3Q Big Oil Financial Report Essay, Research Paper

Three Big Oil Firms Post Record Profits WSJ 10.25.00/revised

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3Q Financial Report and its US Economic Impact

The three largest U.S. oil companies, Exxon Mobil, Chevron, and Texaco posted record third quarter profits earlier this week, crushing Wall Street s estimates and sending many analysts scrambling to adjust their fourth quarter outlooks.

Making headline news just last week, Chevron announced that it would acquire Texaco in an acquisition that would form a combined entity to be named Chevron Texaco, keeping the strong brand names we ll assume. Under the deal, Chevron will exchange 0.77 shares for each Texaco share, valuing the deal at $35 billion. Management projects the combination will generate $1.2 billion in cost savings in the nine months following the deal’s completion. Texaco Chairman and Chief Executive Peter Bijur Tuesday called the two companies “natural partners” and said the merger “will create a U.S.-based global enterprise that is highly competitive across all energy sectors.” (Wire Services CNBC.com)

Texaco s earnings for the current 3Q were stellar; total net income of $798 million, or $1.46 a diluted share, double that of last year s income of $387 million or .71 a share, an upside surprise of .12 cents according to the analysts consensus firm First Call/Thompson Financial; or in layman s terms, profits jumped 80 percent! And they aren t exactly selling high bandwidth fiber-optic infrastructure components, just good old- fashioned black gold.

Chevron, the aggressor, reported 3Q earnings rose to $1.53 billion or a profit of $2.35 a diluted share, nearly tripling from $582 million or .88 cents last year, shattering estimates by .54 cents according to First Call. The company attributes its remarkable growth this last year to increased U.S. refining and marketing and increases in exploration and total production. Earnings from its U.S. exploration and production business rose to $572 million, up from $264 million a year ago, as a result. Its international exploration and production business earned $713 million, up from $322 million last year (Reuters CNBC.com).

Exxon Mobil, the 800-pound gorilla in the sector, reported that it reaped the largest profit in a single quarter ever this week. Net income of $4.29 billion or a $1.28 a diluted share, twice last year s net of $2.19B or .62 cents smashing estimates by .12 cents. Profits increased due to a 20% increase in revenue to a shocking $58.85 billion over 3Q revenue of $48.99B.

As crude oil prices and natural gas prices hover around 10-year highs these giant corporations are unquestionably reaping record profits despite a paltry increase in total production and tight supply market conditions. Exxon for example, reported only a 2% increase in oil and natural gas liquids production, while Chevron only stepped up production a mere 2.5% despite the strong numbers. Texaco even reported a slight decrease in production. However, higher prices and tight supply historically should lead to an increase in production, as Gene Nowak, an analyst with ABN Amro contends, Eventually we ll have Economics 101 (WSJ-10.25.00).

Oil prices, in fact, hit 10-year highs during the quarter and averaged $31.63 a barrel, about $10 a barrel higher than the same period a year ago, and everyone has felt the effects from the average commuter, to small business owners, to retail giants like Target and Wal-Mart, whose stocks are suffering from fears of a slowdown in consumer spending as we approach the holiday season. U.S. natural gas prices were just as hot, averaging $4.48 per million British thermal units compared to $2.55 a year ago (Comtex, CNBC.com). As the demand for heating oil increases during the next few months, supply will be very tight, edging prices even higher, so keep your doors and windows closed. It has been said that heating oil inventories are nearing 30-year lows and this extreme pressure on supply will continue to adversely effect consumers and benefit the big three by providing a market environment ripe for accelerated earnings growth going forward into the spring of 2001.

Outside the U.S., OPEC President Ali Rodriguez said on Tuesday the cartel was poised to raise output by 500,000 barrels per day within days if OPEC’s basket of crudes remained above $28 a barrel but said it would consider a rise in supply beyond this “very carefully” (Wire Services, CNBC.com). A further increase in supply by OPEC would help to ease demand pressure in the long-term, however, because it takes nearly two months from port-to-pump a decrease in gasoline prices will most likely not be seen in U.S. markets anytime soon. As for the release of the 30 million barrels of crude from the U.S. Strategic Reserve, the swap giving share to BP Amoco and two others has been completed; this political move as some analysts have called it, has done little to cool the raging demand of U.S. consumers however.

In sum, U.S. oil exploration and production is fairly light, while corporate oil revenues and profits are at record levels buoyed of course by the 10-year highs in crude at roughly $31 a barrel.

Reliance on foreign sources of crude continues to pressure the U.S. economy driving energy prices skyward sparking new fears of a general U.S economic slowdown resulting from the Internet boom and the 10th anniversary of the raging bull market. Engineered by Federal Reserve Chairman Alan Greenspan, the soft-landing is an effort to thwart inflation pressures by increasing interest rates over the past 18 months. So far, the stock market has retreated with the DJIA and the NASDAQ Composite both in negative territory YTD. Many of the U.S. s top corporations, INTC, MSFT, AAPL, LU, HD, T, GM, F, XRX, DELL, etc are sitting at or near 52-week lows as a result of the three E s; pre and post earnings warnings, the continued weakening of the euro, and the sharp increase in energy prices.

Without a substantial increase in exploration and production from non-OPEC suppliers the U.S. must step up its energy plan, for example, like releasing more oil from the Strategic Reserve or exploring new territory within the U.S. albeit controversial because oil prices are not likely to see $18 a barrel anytime soon. However, others would argue that the root of the problem lies within the production capacity of the refineries themselves arguing that there are simply not enough to handle the rigorous consumer demand. Hint: SUVs. Either way, with the current flare up of violence in Israel and the recent terrorist attack in Yemen on the USS Cole, world markets are extremely vulnerable to the actions of OPEC and the overall turmoil in the Middle East to say the least right now. Several key economic reports are due out later this week including the GDP, generally expected to grow by roughly 3%, which could cast a more illuminating light on the current economic environment. If the GDP is weak it may confirm that rising energy prices are slowing the economy. As the peak season of demand nears, oil and heating oil prices will continue to rise to keep pace with limited supply, and rest assured, Exxon, Chevron, and Texaco will continue to report record growth in revenues and corporate profitability.