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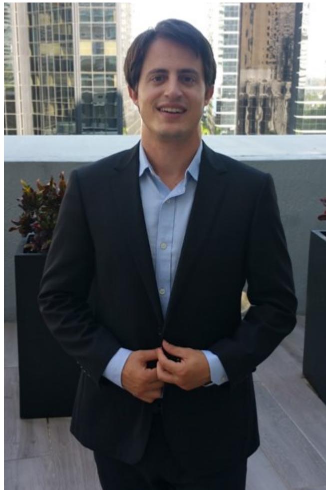
What Now For Oil Producers?



The oil crash earlier this year made many oil projects uneconomic. With prices having only recovered to around $40 a barrel, major oil companies' balance sheets have taken a hammering. Bison Interests is a Houston firm that invests in oil-and-gas companies. The company's Chief Investment Officer Josh Young spoke with the Journal's **David Hodari** about the future for oil investment and upstream exploration.

Q:

The number of oil funds is dwindling. Is there just less opportunity or is it the slow march of the energy transition?

A:

Mr. Young: I think it's more indicative of the move towards passive investing. Billions of dollars a month are being shifted from active managers who are carefully evaluating things to passive funds. I think people are sensitive to what's happening in the market and from an allocation perspective, you see that mirrored from pension funds and other sovereign wealth funds and university endowments. You end up with these allocations in sectors where tech is at a high and energy and oil and gas specifically are dwindling.

Q:

Oil prices have been calm in recent weeks. Is it the calm before another storm?

A:

Mr. Young: There's obvious Covid-related demand destruction. From a U.S. perspective... there are too few rigs active to keep U.S. production anywhere close to flat. If you look at how the companies are resetting their capital budgets and what 2021 and 2022 will look like, if oil prices stay anywhere close to where they are now, you may see more decreases, and 2022 might actually be lower for oil U.S. production than 2019. If the world economy does recover over that timeframe, you could actually see much higher prices incentivize producers to drill and develop enough to meet world demand. Yes, there's demand destruction, but there's also supply destruction. Inventories have been kind of starting to get drawn, supported by OPEC.

Q:

What does the future hold for projects in more capital intensive locations?

A:

Mr. Young: We're seeing even the largest oil majors pull back on their historic business model, which was to reinvest a portion of their cash flows in discovering the next barrels. I'm not saying that I think that people will go and do a whole bunch of exploration right now, but they probably should be because freight rates are really low right now. If you were the one gold miner [for example] that continued to explore over the last five years, you've had much lower exploration costs than the guys that are restarting it right now and you might not have to go and buy a whole bunch of stuff. Chevron just bought Noble, they tried to buy Anadarko, Exxon bought XTO. Shell just sold their Marcellus asset for a fifth of the capital they put into it. They've not been good buyers.

> The Arctic is tough. It's extraordinarily expensive still to explore, and try to develop there. I don't think I would invest in an Arctic exploration project with my clients money or my personal money. Similarly, Canada’s oil sands are extremely difficult and extremely capital intensive. I think existing oil sands projects are very interesting and very valuable, because they decline very slowly and have in some cases decades of resource that doesn't require too much capital to keep it going. Offshore activity in Mozambique has worked out quite well from a gas perspective… [projects] in Suriname and Guyana that Exxon has discovered and now Apache and Total -- those are very interesting projects that are economic to very low oil prices.

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