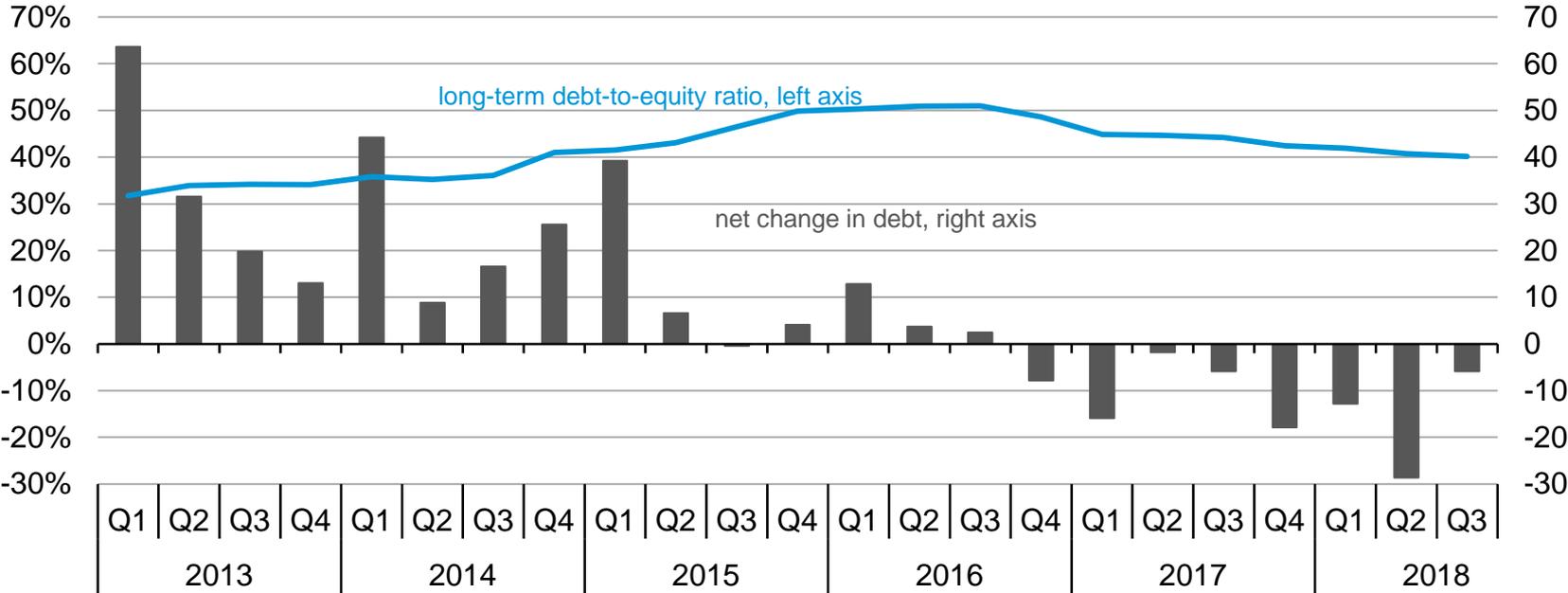


Source: U.S. Energy Information Administration, Evaluate Energy

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

Companies reduced debt for eight consecutive quarters, contributing to the lowest long-term debt-to-equity ratio since third-quarter 2014

billion dollars

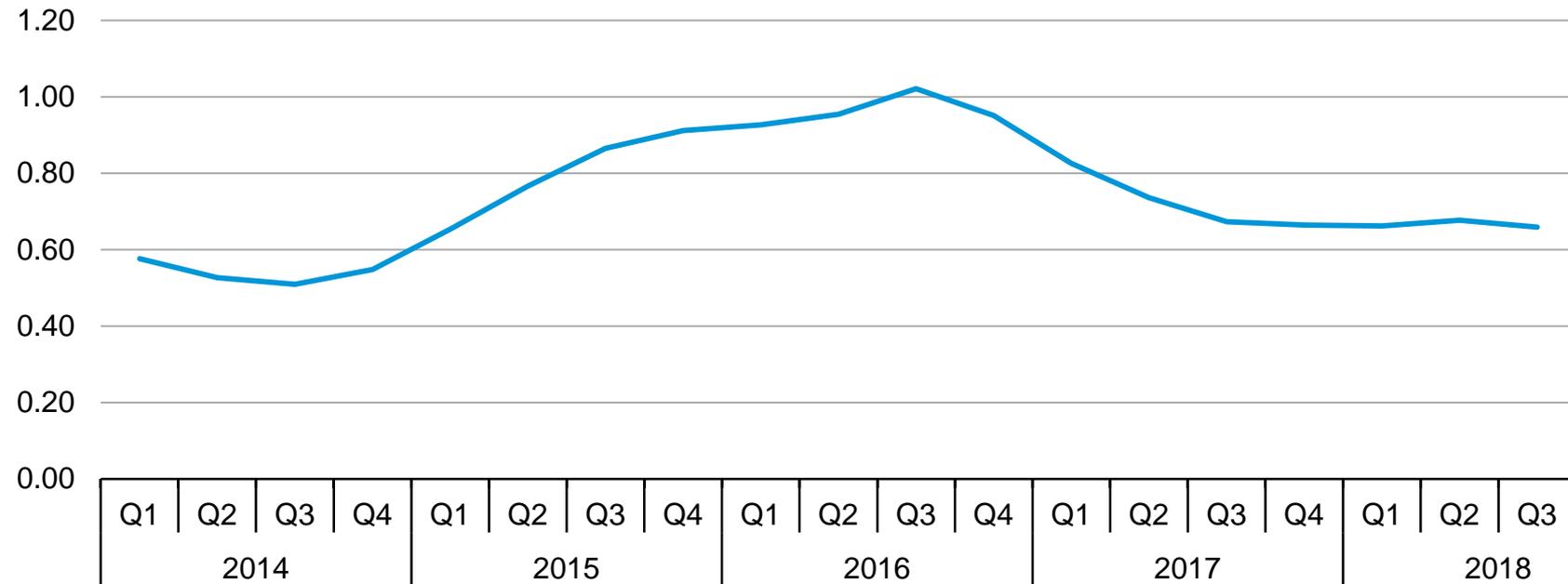


Source: U.S. Energy Information Administration, Evaluate Energy

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

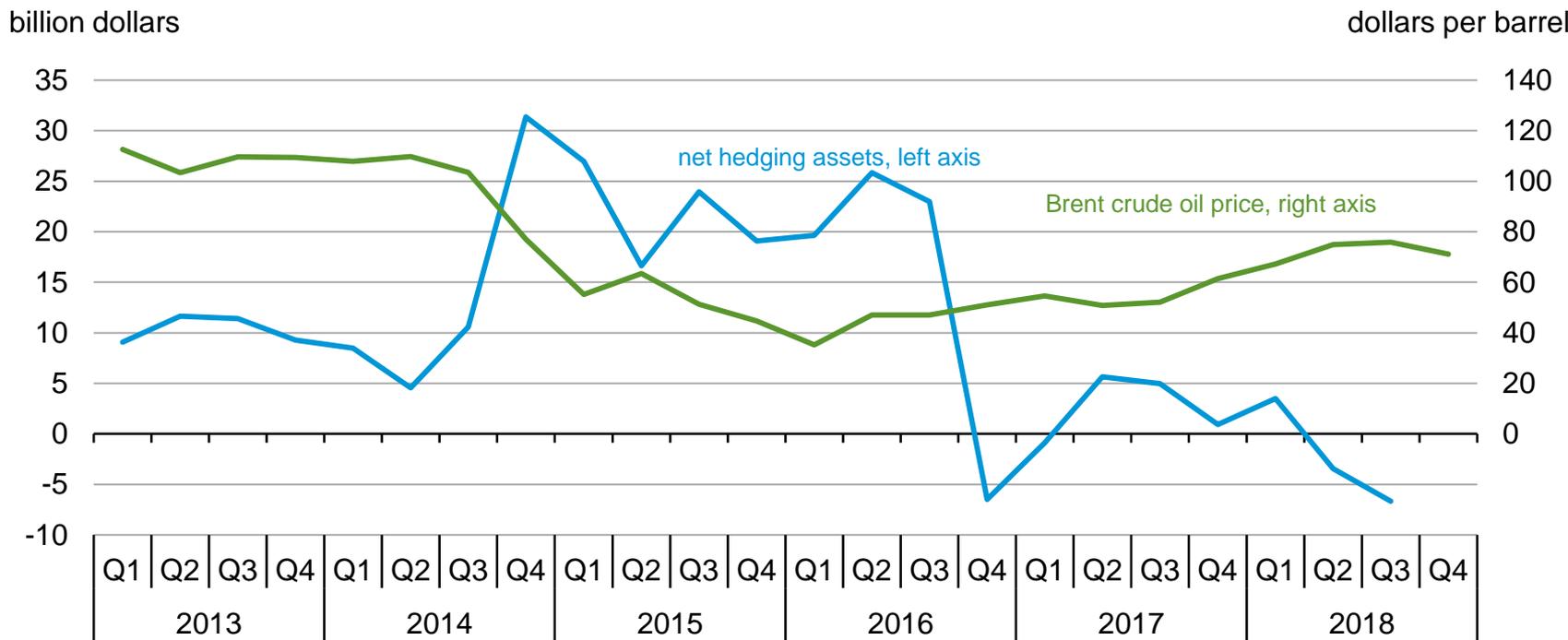
annualized debt repayments to cash flow

ratio



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

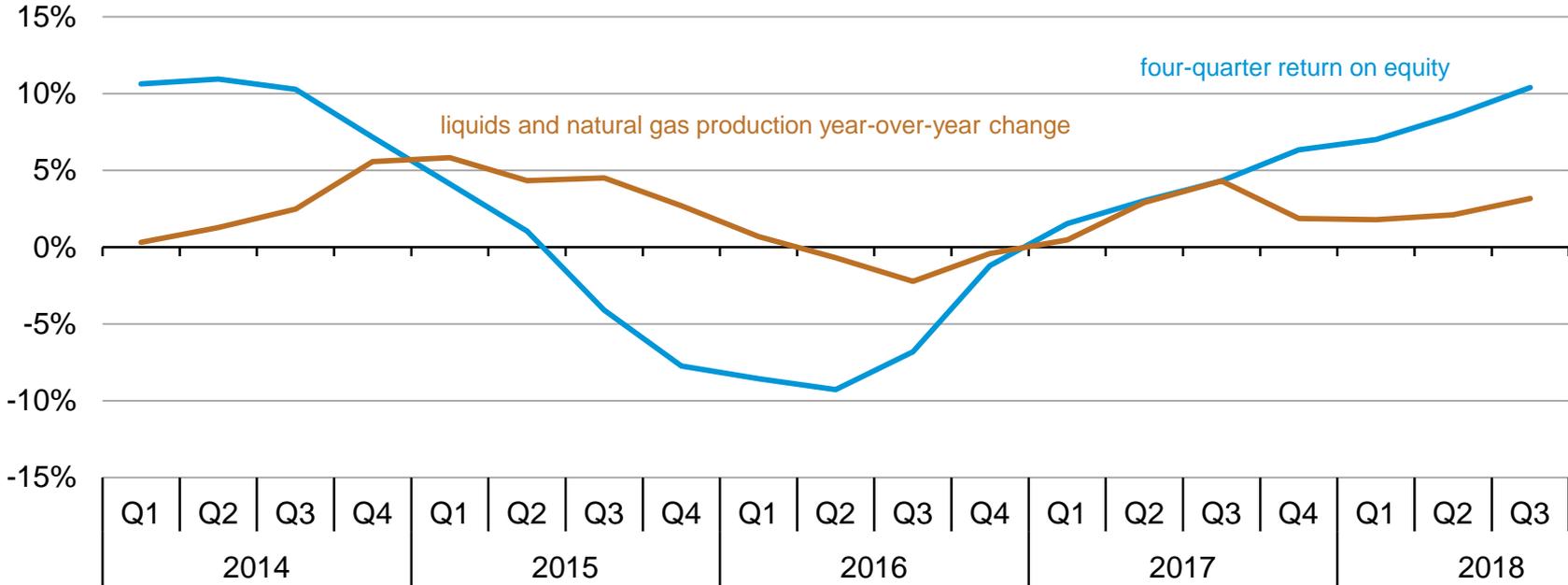
Hedging and derivative assets declined in value in third-quarter 2018 as crude oil prices increased



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

The energy companies' return on equity increased to 10% in third-quarter 2018, the highest level since second-quarter 2014

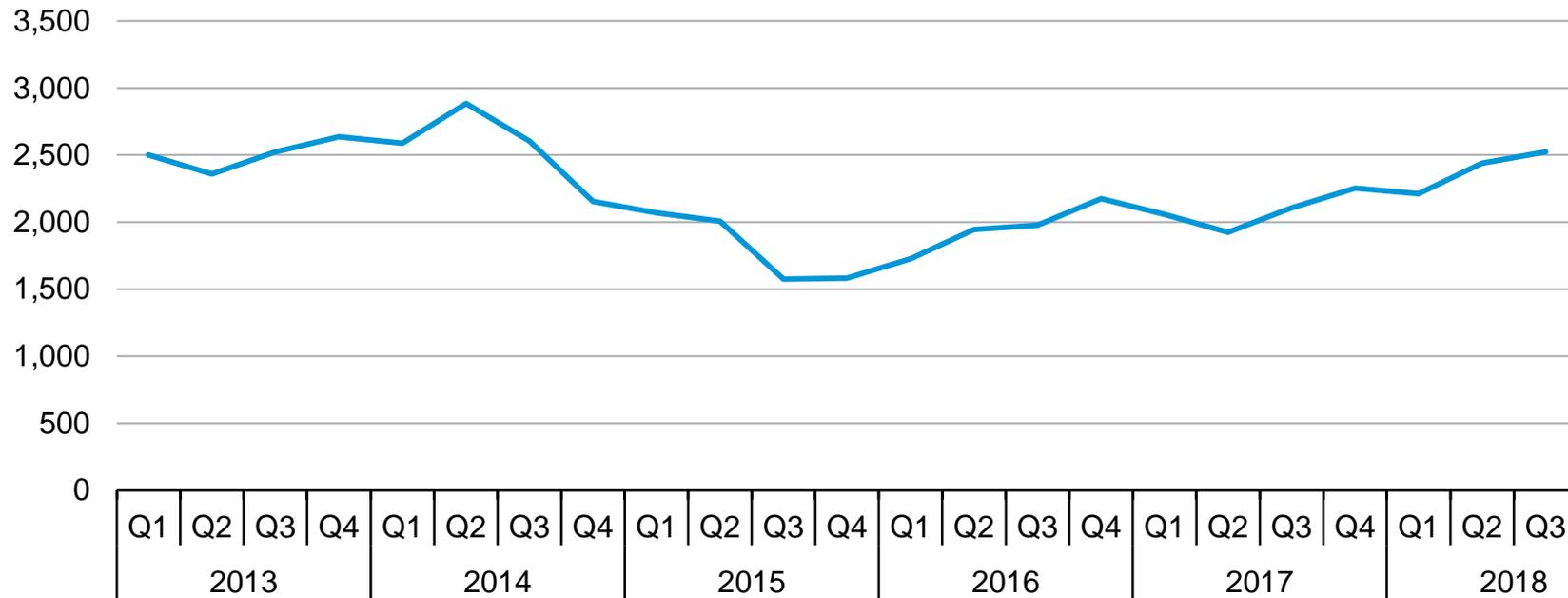
return on equity and production



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

The energy companies' combined market capitalization increased 20% from third-quarter 2017 to third-quarter 2018

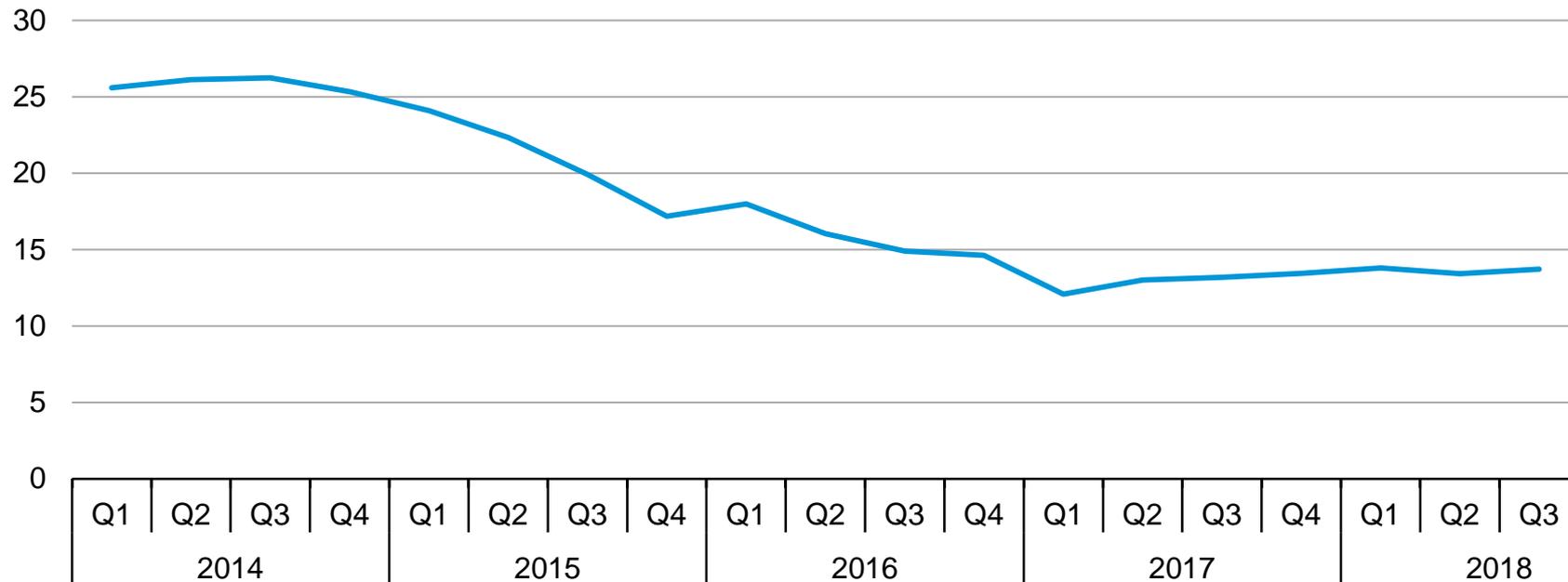
combined market capitalization
billion dollars



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

Average upstream capital expenditures on a per-barrel basis increased 53 cents per barrel of oil equivalent from third-quarter 2017 to third-quarter 2018

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

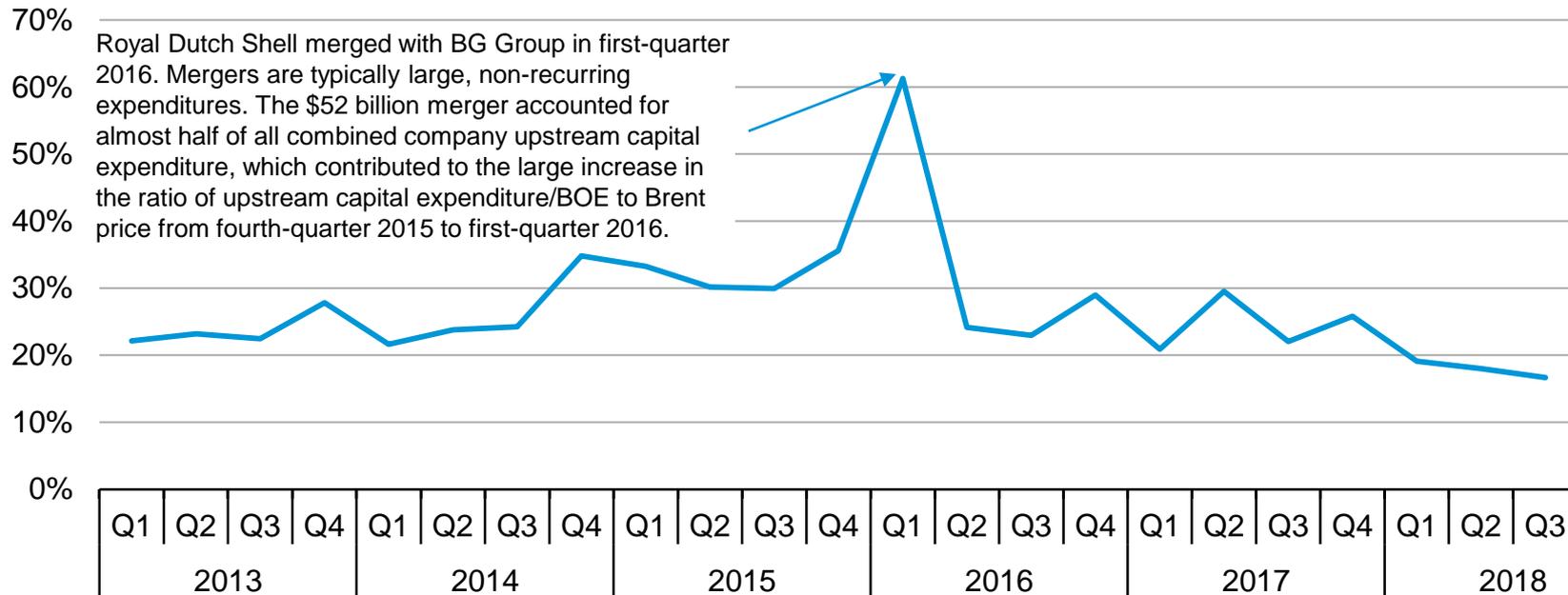


Source: U.S. Energy Information Administration, Evaluate Energy

Note: BOE=barrel of oil equivalent

Upstream capital expenditures per barrel of oil equivalent were 17% of crude oil prices, the lowest share in the 2013–18 period

ratio of upstream capital expenditure/BOE to Brent price

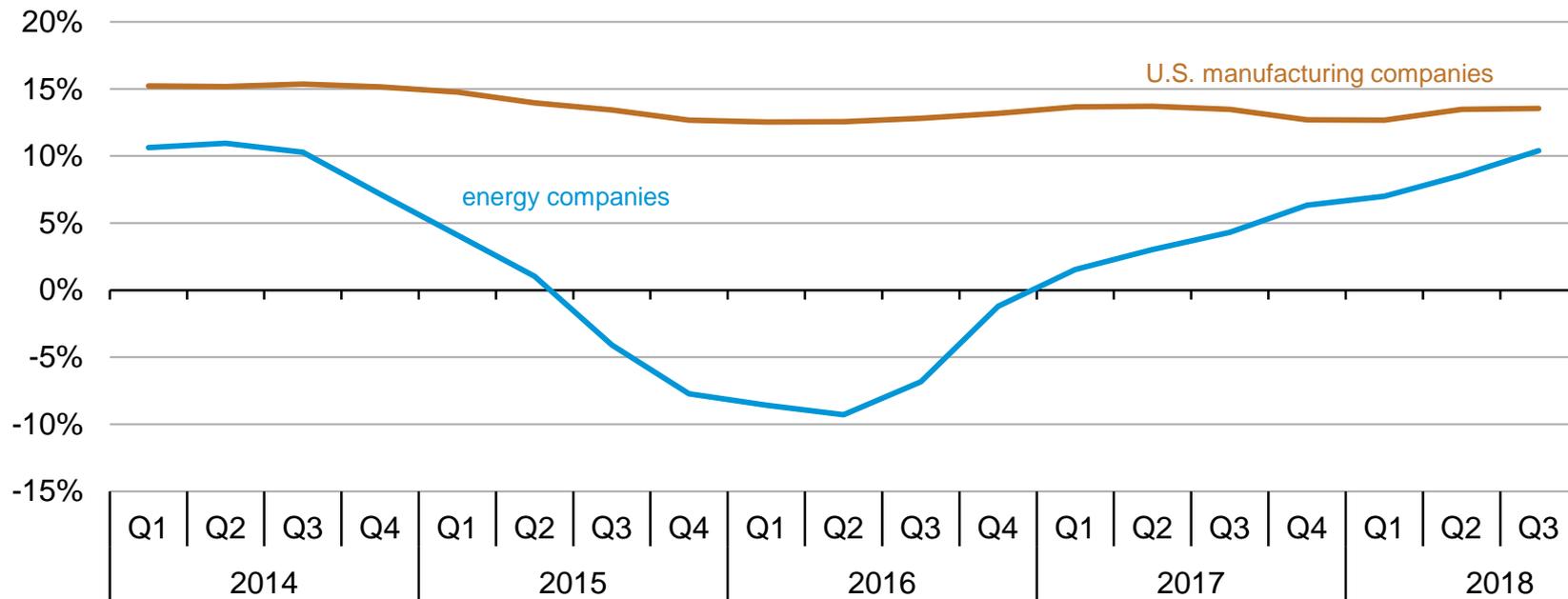


Source: U.S. Energy Information Administration, Evaluate Energy

Note: BOE=barrel of oil equivalent

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

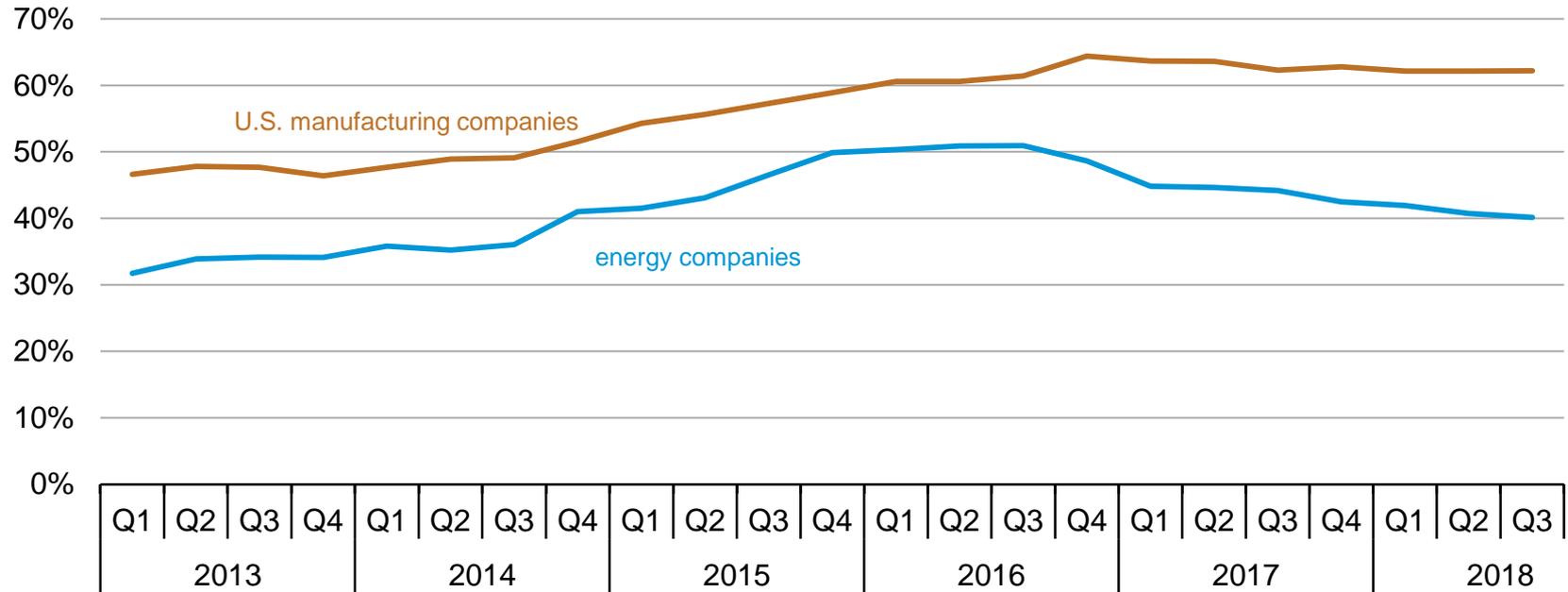
four-quarter return on equity



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

The long-term debt-to-equity ratio for energy companies declined to 40% in third-quarter 2018

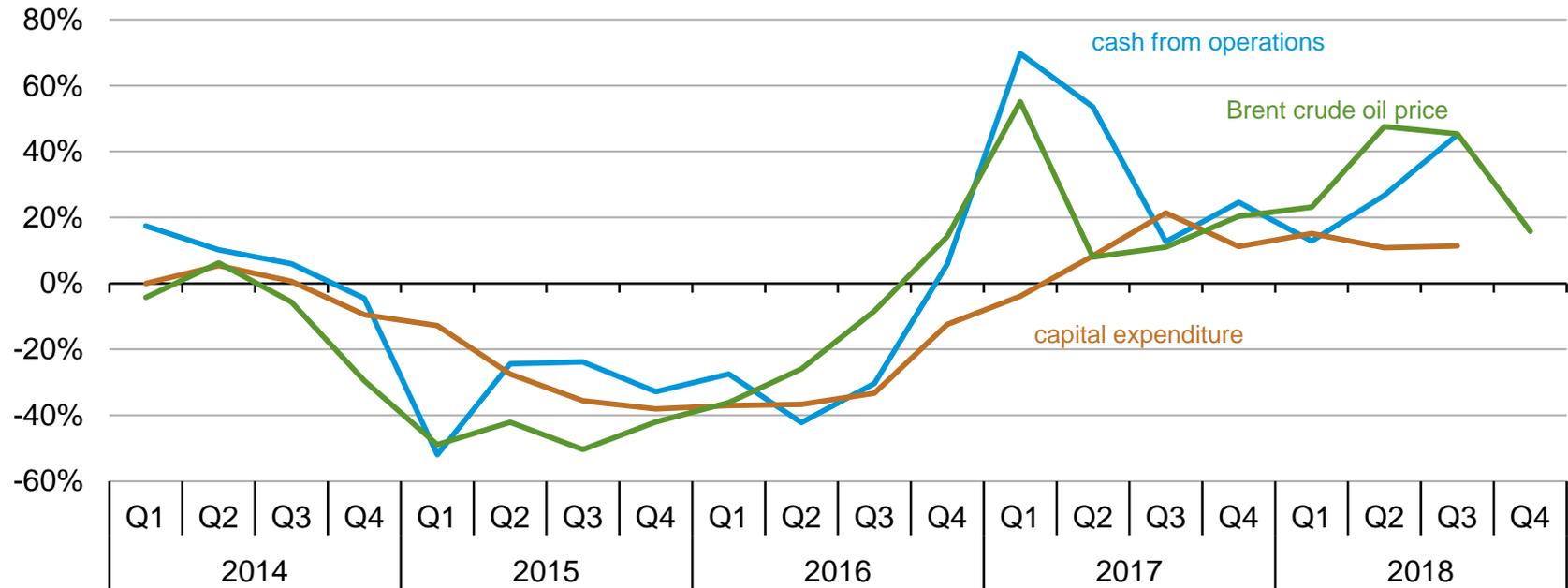
long-term debt-to-equity ratio



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

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

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

Note: Some companies merged, split, or de-listed before 2018. A total of 106 companies existed in third-quarter 2018.

Background

- This analysis focuses on the financial and operating trends of 106 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.
- A company's assets that were acquired by another company in the group after first-quarter 2013 were kept in the previous-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 that 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.