

BUSINESS

Gas Glut Weighs on Oil Giants

Exxon, Shell, feel the impact of over-abundance of natural gas



Natural-gas prices have fallen due to concerns about a glut, driven by booming production in the Permian Basin. Natural-gas flare near Pecos, Texas. PHOTO: JAMES DURBIN FOR THE WALL STREET JOURNAL

By Bradley Olson

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The world's largest oil companies are feeling the financial pressure of a global decline in natural-gas prices.

Exxon Mobil Corp. [XOM](#) **0.96%** ▲ second-quarter profits fell 21% as diminished returns for gas and petrochemicals offset production growth in America's hottest oilfield, the Permian Basin of Texas and New Mexico.

Chevron Corp. [CVX](#) **0.15%** ▲ 's net income rose 26% to \$4.3 billion due in part to its receipt of a breakup fee from a scuttled deal to buy Anadarko Petroleum Corp. , but the company saw the prices it fetches for its U.S. natural gas fall by more than half.

Exxon's lower returns Friday mirrored similar results earlier this week from European counterparts, including Royal Dutch Shell PLC. Profits from the company's global natural-gas

segment fell by about half to \$1.34 billion, as prices declined abroad due to abundant new supply from projects around the world. Shell said its quarterly profit fell by half to about \$3 billion.

Natural-gas prices have been falling due to concerns about a glut of the cleaner-burning fuel, driven in part by booming production in the Permian Basin and new export projects ranging from the Texas Gulf Coast to Papua New Guinea. The abundance of the fuel has pushed down prices for liquefied natural gas, as more companies seek to sell cargoes around the world.

Oil prices also continue to be volatile due to demand and geopolitical worries. The U.S. benchmark for crude fell 7.9% to \$53.95 a barrel Thursday, but was bouncing back somewhat Friday morning, up 3%.

Exxon, one of the largest natural-gas producers in the U.S., warned on July 1 that second-quarter profits would fall by as much as \$600 million due to price declines. Shale companies also have suffered due to the price decrease.

Shares in Whiting Petroleum Corp. plunged 39% on Thursday after the company disclosed a production slowdown. It said it took in just 47 cents per thousand cubic feet of gas during the second quarter, down 64% from the same period last year. Whiting had to throttle its production growth as North Dakota limited how much natural-gas companies can burn off, a process known as flaring.

“Infrastructure constraints were more severe than anticipated and we did not have enough cushion for associated operating delays,” Chief Executive Brad Holly told investors. The company said this week that it was slashing its workforce by 33%, joining other shale companies such as Pioneer Natural Resources Co. [PXD 0.14% ▲](#) in paring back to limit costs.

Other shale companies are experiencing operations-related problems. Concho Resources Inc. shares fell 22% Thursday after it disclosed disappointing output from wells it had drilled too close together, a growing problem in the shale-drilling sector.

Exxon, boosted by its drilling operations in the Permian, said production rose about 7% from a year ago. But earnings fell 21% to \$3.13 billion, or 73 cents a share. That beat analyst expectations, although they would have missed without a one-time tax benefit of about \$500 million that stemmed from a tax-rate change in the Canadian province of Alberta.

The spot U.S. benchmark price for natural gas fell by about 10% in the three months ended in June to an average of \$2.51 per million British thermal units, according to FactSet. The price has continued to fall through July even as a U.S. heat wave led to a surge in demand at power plants. In some regions, such as in West Texas, natural gas has even sold for a negative value, meaning producers had to pay pipeline companies to process and ship the commodity.

U.S. gas production rose to a record of more than 37 trillion cubic feet last year, up 44% from a decade earlier.

At Exxon, revenue dropped 6% to \$69.09 billion, above the consensus forecast of \$63.6 billion. Capital and exploration expenditures were up 22% to \$8.08 billion, due in part to a ramp-up in spending and activity in the Permian Basin.

Exxon had previously said earnings would fall in the second-quarter due to lower prices and more maintenance expenses. Some analysts said the results were even more underwhelming in light of previous disclosures.

“They missed already lowered expectations across all segments,” said Jennifer Rowland, an analyst at Edward Jones.

Exxon executives noted that prices and margins for three of its four main businesses were near 10-year lows, but the company continues to have the financial ability to invest in new projects.

“We’re in a unique position versus the rest of industry,” Exxon Senior Vice President Neil Chapman said. “We have the financial capacity to maintain our plans.”

Chevron’s production rose 9% to more than 3 million barrels of oil and gas a day, a record driven by activity in the Permian Basin and the San Ramon, Calif., company’s Wheatstone natural-gas export project in Australia.

Sales fell 10% to \$36 billion, and capital spending in the first six months of the year rose 9% to \$10 billion.

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Exxon shares were down about 1.5% in Friday morning trading. They were down 9.3% in the last 12 months.

Chevron shares slipped about 1.4% Friday morning. The company’s stock price has fallen about 2.7% in the last year.

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