

## ***THE MONTHLY RESEARCH CONFERENCE CALL***

# **ENERGY: RETURN OF FOSSIL FUELS?**

Moderator:

Jim Kelleher, CFA

Director of Research

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## ■ **Energy: Return of Fossil Fuels?**

- Jim Kelleher, CFA, Director of Research
- Senior Analyst Bill Selesky
- Argus President John Eade

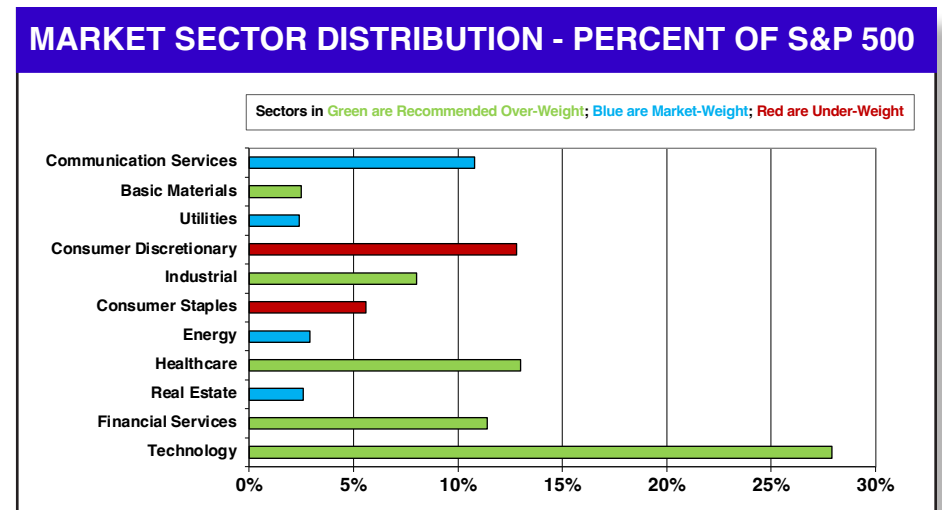
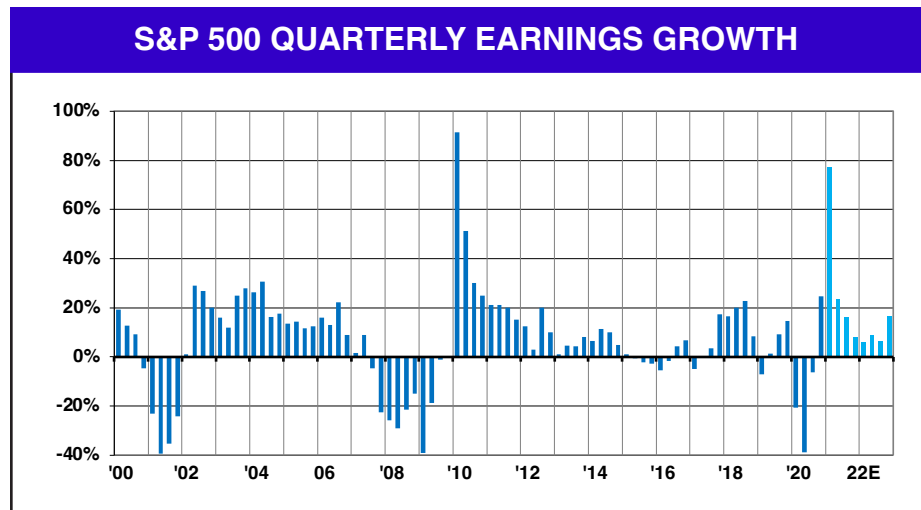
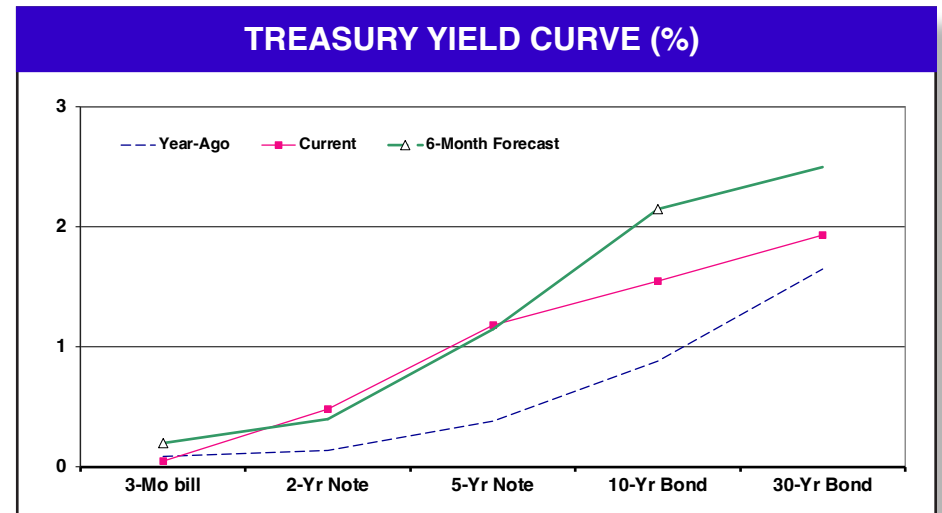
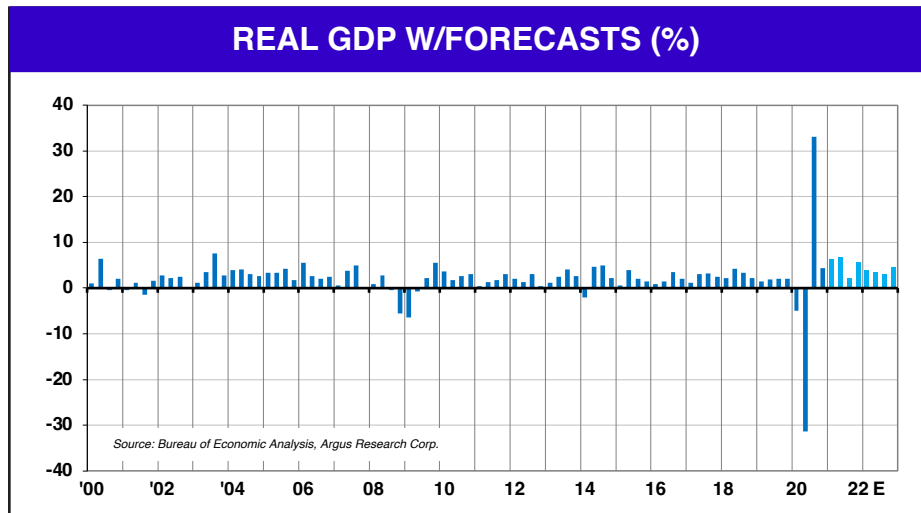
## ■ **Argus Quick Notes**

- Bank Stocks We Like
- Weekly Stock List: Innovative Companies
- Favorite Materials Stocks
- Shooting Stars and Fallen Angels
- Find these on the homepage of our website

## ■ **The Argus Innovation Portfolio**

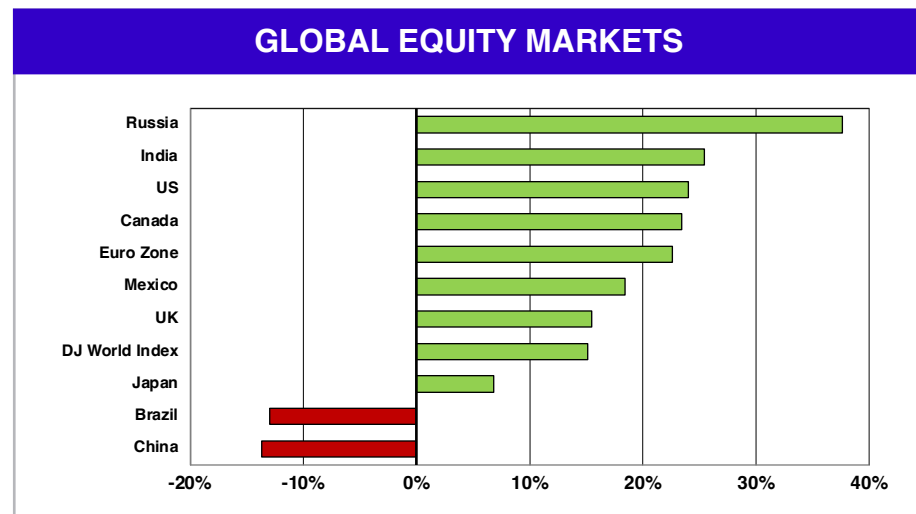
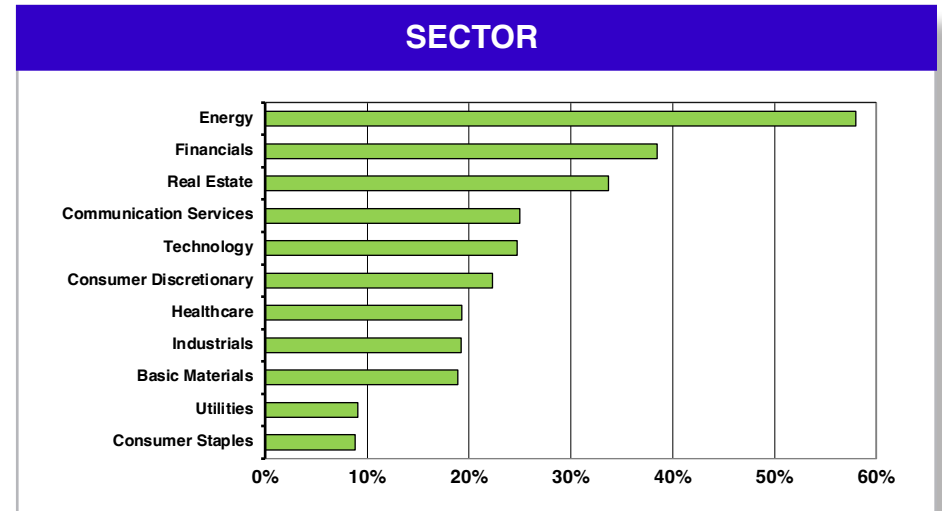
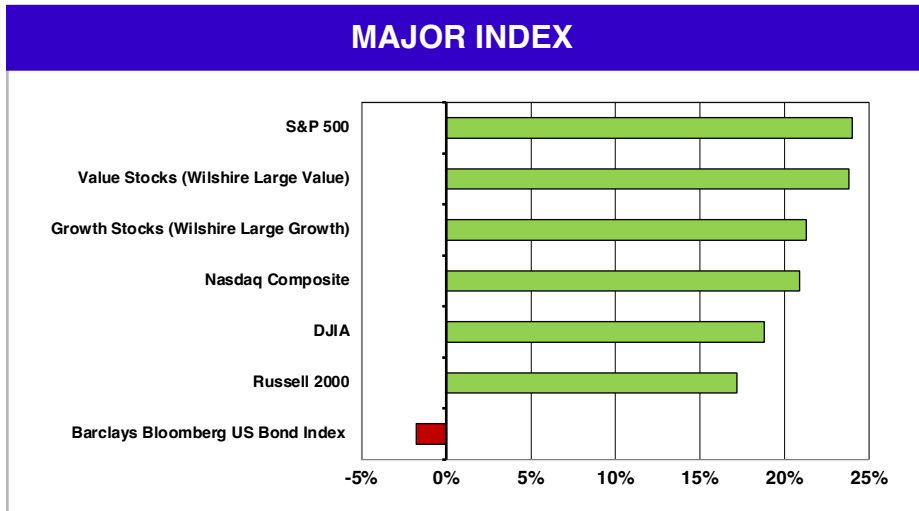
- Low-tech manufacturing has moved overseas, yet the U.S. economy is bigger
- U.S. GDP has grown 23-times since 1930 vs. three-times for population
- Innovative companies: growth, cash flow, new products
- Global investors are confident in US innovation
- Find information on the homepage of our website

# MACRO FORECASTS



# MARKET PERFORMANCE

DATA AS OCTOBER 29, 2021



- **The Energy sector accounts for 3% of the S&P 500**
- **Our recommendation is Market-Weight (upgraded from Under-Weight)**

## Performance

- YTD 2021: Energy sector is up 52%; S&P 500 up 23%; #1 sector
- Leading the sector results: E&P +85%
- Other sub-sector results: IOC's +48%, Refinery +33%, OFS +35%

## Historical Perspective

- On September 7, we raised sector-weighting to Market-Weight
- On August 16, we raised our oil price target by 10% to \$65 WTI from \$59 previously; Range: \$50-\$70 (a new target forthcoming)
- On October 4, OPEC+ agree to keep production targets unchanged

## Looking Ahead

- U.S. rig count trend remains supportive; valuations attractive
- 3Q21 results > plan; guidance strong; leaner cost structures
- Our focus is on clean balance sheets, dividend growth and strong management teams
- Clean Energy: Stalemate on \$1.2T (traditional) Infrastructure bill
- Clean Energy: \$7.5B allocated to EV charging station roll out

### ■ **Chevron Corporation (CVX: BUY)**

- **Sector best balance sheet (19% net debt ratio, industry best)**
- **Investment-grade credit rating; dividend raised 34 years in row**
- **Disciplined capital spending flexibility (\$12b in 2021 versus \$16b)**
- **Priority #1: Protect & grow the dividend (7% CAGR since 2005)**
- **Restarted repurchase program, \$625 million bought in 3Q21**
- **Lower trending capex spending means higher dividends/repo's**
- **ESG leader among “Big Oil;” Net zero aspirations for 2050**
- **3Q21 results on 10/29/21; earnings of \$6.1b in 3Q21**
- **Price target \$127**
- **Alternate sector stock pick: RDSA**

### ■ **ConocoPhillips (COP: BUY)**

- Updated 10-year plan 6/30/21; less capital to sustain production
- Supports robust FCF generation and significant return of cash
- Within next 10 years, expects \$145 b in FCF and \$42 b in repo's
- Since 2016, 30% of CFFO payout to shareholders
- Average cost of supply (COS) \$28/bbl next 10 years of production
- On 9/20, RDSA sells to COP Permian interest for \$9.5 billion
- Accretive asset deal; 225,000 acres in Delaware Basin
- Adds scale, value upside and \$10b additional free cash flow
- Price target: \$66 (at \$74 now)
- Alternate sector stock pick: DVN

## ■ **Schlumberger (SLB: BUY)**

- **A play on recovering international revenue growth**
- **Revenue mix: 80% international, 20% North America**
- **Upstream capital spending accelerating**
- **Focus on longer-cycle projects (5-10 years)**
- **Project backlog tends to remain active regardless of oil prices**
- **Goal to achieve net zero by 2050**
- **Target price \$38**
- **Alternate sector stock pick: Halliburton (HAL)**
- **3Q21 reported October 22: in-line quarter, E&P capex up 2022**
- **Takeaway: 5th consecutive quarter of margin recovery**



## ■ Valero Energy (VLO: BUY)

- Largest and most diversified international manufacturer of transport fuel
- “Re-opening Play”- recovery of global GDP in oil, diesel, jet fuels
- Lowest cost producer among its peer group
- Yearly target payout strategy of 40%-50% of CFFO
- Targeting to reduce and offset Refining GHG by 63% by 2025
- ESG: goal of reducing Refining GHG by 63% by 2025
- Target price \$93 (raised from \$83 previously); yield 4.8%
- Alternate sector stock pick: Phillips 66 (PSX)
- 3Q21 reported October 21: Revenue up 87% year-over-year
- Takeaway: Ongoing recovery in product demand through 2022

## ■ Energy/Clean Energy

- Pioneer Natural Resources (PXD), EOG Resources (EOG)
- First Solar Inc. (FSLR), Tesla Inc. (TSLA), Albemarle (ALB), Livent (LTHM)

## ■ Chemicals

- Linde plc (LIN), Sherwin-Williams (SHW), Air Products & Chemicals (APD), DuPont (DD), PPG Industries (PPG), Corteva Inc. (CTVA), LyondellBasell (LYB)

## ■ Industrial/Other

- General Motors (GM), Ford Motor (F), Aptiv plc (APTV), Cummins Inc. (CMI), Paccar (PCAR)

## ■ Highest Dividend Yields

- KMI, VLO, XOM, MMP, EPD, WMB, OKE, ENB

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