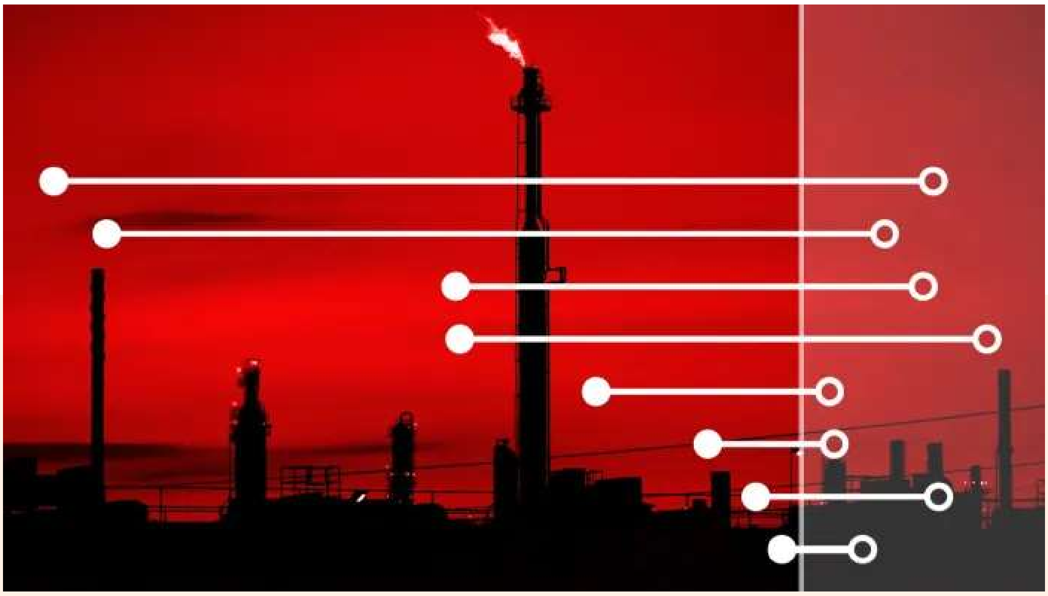
Oil & Gas industry

Oil industry reels from historic crash

Four charts shine light on once-mighty sector now under siege



From upstream exploration and production to downstream refining, the pandemic, price war and unprecedented volatility has caused havoc

Myles McCormick and **Derek Brower** AUGUST 7 2020

The first half of 2020 has been brutal for the oil industry: global demand dropped almost a third at one stage, a market share war brought an onslaught of Saudi crude and US prices collapsed below zero for the first time.

Oil producers' recent second-quarter earnings reflect this damage, with both global supermajors and US independents writing down assets and posting huge losses.

As the charts below show, deep spending cuts point to a sector desperate to shore up battered balance sheets, sacrificing output growth to do so.

From upstream exploration and production to downstream refining, the coronavirus pandemic, price war and unprecedented volatility has caused havoc. Despite its recent recovery, crude is still trading at about a third below last year's average price.

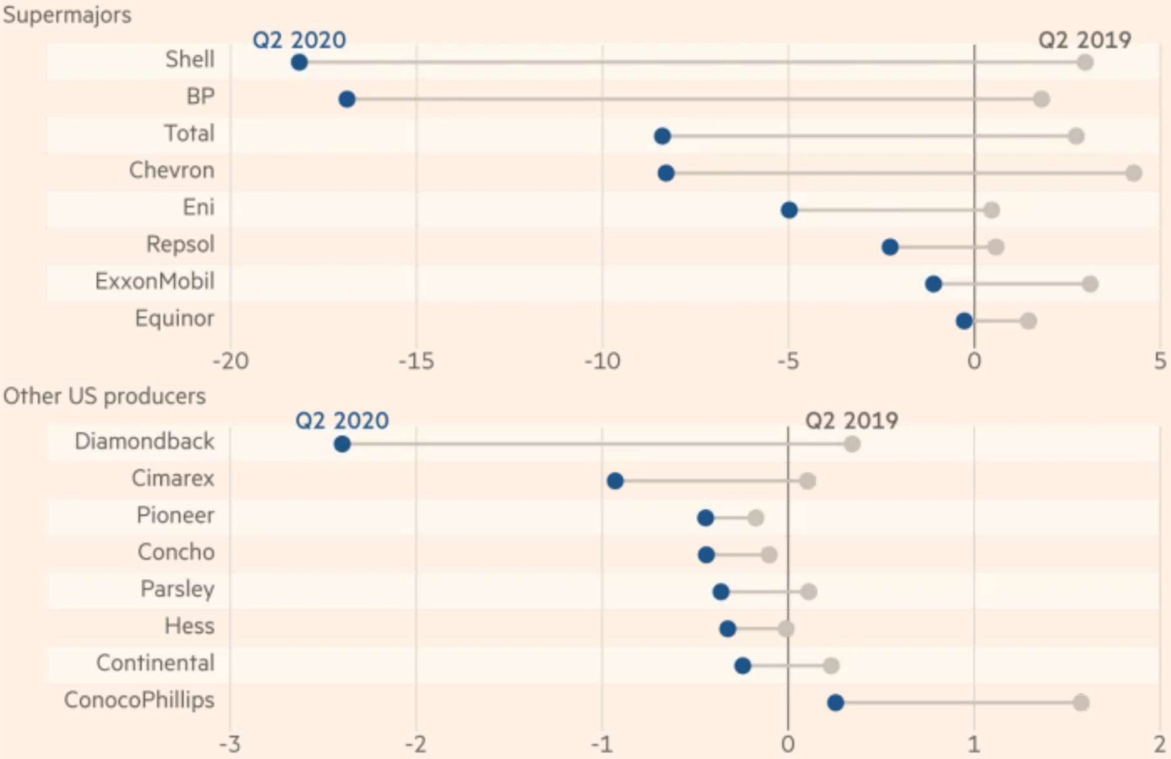
A mighty industry has shrunk. Where once energy battled for supremacy in the S&P 500's market capitalisation, its share has now dwindled to less than 3 per cent.

Net Income

Across the world, producers' bottom lines were hit hard in the second quarter. The collapse in price coupled with the evaporation in demand meant companies swung from healthy profits in 2019 to deep losses in 2020, in many cases unprecedented in their magnitude.

Oil producers have suffered deep losses

Net income, Q2 2019 vs Q2 2020 ($bn)



Oil companies use different methods to measure profit/loss, with no industry-wide metric in place.
These numbers reflect like-for-like comparison of net income as calculated by S&P Capital IQ.
Source: S&P Capital IQ
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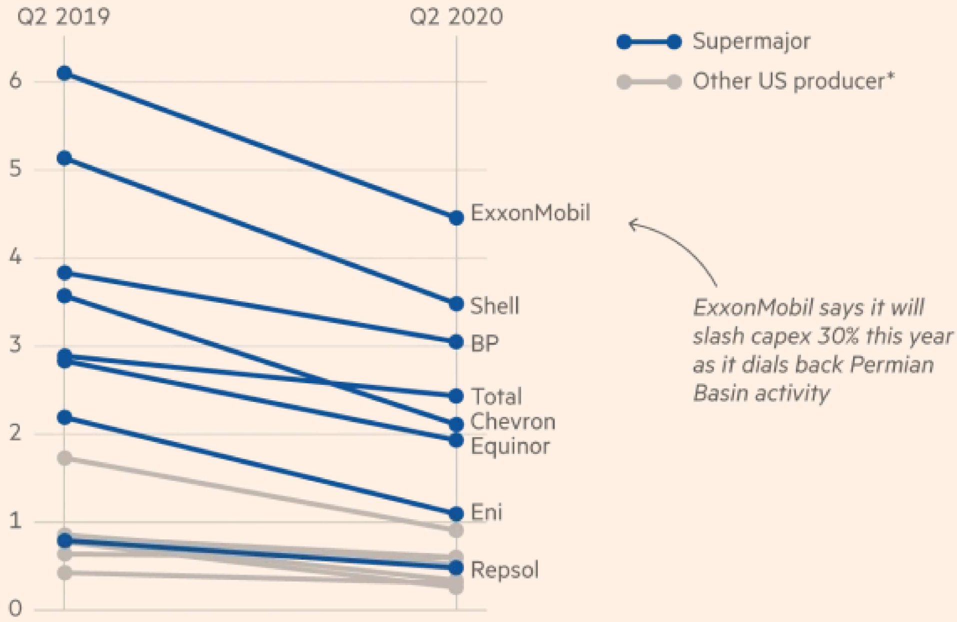
Improved prices in the third quarter will allow many to turn a profit again. But for some it will be too late, as the destruction already wrought leaves them struggling under growing debt piles and with less money to pay shareholders and restore investors' faith.

Capital expenditure

Companies have responded by cutting costs wherever they can. Plans to drill more wells and increase production have largely been abandoned as producers focus on tightening their belts at the expense of future expansion. The number of rigs operating in the US is down three-quarters compared with last year.

Oil producers are cutting costs

Capital expenditure, Q2 2019 vs Q2 2020 ($bn)

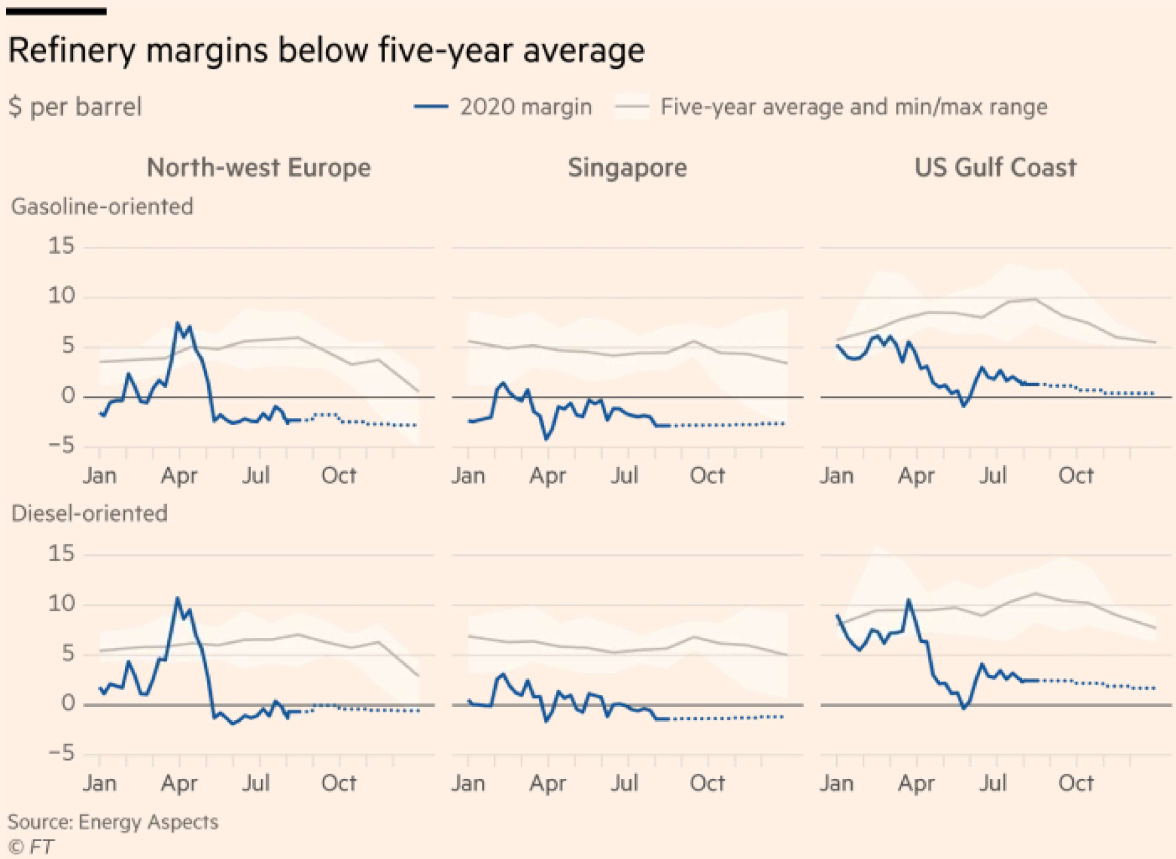


*Concho, Continental, ConocoPhillips, Diamondback, Hess, Parsley, Pioneer
Source: S&P Capital IQ

Drilling fewer wells today means producing less oil tomorrow. Companies' capacity for growth has been diminished. Executives have acknowledged that the era of rampant expansion in the US shale patch, which has driven America to become the world's largest oil producer, may be over.

Refining

The downstream part of the majors' businesses — where raw crude is refined into petrol, diesel, jet fuel and other products — has also come under significant pressure.



Demand for the fuel they produce was slashed as people stopped driving and flying. And now, as the price of crude recovers, it has done so at a much quicker pace than demand and prices for refined products. That has squeezed margins — especially in Europe's ageing plants, which sell fuel into a stagnating market.

Writedowns

The effects of the pandemic will be long-lasting, bringing the peak in global oil demand closer (some analysts think it has already passed). This has forced companies to grapple with the fact that many of their assets may now be worth a lot less than they were a year ago. Prices staying lower for longer will mean much of their oil will not make it out of the ground.

That has made impairments a theme of recent months, with companies writing down tens of billions of dollars' worth of assets as they prepare for a less oily future.

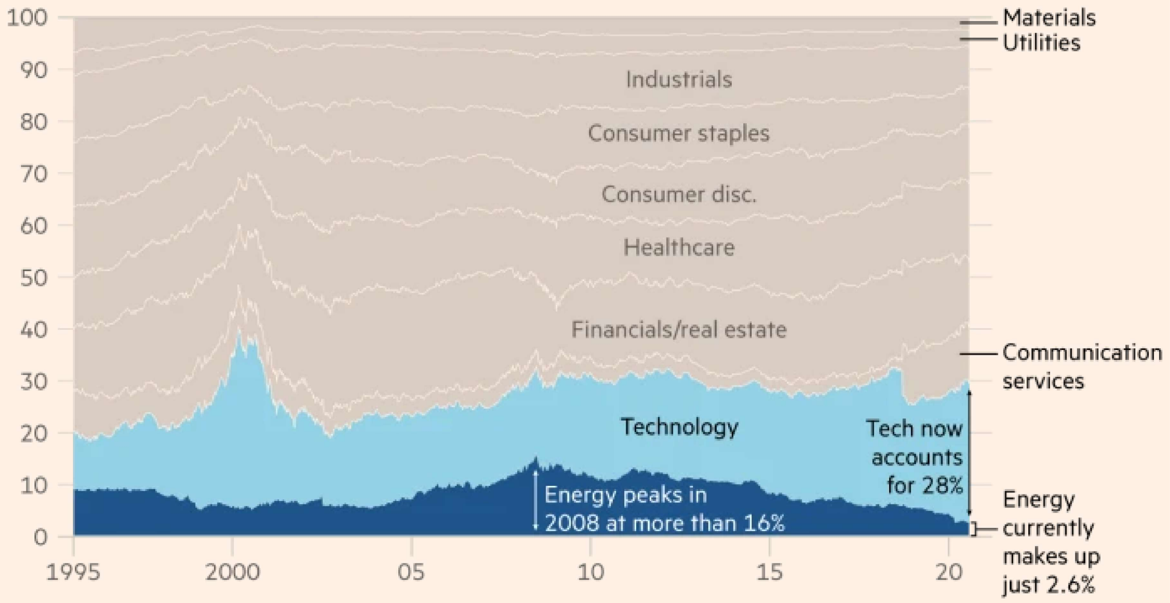
S&P equity share

Energy companies, once among the world's most valuable, have suffered a rapid fall from grace. For years, ExxonMobil boasted the mantle of biggest publicly traded company in the world, but it is now dwarfed by technology groups such as Amazon, Apple and Google.

The sector has shrunk rapidly in recent years. In 2008, energy stocks made up about 16 per cent of the value of companies on the S&P 500. They now account for just 2.6 per cent.

Energy is now one of the smallest sectors in the S&P 500

% of S&P 500 capitalisation



Sector reclassification in Sep 2018, including Facebook, Alphabet & Netflix Source: Refinitiv
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