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Investment Strategies of International Oil and Gas Companies

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The decline in oil prices, which began in the second half of 2014, turned out to be a protracted phenomenon and was a serious challenge for the industry. Oil and gas companies, in the leading oil-producing countries, were forced to rebuild their strategies, adapting to the new realities of the market. This article gives a brief overview and analysis of strategies used by the modern oil and gas market main players, including a description of their strengths and weaknesses. The common strategic concepts and management solutions that are specific to each of the companies separately are identified. For the purpose of this article, there are seven companies which were included in the analysis: ExxonMobil, Chevron, BP, Royal Dutch Shell, Total, Eni and Statoil.

Key words: *Investing in oil production, changing the strategy, ExxonMobil, Chevron, BP, Royal Dutch Shell, Total, Eni, Statoil.*

Introduction

Under standard conditions, when planning operations, the major oil and gas companies' choices are primarily determined by selecting one of two strategies: focusing on growth in value (increasing profits) or increased production levels. The reality of low oil prices makes it difficult to implement a strategy of incrementing stocks and increasing production due to a significant reduction in cash flow from operating activities which is the main source of investment financing for companies (see Table 1 below). According to this indicator, positive dynamics are observed only in the Chinese company Sinopec, whose business is mainly concentrated in the sphere of oil refining. The gradual depletion of reserves and growing costs of geological exploration in recent years has not allowed international oil and gas companies to increase production volumes organically. While most large oil and gas companies have not faced a significant drop in hydrocarbon production, the issue of long-term maintenance of production is quite acute given the long term investment cycle in exploration and production and the overall decline in investment.

These new conditions force companies to reduce capital costs. In the first half of 2016, capital costs decreased compared to the same period in 2014 for all companies under review, the biggest drop in the indicator was recorded by the Statoil company - 45% (see Table 1). At the same time, the cash flow from operating activities of companies declined more significantly (Statoil company - 72%), which indicates that companies are increasing debts and cutting dividends.

Table 1: Cash flow from operating activities and capital expenditure by companies

	Cash flow from operating activities, bln. dollars			Capital expenditures, bln.		
	1st floor	2014 1st floor	2016 Change 1st floor	1st floor	2014 1st floor.	2016 Change 1st floor
BP	16.1	5.8	-64%	11.4	8.7	-24%
Exxon Mobil	25.3	9.3	-63%	15.9	8.9	-44%
Royal Dutch Shell	21.9	1.9	-91%	15.3	11.1	-27%
Total	10.6	4.8	-55%	12.2	8.2	-33%
Chevron	16.3	3.7	-77%	17.5	10	-43%
Statoil	12.1	3.4	-72%	10.4	5.7	-45%
Eni	7.9	3.5	-56%	7.6	5.4	-28%

Source: compiled according to company reports

The continuing period of low oil prices will lead to further investment reduction, where companies are focused on cost reduction, increased business model efficiency and significantly revising the portfolio of assets, abandoning expensive projects with high geological risks. The private companies under consideration are generally reluctant to reduce their payments to shareholders since this immediately affects the value of the shares. Nevertheless, the crisis forces them to take these measures as companies can significantly reduce the cost of buying back their own shares.

Some companies have begun to pay more attention to renewable energy sources. The leader in this initiative has been Total, which announced its intention to increase the share of renewable energy sources to 20% in its portfolio. In 2016, the company spent $ 1 billion to buy a French battery manufacturer and the company previously purchased a controlling stake in SunPower, the US manufacturer of solar panels, for more than $ 1 billion. These general tendencies are typical for almost all companies but the tools used, especially in conditions of increasing instability are becoming more diverse. Royal Dutch Shell is reviewing its strategy focused on increasing production and concentrates on financial performance. In particular, the company reduces the cost of developing unconventional reserves in the US, unlike independent companies Royal Dutch Shell, BP and ExxonMobil who failed to achieve success in this area (Karolin & Dmitry, 2014). The company's cash flow, compared to 2014, decreased 91% - the highest value among the companies in question (Table 1).

One of the strengths of the company is the orientation towards innovation. Shell traditionally invests in technically complex projects, develops non-traditional resources, implementing large-scale LNG and GTL projects. This strategy involves high costs and the company, even before the fall in oil prices, showed unsatisfactory financial results and a drop in liquidity. At the same time, Shell has strong refining and marketing capacities, a significant diversified portfolio of assets and high potential for large deposits opening. In early 2016, Shell completed the acquisition of a major gas company, BG group (transaction value - $ 62 billion) and as a result, the gas share in the company's production structure exceeded 50%. In turn, at the company's request, the operating costs of the merged company decreased by 9 billion US dollars due to the merger. This acquisition clearly shows that the company is making a long-term rate on LNG, the market of which the company already now occupies at about 25%.

In 2016, Shell created a new structure called "New Energy" which combined the assets and efforts of the company in the direction of wind power, hydrogen and biofuel. The new structure investment program for 2016 is limited to 200 million US dollars, which is about 1% of the company's total investment. Total, like Shell, shows not very good financial results and a decrease in liquidity. At the same time, Total has a high replacement ratio and like Shell, has good prospects for LNG projects. In recent years, the company has experienced a decline in production but there is a positive shift in this direction currently due to the company joining several large projects (Russia, Canada, USA). Total gravitates toward strategic alliances and does not focus on operation in projects, which on the one hand provides an opportunity to achieve a significant share in large projects, while on the other does not provide an opportunity to manage project progress. Total has a diversified portfolio of assets and a high potential for discovery of large deposits with a high interest in alternative energy sources. Total has projects in solar energy in Chile, South Africa and Abu Dhabi.

BP has focused on the development of deep-sea deposits for the past few years and has been eyeing projects in Russia (Alexander, 2012). Among the company's strengths is the allocation of a large sales network, oil refining and LNG capacity and a high reserve replacement ratio.

The company, like Total, shows interest in alternative energy sources. After the accident in the Gulf of Mexico, BP carried out structural reforms for the purpose of concentrating on exploration and production for long-term growth. Such an approach can be explained by a decrease in the company's production level and the focus on production growth under current conditions can only affect the financial results. As early as 2014, the company announced its intention to reduce operating costs by 7 billion US dollars by 2017 and by the end of 2016 this result was almost achieved. BP managed to more than halve project costs for the Mad Dog 2 project in the Gulf of Mexico (costs were planned at $ 22 billion).

Chevron has been focused on exploration and production projects which promise to ensure a significant increase in production for the company in the long term. Chevron's priority for gas projects in Australia where the company is constructing two large LNG plants (Gorgon and Wheatstone). At the same time, it should be noted that these projects are associated with growing construction costs which carries risk for achieving economic efficiency. Chevron's net debt in the first half of 2016 was 286% higher than in the same period in 2014 (Table 2 below). Chevron is focused on large-scale projects and deep-water fields and the company is quite conservative about the projects of unconventional US resources. Chevron has a large number of exploration and production assets respectively, a high potential for opening large deposits and a strong position in processing.

Table 2: Oil and gas companies net debt for the first half of 2016

	Net debt		
	1st floor. 2014	1st floor. 2016	Change
BP	24.7	31.9	29%
ExxonMobil	15.7	40.1	156%
Royal Dutch Shell	28.7	75.1	162%
Total	28.5	29.8	5%
Chevron	9.3	36	286%
Statoil	7.6	14.8	95%
Eni	26.6	15.8	-41

Source: compiled according to company reports

ENI has a more modest but still very geographically diversified portfolio of assets in exploration and production which may allow the company in the near future to achieve good production growth rates. ENI has a strong refining capacity in Europe, a high replacement ratio and one of the best international companies in terms of production costs. At the same time, the company has experienced a slight decline in profitability over the last several years. A key position in the ENI assets portfolio is occupied by projects in Italy and North Africa. Africa carries significant political risks (e.g. instability in Libya) and Italy's resources are close to exhaustion. In this regard, the company is focused on new projects in other countries, including

Kazakhstan (the Kashagan project), Venezuela (Junin-5 heavy oil production project and Perla gas block on the shelf). In 2015, ENI opened a giant gas field in the license area of the Zohr subsoil in Egypt's deep water shelf. Last year the company sold part of its stake to Rosneft and BP. In the first half of 2016 ENI, the only company under consideration, managed to reduce its net debt compared to the same period in 2014 (table 2).

ExxonMobil recently focused on financial performance in the exploration and production sector which was reflected in decline in production while a significant increase in costs on the continental deposits of non-traditional oil in the United States has also resulted in a decrease in financial performance. Production is also reducing from projects in the North Sea and West Africa and the upper limits of production in Qatar have almost been reached which necessitates reorientation of the ExxonMObil strategy in the search for new assets that can guarantee long-term growth for the company. An important element of this strategy was offshore projects in the Russian Arctic. In the period from 2011 to 2014 ExxonMobil entered 11 Rosneft exploration projects although anti-Russian sanctions froze partners' activity. In 2014 only one exploratory well was drilled in the Kara Sea, culminating in the discovery of a fairly large deposit (Kenneth, 2014). In addition, the company's portfolio includes participation in a number of major projects around the world, Gorgon LNG in Australia, Kashagan in Kazakhstan and Sakhalin-1 in Russia which ensures profitability growth and a serious increase in production. ExxonMobil is the world's leading international company in terms of production and inventory levels, has a large sales network and a global portfolio of exploration and production assets capable of ensuring long-term growth in production.

If quotes for oil prices remain low, the company will find it increasingly difficult to finance their investment program. In 2016, ExxonMobil significantly increased the volume of borrowings (see Table 2 below), while remaining the only company from the list under consideration which in 2016 showed a growth in dividends. ExxonMobil in recent years was the leader in the volume of operations to buy back its own shares however in 2016 for the first time zeroed out costs under this article.

Statoil's strategy is focused on production levels increasing and has begun to abandon projects in Norway in favor of foreign assets, but of course, Norway will remain the key production site for the company for a long time. Statoil, in the framework of its strategy, prioritizes projects at an early stage of prospecting, rejecting the policy of takeover in the field of the company's interests: deep-sea deposits and unconventional resources. Good results in terms of new deposit discovery were demonstrated by Statoil in Brazil, Norway, Canada and Tanzania. The company is also interested in assets in Russia an in 2013 started four projects inthe Sea of Okhotsk and the Barents Sea, later concluding several transactions for hard-to-recover resources - all projects are being implemented jointly with Rosneft. For the past several years, from 2009 to 2013, Statoil has also been actively selling its assets with revenue from this sale amounting to 18 billion dollars (Endang & Risal, 2017; Halim, Adnan & Khusaini, 2017; Lynn, 2015; Terje & Balazs, 2017). The strengths of the company include government support and ownership of transportation capacities. At the same time the unfavorable situation led to a decrease in the company's share price by almost half.

Conclusions

Despite the abandonment of expensive projects, companies are trying to put into operation those deposits, a significant part of the costs for which have already been implemented. So Statoil (35%) and ENI (65%) in 2016 launched the expensive Arctic Goliant deposit in Norway. It is evident that as a result of low oil prices, international oil and gas companies are forced to significantly reduce their investment programs. The lack of cash generated by operating activities leads to an increase in debt, which in turn, increases the oil and gas business risks. Companies are reviewing their portfolios and refusing the most expensive projects. A number of companies are beginning to show greater interest in renewable energy sources, increasing gas projects in their assets. The general trend for all companies is cost reduction (Hairudinor, Barkatullah, & Jirhanuddin, 2017Mizirak & Altintaş, 2018; Madani, 2017). At the same time, the leading energy analytical agencies forecasts demonstrate a gradual increase in demand for hydrocarbons in the next 20 years and a gradual increase in oil prices which in the medium term should lead to increased investment in new projects.

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