Sponsored: Now is the Time to Invest in Small Oil Companies

By: Seth Whitehead, Illinois Petroleum Resources Board

Two things are clear regarding the global oil market as the world tentatively emerges from the haze of the COVID-19 pandemic:

1. Though the media focuses on the "energy transition" narrative, the world still runs on oil and will continue to do so for many years to come. Far from being in an "existential crisis," as was reported as recently as last October, oil demand has returned to near pre-pandemic levels far more quickly than anyone anticipated and is expected to surpass pre-pandemic consumption levels next year.
2. With U.S.-based publicly-traded majors under pressure from rank-and-file investors to focus more on return on investment than production growth – and activist investors quite simply trying to put them out of business – it will be more challenging than ever for these majors to help meet the world's revitalized demand.

It is with the latter fact in mind that investors should consider opportunities with the type of small, non-traded oil companies that dominate the Illinois Basin. It is the smaller independent companies that will be better positioned to respond to the continued oil demand recovery. In the Illinois Basin specifically, producers have the advantage of shallower conventional drilling prospects (2,000-4,000 feet), which yield lower drilling and operating costs, subsequently lower risk, and produce economic returns that can be competitive with any basin in the country. Often overlooked, the Illinois Basin has not only produced more than four billion barrels of oil in its 100-plus years of commercial production — another four billion barrels of recoverable oil remain.

There are no shortage of reasons to believe global oil supply will outpace demand for the foreseeable future. Many experts have even predicted there will be an oil supply crisis long before any demand decrease brought on by the continued push to "transition" to alternative energy sources.

Among the reasons for bullish forecasts:

- Widespread COVID-19 vaccination efforts have led to most countries reopening their economies.
- These vaccination efforts have coincided with the summer driving season starting Memorial Day weekend. Though gasoline demand is still below pre-pandemic levels, Americans are hitting the highways in droves after being cooped up in their homes for more than a year.
- The U.S. rig count sits at 457 as of the week of May 28, well below the 600 rigs needed to stabilize U.S. oil production to pre-pandemic levels. With larger companies prioritizing return on investment over production growth — and overall investment lagging for a myriad of reasons — a third U.S. shale boom is unlikely in the cards, which should keep the market undersupplied.

These factors have led to countless bullish price forecasts:

- Goldman Sachs in April forecasted $77 WTI on the "biggest jump in oil demand ever." WTI was already flirting with the $70 threshold as of this writing, its highest level in more than two years. Goldman expects global oil demand to return to its pre-pandemic level of 100 million barrels per day in August.
- Bank of America in February forecasted the fastest oil price rise in 30 years.
- World Oil reported in January that oil prices would spike as capital investment in publicly traded majors

declines. Combined third-quarter 2020 capital expenditures by supermajors were half the level of the year prior and the lowest since 2005, according to data compiled by Bloomberg, demonstrating the fact that oil majors are showing more restraint either voluntarily or out of necessity.

- Argus analysts reported in February that they do not expect oil demand to plunge because of the energy transition.

West Texas Intermediate (WTI) prices have already spiked 48 percent since December and have increased 262 percent since briefly going negative last April. Jet fuel demand is the only thing keeping oil demand from reaching pre-pandemic levels and is expected to recover soon.

Reality always trumps rhetoric, and the reality remains that the world will soon consume more oil than it has at any other point in human history. Coupled with the headwinds western-based publicly traded companies face from activists and regulators alike, we are likely entering a multi-year bull oil market. This will present a unique set of circumstances that smaller independent oil companies should be able to take advantage of – presenting under-the-radar opportunities that shrewd investors should not overlook.

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