What Can Exxon Mobil (NYSE:XOM) Teach Us About Canadian Energy Stocks?

Description

Exxon Mobil Corporation (NYSE:XOM) is one of the most followed energy companies in the world. With a valuation of more than $300 billion, it's also one of the largest.

One of the most admired traits of the company is its skill at asset allocation and investment. Few other companies have been able to consistently think in terms of decades rather than months.

This long-term strategy has greatly profited Exxon shareholders. Since 1980, shares have risen by more than 3,000%. If you had reinvested the dividends, a $10,000 investment would be worth more than $500,000.

Unfortunately, Canadian energy stocks haven't performed nearly as well.

Canadian Natural Resources Ltd (TSX:CNQ)(NYSE:CNQ) shares still trade at 2006 prices. The same goes for **Suncor Energy Inc. Husky Energy Inc.** is actually *below* its 1995 trading price.

What can Exxon teach us about these floundering Canadian energy stocks?

Don't be afraid to pivot

One of Exxon's greatest skills lies in turning over its portfolio of projects at opportune times. While competitors focus on maximizing their current assets, Exxon constantly re-examines its portfolio to optimize for current conditions, not those of the past.

"We don't want to make decisions based on what we have," says CEO Darren Woods. "We want to make decisions based on how competitive it will be in the industry."

This is an approach many Canadian energy companies have refused to follow.

Skeptics have been calling for the end of high-priced oil sands production for years.

"Alberta's bitumen may be obsolete much sooner than you think," wrote *Vice* in 2017. The same year, *Grist* reported that “the future of the Canadian oil sands industry is clouded with uncertainty because of simple economics.”

While the industry is still running, it’s becoming clear that the skeptics were right about the economic viability, even if they over-dramatized the impending doom.

As mentioned previously, the stocks of nearly every oil sands producer have been a dud for decades. The poison appears to be the underlying business model.

Many oil sands projects require US$70 per barrel oil to remain profitable long-term. Sure, many companies today are claiming breakeven prices of US$50 per barrel and below, but these estimates should be taken with a grain of salt given that they rarely account for costs like the replacement of reserves.

Environmental concerns are also mounting. The carbon intensity of an oil sands project is roughly double that of conventional oil. Even if this argument doesn’t appeal to you personally, the risk of government intervention has risen dramatically since most of these projects began.

What have oil sands companies done in the face of these pressures? Double-downed on their existing strategies. For example, both Suncor and Canadian Natural have been increasing their exposures to oil sands projects.

Exxon has taken a different approach.

In 2017, one of its subsidiaries wrote down 2.8 billion barrels of its bitumen reserves in Alberta, concluding that they were economically unviable. The same year, it admitted that an additional 3.6 billion barrels of oil sands reserves would be abandoned unless oil prices rise.

Rather than investing further, the company decided to take its capital elsewhere.

In March, *Bloomberg* revealed Exxon’s “plans to reduce the cost of pumping oil in the Permian to about US$15 a barrel, a level only seen in the giant oil fields of the Middle East.”

It’s all over

We’ve seen several oil giants reduce their oil sands exposures rapidly in recent years.

Multi-national operators like **Chevron Corporation** and **Royal Dutch Shell** have renewed their focus on the U.S. rather than Canada. They’ve accepted that many Canadian energy projects are too risky to develop.

Most Canadian firms have not experienced such a reckoning.

Above all else, Exxon Mobil has proven that abandoning old ideas is the best way to ensure the future of a company. Thus far, competitors like Suncor, Canadian Natural, and Husky don’t seem to have learned this hard lesson.

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