

[Transcript] Behind the Money / Big Oil's big bet

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It's the beginning of the end for fossil fuels.
At least that's what the International Energy Agency,
or IEA, says.
The IEA has, for years now, been saying that
demand for oil is nearing its zenith
and is going to start to slide.
That's Miles McCormick.
He covers all things energy for the FT.
He says that the IEA is the West's go-to resource
for trends in oil supply and demand.
And it's latest prediction.
By the end of this decade,
fossil fuel demand will have peaked.
So demand for oil, demand for gas, and demand for coal.
By 2030, less than seven years away.
And while climate change's impacts
are leading to some changes in the global economy,
think about new industries like electric vehicles.
It's also probably no surprise to hear that
not everyone's convinced it's over for fossil fuels.
First of all, I don't think they're remotely bright.
We believe that demand for oil will not peak before 2030.
We believe it will continue to grow to 2030 and beyond.
That's Mike Worth,
the CEO of oil and gas giant Chevron.
He sat down for an interview with the FT in September.
So you can build scenarios,
but we live in the real world
and have to allocate capital to meet real-world demands.
Just a few weeks after talking to the FT,
Worth made his plan to meet those real-world demands known.
Well, another big deal in the energy space.
Chevron agreed on Monday to buy US oil and gas producer Hesse.

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Chevron buying Hesse in an all-stock deal that's valued at \$53 billion. And Chevron isn't the only energy company that's taken such a bold step. Around the same time in October, Exxon Mobile made a similar acquisition buying pioneer natural resources for nearly \$60 billion. Myles says these recent deals are watershed events for the industry. These deals have been kind of reminiscent of the wave of what we call mega deals that happened in the late 90s, early 2000s.

It's a pretty huge moment based even on the price tags alone. I'm Mikayla Tenderra from The Financial Times. Today on Behind the Money, despite a growing global shift toward cleaner energy sources, Chevron and Exxon are doubling down on their specialty, oil. So what's behind this push? And is it a smart bet?

Hi, Myles. Welcome to the show.

Hi, Mikayla. Great to be on.

We're seeing some massive multi-billion-dollar deals in American oil and gas right now.

So the first deal that happened was Exxon buying pioneer natural resources.

What is Exxon trying to achieve with this deal specifically?

Why did they want pioneer?

So pioneer is a premium specialist.

Its resources are all in the Permian Basin of Texas and New Mexico.

And the Permian is this massive, sprawling, oil-producing basin that has basically kind of led America's rise to becoming the biggest oil and gas producer in the world.

And for Exxon, they reckon that by snapping up the biggest producer in this biggest basin, they can drive down costs, produce cheaper oil, and also produce it for longer

because pioneer has some of the best inventory in the game.

And so they reckon it'll give them another few decades of production there.

Okay, so then the second deal to happen after Exxon, we saw that Chevron wanted by this oil company called Hess.

What is Chevron trying to do here with Hess?

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Yeah, Chevron decided to snap up Hess for quite similar reasons to Exxon in that they wanted to expand their ability to produce oil and gas for the decades ahead.

But it was also a slightly different deal in that the deal was more focused on assets that Hess has off the coast of Guyana in South America where it's been involved in the biggest oil discovery of the past decade.

So Chevron wanted to incorporate that Guyanese play into its portfolio to allow it to build up its inventory and be able to produce more oil.

Yeah, so both of these deals have happened within weeks of each other last month.

Why are they happening right now?

What's going on with the timing here?

The pretty basic answer to that is that the oil majors are flush with cash at the moment.

So since Russia's invasion of Ukraine over a year ago, oil prices have been pretty high.

And as a result, both Exxon and Chevron and oil companies across the world reported bumper profits last year at record levels.

So the companies are awash with cash and looking for ways to spend that money.

So is there any reason why they've gone the acquisition route as opposed to maybe funding their own drilling ventures with this extra cash that they have?

Yeah, so there's been a phenomenon over recent years where investors have grown tired of oil companies effectively wasting their money.

For the past decade, American producers have been drilling well after well after well.

And while they've pushed American production to record levels, they've also managed to lose a lot of money.

So for the last couple of years, investors on Wall Street have been demanding that oil companies return the money they make to shareholders in the form of share buybacks, in the form of dividends.

So in order to increase production, the options are quite limited.

And one way to do that is inorganic growth, i.e. going up and buying other companies and bolting on their production.

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Okay, got it.

Now I want to talk more about what the IEA or International Energy Agency has said recently about oil and gas demand.

It's findings conflict with whichever on an Exxon think.

The IEA says it's found that fossil fuel demand will have peaked by the end of this decade.

And then if governments stick to existing climate pledges, oil demand specifically will roughly have by 2050.

So why don't the oil company executives agree with these findings?

These companies, Exxon and Chevron, they believe demand is going to remain strong because even as the Western world shifts away from, for example, gas-guzzling cars to electric vehicles, there's a swelling middle class in the developing world that is going to be thirsty for cheap energy and is going to be keen to guzzle oil for the decades ahead. And that therefore demand for oil is here to stay, that its death has been overstated and that the world is going to remain very reliant on oil.

Yeah, yeah.

So what's been the reaction to these deals?

I'm mostly thinking of investors and climate change activists. Certainly from the perspective of the investors I've spoken to, they think these are pretty good deals.

I mean, in the US in particular, investors are less inclined to pressure oil companies into a greener direction as compared with European investors. And yeah, largely think this is a good idea from the oil companies to position themselves to be the last men standing on oil production in the decades ahead.

Yeah.

And then what about environmental groups, environmental activists?

How have they reacted to these mergers?

What have you seen?

Environmental groups, climate activists have been pretty irate. They see this as a misguided move by the big oil companies. They think it'll backfire because they reckon oil demand is set to slide.

And they think that in a lot of ways it's big oil kind of spitting in the face of the Paris climate accords, which look to obviously limit emissions over the coming decades that will be produced by burning oil and gas.

Yeah.

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Now, in recent years, we've seen some of the big oil producers over in Europe, like Shell and BP, make some small moves into renewable sources of energy like solar and wind.

So why is that in the case over in Europe, but not in the US?

Yeah.

Well, on the European side of the Atlantic, there's just been a lot more pressure, both from governments and from investors, to take a greener tack going forward.

So as a result of that, they have been looking at renewables more closely than their American counterparts.

But it's worth noting that their evaluations have suffered to an extent as a result.

There's been a widening gap between the valuations of the American super majors and the European super majors, which a lot of people see as being a result of the companies moving away from their core focus.

Yeah.

So what are your sources thing?

Are these big gambles that these companies are taking to make these acquisitions?

I mean, as we heard, there's one side where the IEA is saying that demand is going to peak very soon.

The oil companies are clearly taking a different bet.

On some levels, it's a big gamble because these companies are expanding in a kind of uncertain world where it's not entirely clear how much oil people will be using in the years ahead.

But on the other hand, I mean, these have both been all stock deals.

So they kind of absorb a lot of the risk of whatever happens in the years ahead.

They kind of allow them to increase production without draining their kind of war chest that they've built up over recent years in terms of cash piles too much.

Okay.

So gas prices are always an important issue for American voters.

We're heading into 2024 with a presidential election that's coming up.

Are these deals going to have an impact on consumers and why or why not?

Yeah, the simple answer is no,

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these deals shouldn't have any major impact on what consumers are paying for a gallon of gasoline. That said, as the election draws near and as prices at the pump remain elevated as they are now, I would expect to see a fair bit of political rhetoric from the Biden administration, from the White House, calling on... Yeah, I was going to jump in and just say, yeah, I know there was an instance last year where Joe Biden was calling out Exxon in a speech. We're going to make sure that everybody knows Exxon's profits. Why don't you tell them what Exxon's profits were this quarter? Exxon made more money than God this year. And by the way, nothing's changed. So are you expecting to see more of that now that we've seen these big deals? So I would expect to see a fair bit of political rhetoric as the elections approach, politicians lashing out at oil companies and calling on them to produce more oil to bring down prices at the pump and saying that perhaps instead of spending all their money on buying other companies, they should be spending that money on doing what they do best and drilling more, producing more oil, putting that on the market and bringing down prices for hard-pressed American consumers. Yeah, yeah. So looking ahead, what are you expecting to see in terms of future deals on the horizon now that these two have happened? So since these deals went through, there's been a flurry of speculation as to who will be next with pressure mounting on some of the other big players to do their own deals, to try and compete with Exxon and Chevron in terms of scale and how cheaply they can produce and barrels of oil. So companies like Occidental Petroleum, like ConocoPhillips, some of the bigger players in the Permian Basin in Texas are under pressure to do similar deals, to snap up smaller producers perhaps and to buy out some of the private operators or even to merge with other big players to try and compete with Exxon and Chevron on drive-down prices. So that's what's happening in the US, but what about other parts of the world? One deal that there's been a lot of speculation about, and I should emphasize that it's speculation, there's no evidence that talks are actually happening, is Shell and BP, both based out of the UK now. There's been a lot of talk about them potentially doing a tie-up.

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They're both significantly smaller companies in terms of valuation than Exxon and Chevron, and a lot of experts in the space are saying that perhaps a deal between them might make sense if they want to be able to compete on a similar scale with some of their American counterparts.

Yeah, yeah.

So you used this phrase before the last man standing in oil.

So is that what we're seeing here?

All of these companies are trying to do that rather than move into renewables?

Well, so as demand in oil ultimately does drop off, it's going to be all about who can produce the cheapest barrel of oil.

And the cheapest barrels today are coming from Saudi Arabia, but for Western companies to compete, they need to do everything they can to drive down costs.

And that means buying up the best remaining inventory in the cheapest locations to produce oil.

So that's why you've seen Exxon ultimately snapping up Pioneer's Acreage in the Permian, and it's why you've seen Chevron doing likewise with Hesse's project off the coast of Guyana because they want to be able to produce oil cheaply and yes, be the last man standing as it were.

Miles, thanks so much for coming on the show.

Thanks, Michela. It was great to be on.

Behind the Money is hosted by me, Michela Tindera.

Sophia Effmed is our producer.

Topher Forhez is our executive producer.

Sound Design and Mixing by Sam Giovinko.

Special thanks to Andrew Edgecliff-Johnson and Jamie Smith.

Cheryl Brumley is the global head of audio.

Thanks for listening. See you next week.

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The latest episode of the Next 5 podcast is all about the oceans.

I speak to environmental advocate Celine Cousteau.

There's about 8 million tons of plastic waste that ends up in our oceans.

Karin BIASON at the EIB.

The ocean economy was projected to increase to 3 trillion dollars.

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and most of the world's most expensive,

Mrs.

Dandrade, CEO

And Miguel still will Dandrade

CEO of EDP.

Global Market Share links capacity should reach around 600 gigawatts by 2050.

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