End of Big Oil? – Perry Sioshansi

Don't write off big oil yet, but the industry's best years may be behind us.

Big oil, while still big and still profitable, is not as big or as profitable as it used to be. Moreover, it is increasingly big oil-and-gas, or in the words of Patrick Pouyanne, Total's CEO, gradually turning into big gas-and-oil as the significance of natural gas continues to rise relative to oil.

In the meantime, continued pressure to move towards a low-carbon future is forcing some oil majors to diversify by investing in renewables – with Total, Shell and BP leading the way. Add the expected rapid rise of electric vehicles (EVs) and, more broadly, electrified transportation in the coming years, and big oil's long-term prospects begin to look even less rosy. This, in fact, is not just a likely scenario but in fact the most probable scenario gradually unfolding across the globe.

Total has got the message and is – at least according to its public statements – contemplating a future where more of the global energy demand will be electric with an increasing share supplied from renewable resources and gas. Total is not only interested in renewables, it has already entered the electricity sector. Pouyanne also acknowledges the rise of EVs – he drives one.

Not all oil majors, in particular the American giants ExxonMobil, Chevron and ConocoPhillips, are ready to concede that oil's supremacy as a source of energy may be near its peak, potentially followed by a period of stagnant growth and eventual decline.

Major oil exporting countries including Saudi Arabia and its national oil company, Saudi Aramco, are in total denial – they prefer to stick their heads in the proverbial sand, distracted by the daily turmoil of the global oil markets, constantly rising or falling prices and the uncertain geopolitical developments – which can be highly distracting.

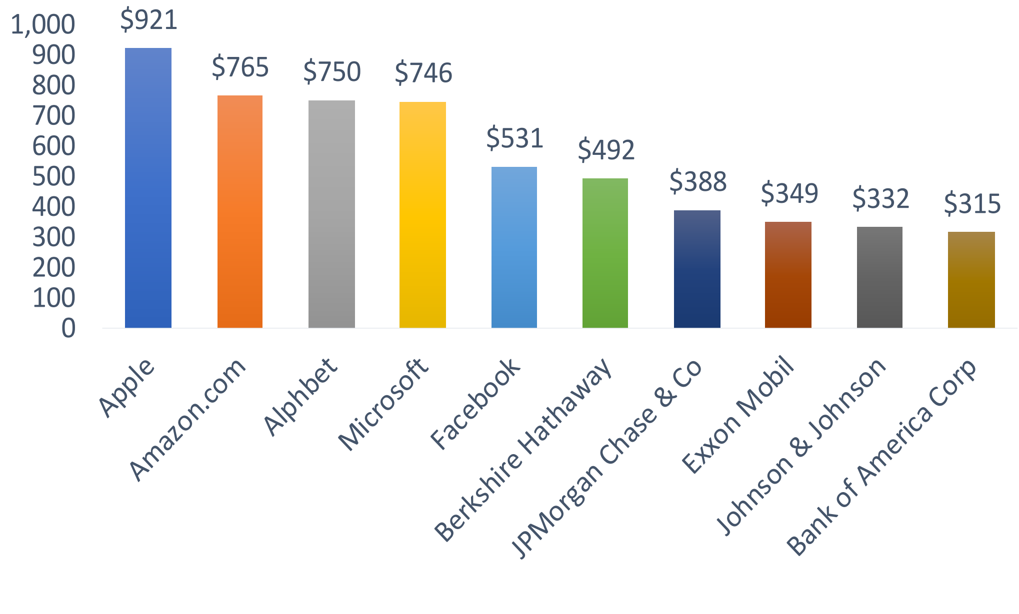
In the case of Exxon, the biggest of the global listed oil majors, the official pronouncement is that all is well, and it is business as usual. In fact, Darren Woods, Exxon's new CEO, who replaced Rex Tillerson – the former US Secretary of State who was famously fired via a Tweet by Donald Trump – is not only convinced that business-as-usual is here to stay, but he is betting on more of the same for the indefinite future.

Under pressure to turn the giant company around, in March 2018, he unveiled an ambitious plan to spend $230bn to increase oil production by an additional 1mn barrels a day. Investors were apparently not overwhelmed by the grand strategy. Even while oil prices have risen 60% in the past year, Exxon's shares are up a mere 5% – trailing many of its smaller rivals.

There are other signs that Exxon's best days may be in the past. The company became the world's largest publicly traded company in 1975 and it remained among the most profitable for over three decades. Now, the $350bn company is #8 in market value, roughly half as big as Apple in 2016, (see Figure 1) Exxon lost its coveted triple-A rating, a cherished distinction it had enjoyed since 1930.

It is hard to imagine how Mr Woods – or for that matter anyone else – can return the giant company to its former glory days. The problem is not that Exxon is not performing well but rather that investors have better options. Mark Stoeckle, the CEO of Adams Funds, a major Exxon shareholder, puts Exxon's problem this way, as reported in an article in *The Wall Street Journal*:

Figure 1: Top 10: Most valuable companies by market capitalization, $bn, May 2018



Source: Fortune 500, as of 5/21/2018

"Most investors like Exxon, but they like other companies even better."

Commenting on Exxon's planned massive investment strategy, Stoeckle was quoted in the same WSJ article saying: "The market is not willing to reward Exxon today in hopes that it will bring good returns tomorrow."

Expanding oil production, especially if it is contingent on high and rising oil prices, may not be a good strategy for Exxon or any oil company.

Electric vehicles (EVs), many are convinced, could make internal combustion engines (ICs) obsolete within a decade if not sooner. And once the critical tipping point is reached – where EVs are less expensive to buy, perform better and cost far less to operate and maintain – then few would want to buy yesterday's technology regardless of petrol prices.

Running an oil company, never easy, has become even more perilous and certainly riskier. The industry is likely to face increased pressures from multiple fronts in the coming years – most likely from those who wish to reduce global carbon emissions but also from the potential rise of electrified transportation – the most critical determinant of global oil demand.

Already, carbon-heavy sources of oil such as those from Alberta's tar sands have turned into environmental liabilities that few oil majors wish to be associated with. And if more companies and countries follow the example of Ireland, which is planning to divest from fossil fuel investments big oil's future prospects will only get grimmer.

Don't write off big oil yet. At the same time, don't expect the consistent demand growth or high profitability either. If you are seeking high growth and profits, look elsewhere for better options.

Perry Sioshansi is founder and president of Menlo Energy Economics and is the editor and publisher of *EEnergy Informer*, from which we have sourced this article, and which we commend.

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