

# Ensuring Adequate Financing to Sustain Oil and Gas Investments

9th Joint IEA-IEF-OPEC Technical Meeting

April 27, 2023

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## **Today's Panel – Session 3**

Ensuring adequate financing to sustain oil and gas developments

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*Presenters:*

**Erik Mielke**, Wood Mackenzie

**Michael Cohen**, BP

**Rob Schwiens**, Chevron

**Christyan Malek**, JP Morgan

*Moderated by:*

**David Chang**, Wellington Management

## The Past

Energy equities underperformed in 8 of the 9 years prior to 2022



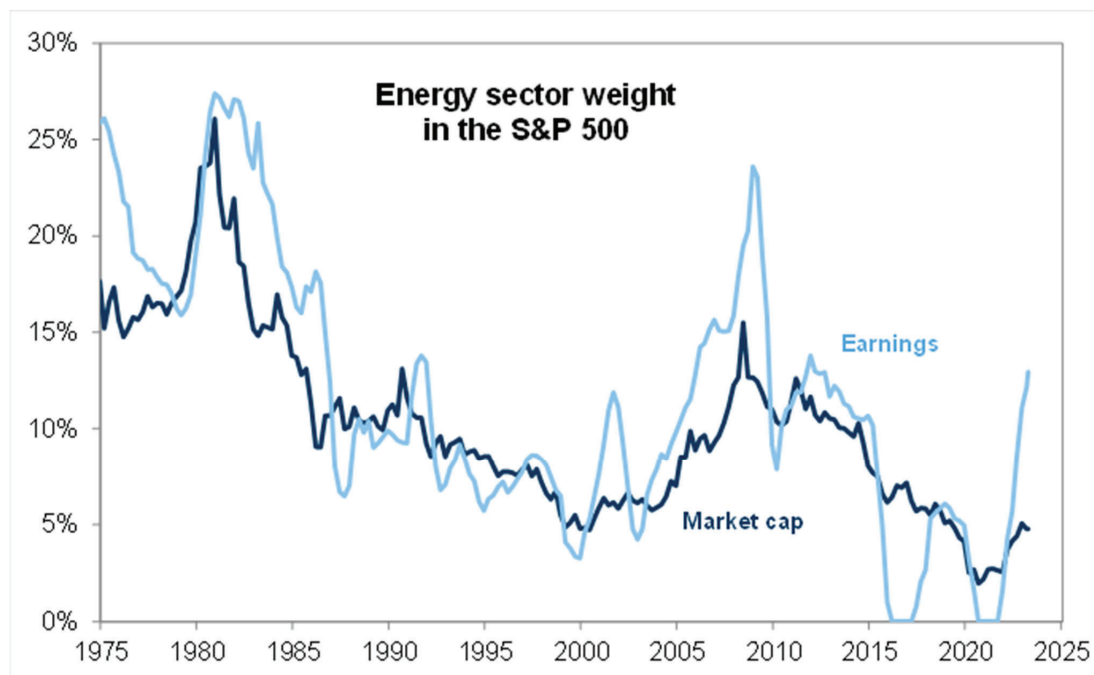
Sources: S&P, Wellington Management

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## The Past

Consistent equity market underperformance drove the energy sector weight to the lowest levels in fifty years



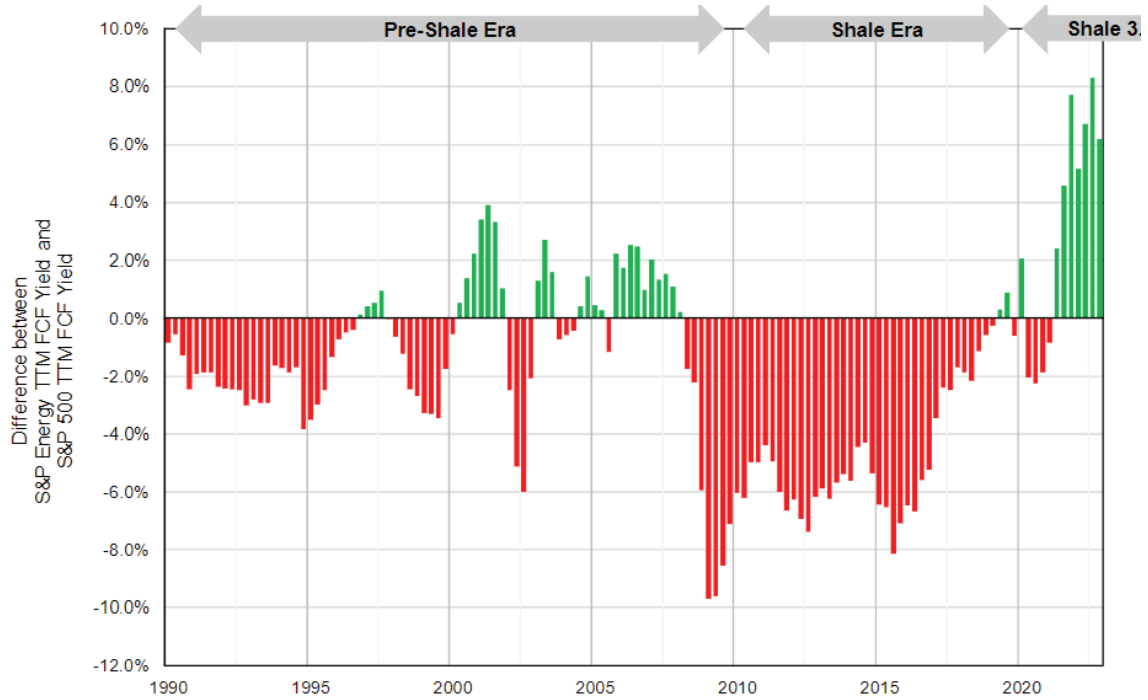
Source: S&P, Goldman Sachs

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## The Past

The Free Cash Flow yield of the energy industry lagged the broad market for more than a decade before improving since 2021... but ESG is working



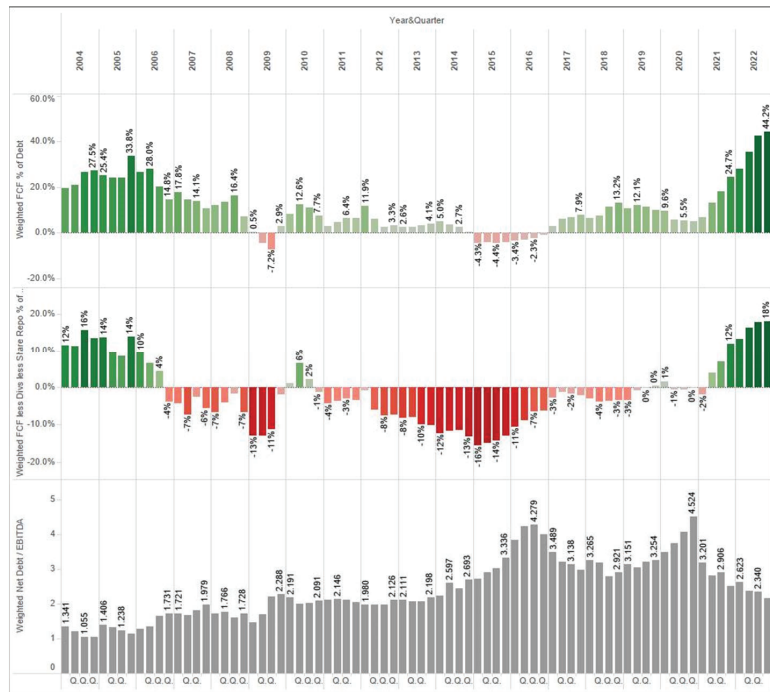
Source: Mizuho

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## The Present

The industry has reduced its debt to a more manageable level

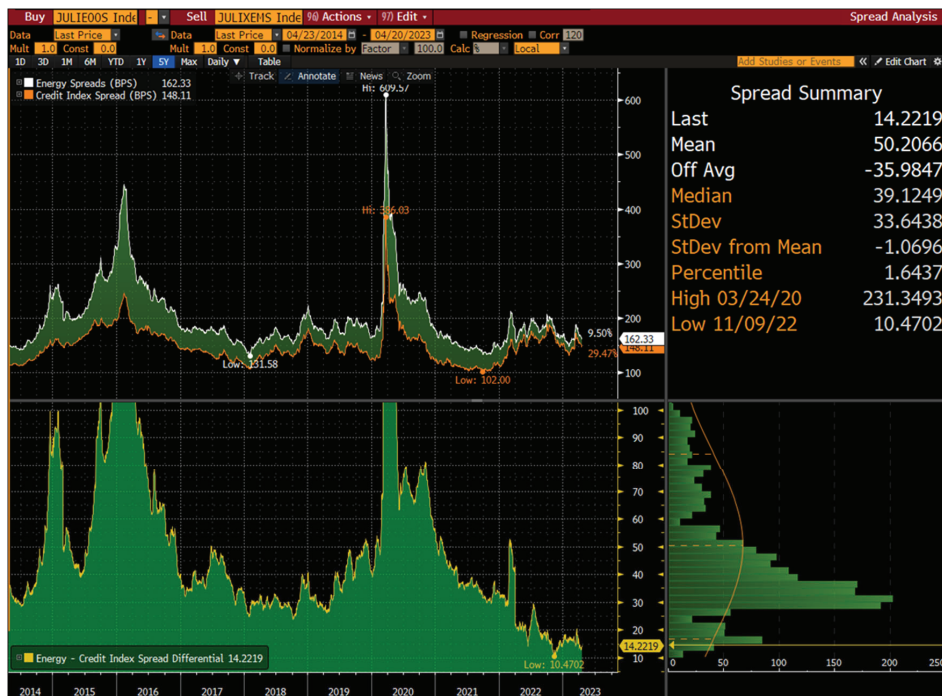


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## The Present

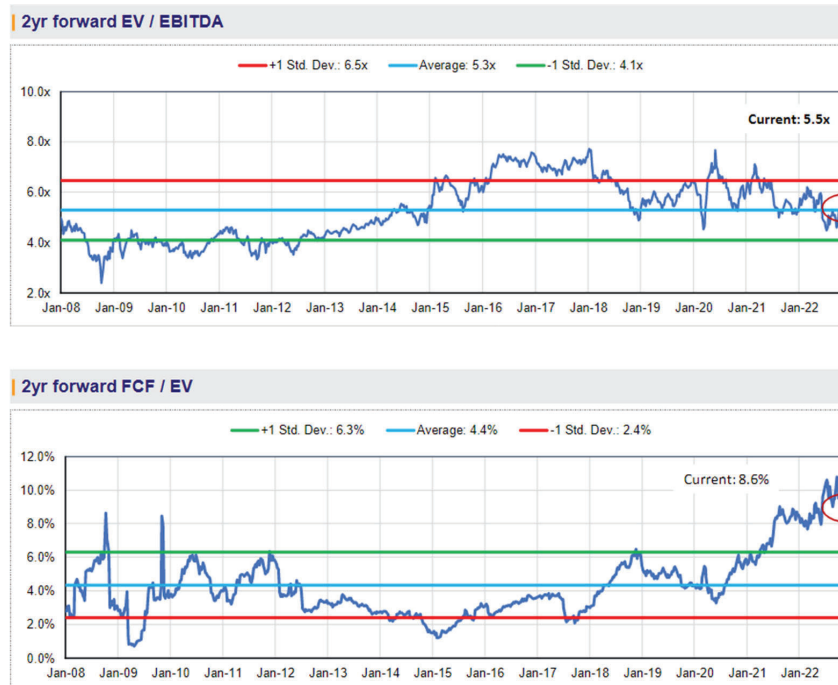
Improved Free Cash Flows have allowed the energy to reduce their debt and for credit rates to converge with the rest of the market



Sources: Bloomberg, Wellington Management, Credit Suisse  
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## The Present

The equity market is not giving the industry credit for improved returns or does not believe in the sustainability of these cash flows



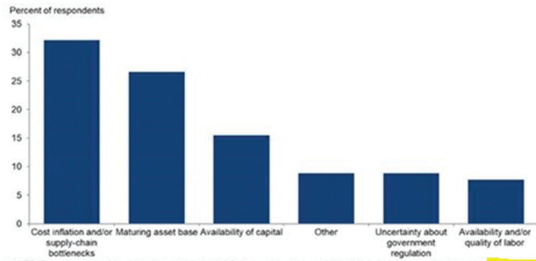
Source: Wellington Management  
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# The Present

## Cost Inflation and the Economic Outlook are top of mind for producers

### Which of the following is the biggest drag on crude oil and natural gas production growth for your firm?

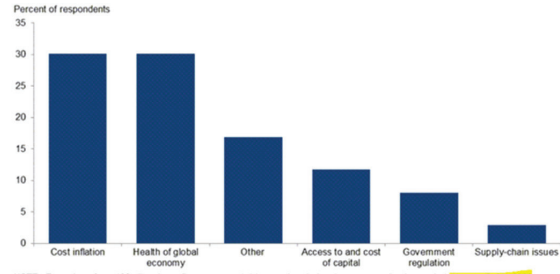
Thirty-two percent of executives at exploration and production (E&P) firms selected "cost inflation and/or supply-chain bottlenecks." A total of 27 percent chose "maturing asset base" and 16 percent indicated "availability of capital." Other options each received 9 percent or less.



NOTE: Executives from 90 exploration and production firms answered this question during the survey collection period, Dec. 7-15, 2022.  
SOURCE: Federal Reserve Bank of Dallas.

### Which of the following do you believe will have the most influence on the profitability of your firm this year?

"Cost inflation" and "health of global economy" were each selected by 30 percent of executives as having the greatest influence on the profitability of their firm in 2023.



NOTE: Executives from 130 oil and gas firms answered this question during the survey collection period, March 15-23, 2023.  
SOURCE: Federal Reserve Bank of Dallas.

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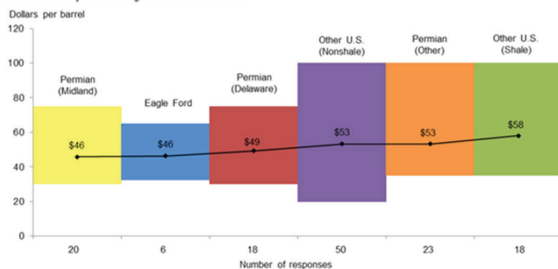
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# The Present

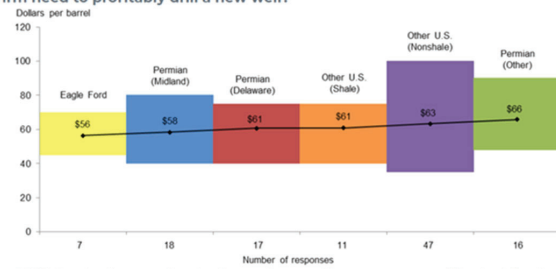
## High levels of cyclical and structural cost inflation pressure producer margins

### In the top two areas in which your firm is active: What WTI oil price does your firm need to profitably drill a new well?



NOTES: Lines show the mean, and bars show the range of responses. Executives from 92 exploration and production firms answered this question during the survey collection period, March 10-18, 2021.  
SOURCE: Federal Reserve Bank of Dallas.

### In the top two areas in which your firm is active: What WTI oil price does your firm need to profitably drill a new well?



NOTES: Lines show the mean, and bars show the range of responses. The average response was \$62 per barrel. Executives from 80 exploration and production firms answered this question during the survey collection period, March 15-23, 2023.  
SOURCE: Federal Reserve Bank of Dallas.

Source: Federal Reserve Bank of Dallas

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## The Present

At the same time, cost inflation is reducing the capital efficiency of this spending

	Base production	Corp decline	Production replaced to stay flat	CAPEX	Implied Capital Efficiency (000'\$/bbl/d)
2020	100,000	35%	35000	\$ 875,000	\$25.00
2021	100,000	33%	33000	\$ 945,000	\$28.64
2022	100,000	31%	31000	\$ 1,304,100	\$42.07
2023	100,000	29%	29000	\$ 1,486,674	\$51.26

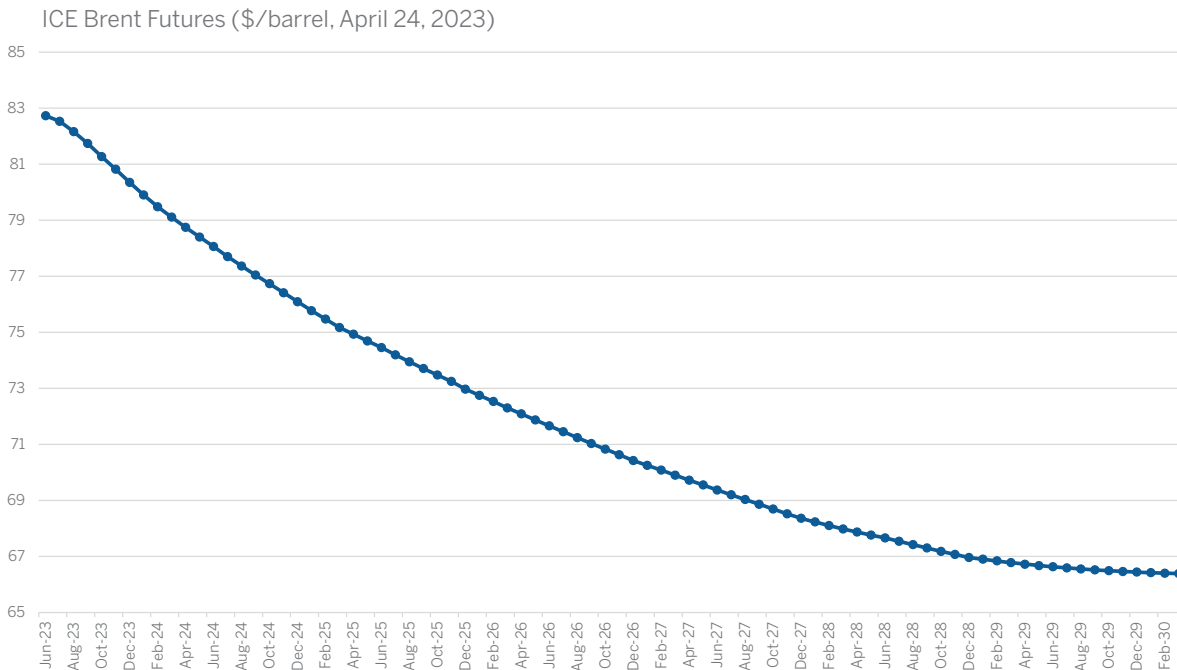
Source: Wellington Management

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## The Future

Futures markets continue to discount a lower equilibrium price

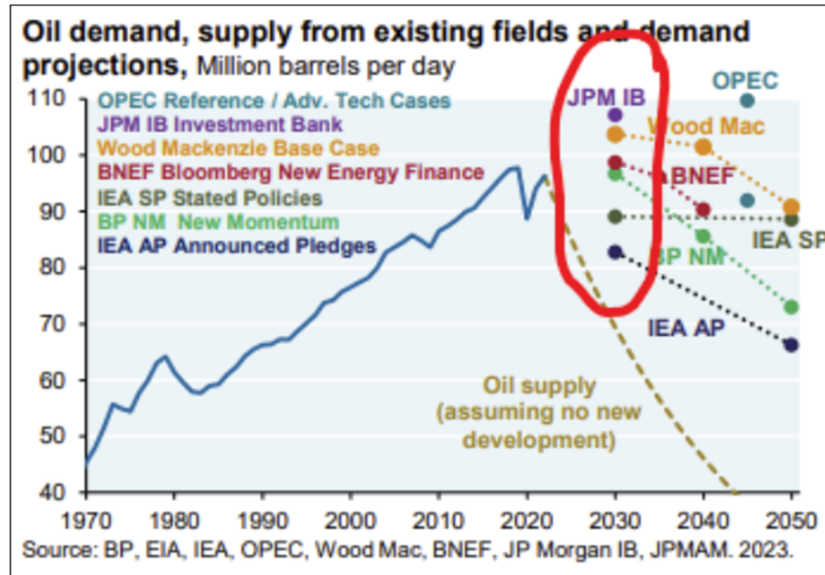


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## The Future

Investors are confused with which long-term demand forecast to believe

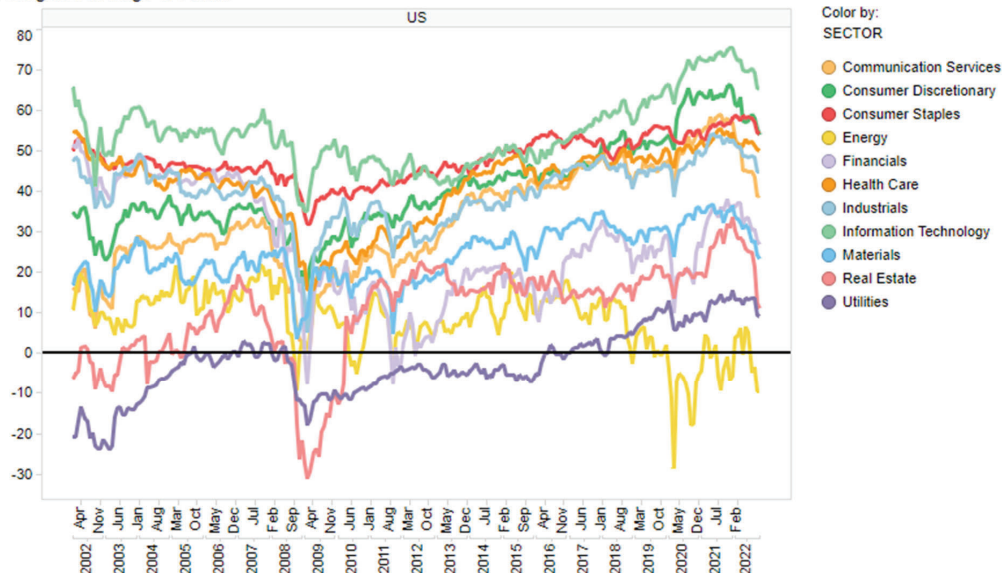


## The Future

Market participants assign a negative value to future energy assets

### Percent of Market Capitalization Explained by Future Assets

Weighted average % Future



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