

Eyes on dwindling Big Oil reserves after tough quarter

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By Braden Reddall

SAN FRANCISCO (Reuters) - Investors are looking beyond what was clearly a tough first quarter for major oil companies, and toward how they can ramp up production levels to meet demand whenever the economy bounces back.

Questions about how to replace reserves, whether through projects in the pipeline or acquisitions, loom large for an industry caught between tougher regulations and tax codes at home and the governments that control most of the world's oil and gas supplies abroad.

"They have normal decline rates with existing assets. It's an ongoing struggle for them," said Brian Youngberg, an analyst at Edward Jones. "You're always looking to see can any of these companies break away from the pack, and maybe show that they can do a little bit better over time than their peers."

A few companies have already set the tone for the first quarter, with Chevron Corp (CVX.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) predicting a sharply lower profit than a quarter before and ConocoPhillips (COP.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) warning of the impact of weak North American natural gas prices.

Benchmark U.S. crude prices averaged about \$43 a barrel in the first quarter, 56 percent lower than in the same quarter last year, while the average price of natural gas for delivery at Henry Hub was \$4.73 per million British thermal units, down 44 percent from last year.

Plus, data out on Tuesday from the American Petroleum Institute showed U.S. crude oil supplies rose much more than expected last week as refineries ran slower.

"These companies don't want to produce a whole lot of oil because inventories are so high at this point," said Douglas Ober, chief executive and president of energy-focused fund Petroleum & Resources Corp in Baltimore. "But they do need to add to their reserves."

Ober, whose top holdings include Chevron, Conoco and Exxon Mobil Corp (XOM.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), also wanted to get a closer look at how refining operations were holding up given the reduced output.

"It's hard to run at the relatively low rates we've seen and still make money," he said.

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Joe Tatusko, chief investment officer of Westport Resources in Connecticut, which manages \$720 million, expects the inherent pressure on oil companies to add reserves, combined with their substantial cash intake, will inevitably lead to acquisitions, despite executives playing down the idea.

"One can understand why they may underplay that because you don't want to make it seem too obvious, when it is obvious," he said. "Proved reserves have been declining. They account for such a large

percentage of overall production, U.S. and global, that it's very difficult to replace what is depleted organically."

As for the first quarter itself, Wall Street expectations for the figures from the top two U.S. oil companies show what a difference a year has made for the industry as prices plunged.

Exxon is expected to report a profit before items of \$4.8 billion, or 94 cents per share, on revenue of \$48.4 billion, according to the averages on Reuters Estimates. This is down from \$2.03 per share on \$116.9 billion in revenue a year before reported by the Irving, Texas-based giant.

Analysts expect Chevron to report a net profit of \$1.81 billion, or 86 cents a share, on revenue of about \$21 billion. In the same quarter last year, the San Ramon, California-based company made \$2.48 per share on revenue of nearly \$66 billion.

ConocoPhillips is slated to report earnings on April 23, Exxon is scheduled to report on April 30 and Chevron will report on May 1.

(Reporting by Braden Reddall and Anna Driver in Houston, editing by Matthew Lewis)

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