TULSA WORLD

Energy sector seeing signs of recovery

By Casey Smith Tulsa World | Posted: Sunday, September 25, 2016 12:00 am

Investment Guide 2016:

The past two years have been rough for the energy industry, marking the settling in of one of the industry's infamous downturns that many say rivaled or surpassed the weak markets of the 1980s.

However, many in the industry, including the CEO of Helmerich & Payne, are seeing signs of recovery.

John Lindsay, the head of the Tulsa-based exploration and production company, commented in an earnings news release in late July that despite setbacks, there were signs of optimism in the market.

"In May, the BHI (Baker Hughes) U.S. land rig count troughed at 380 rigs, and has since increased from what everyone hopes was the absolute bottom of this market cycle," Lindsay said. "Recently, some E&P companies have announced budget increases and rig count additions. It is a positive sign, but many still remain on the sidelines."

It's because of the innately unsettled nature of the energy industry that money manager Fred Russell said he and his team insist on companies with good financials and little debt.

"We love the companies that have strong financial position with little debt in the volatile sector," said Russell, the founder, CEO and chief investment strategist of Fredric E. Russell Investment Management Co.

"Because in a volatile industry, a lot of companies are in trouble. Companies with strong financial position can take advantage of buying cheap assets from these troubled companies."

Helmerich & Payne is one of the companies that Russell said he likes, citing the corporation's cautious approach to debt and its belief in maintaining a good cash flow.

In the past three quarters in fiscal year 2016, H&P has been increasing its free cash flow quarter by quarter to $395.9 million for the period ended June 30, and during the same quarter it had a debt to equity ratio of only 0.11.

Chevron Corp. also ranked in the top five for the energy sector in this year's guide.

The integrated energy company does virtually everything in the industry, including exploration, production and transportation of crude oil and natural gas; refining, marketing and distribution of transportation fuels and lubricants; manufacturing and selling petrochemicals and additives; generating power and producing geothermal energy; and developing and deploying technologies.

Chevron reported full-year 2015 net income of $4.6 billion for 2015 with sales and operating revenue of $129.9 billion and a 2.5 percent return on capital.

The company said in its annual report that in light of the difficult market conditions, it took significant actions to reduce costs and improve net cash flow.

Also at the top of the energy sector were diversified energy manufacturing and logistics company Phillips 66, which returned $2.7 billion of capital to shareholders in 2015; exploration, production and transport company ConocoPhillips, which decreased capital spending by 41 percent and reduced operating costs by 14 percent in 2015; and oil field services company Baker Hughes, which reduced capital spending by 46 percent in 2015 to $1 billion.

Oklahoma-based companies Phillips Petroleum and Conoco merged in 2002 and moved the new company's headquarters to Houston. ConocoPhillips spun off its downstream assets as Phillips 66 in 2012.

Baker Hughes has several sites in the Tulsa area, including a Centrilift plant in Claremore that employed more than 1,000 workers in 2015.

New Chevron Facility

Employees Chris Wittner (left) and Gary Glass prepare for the ribbon-cutting ceremony in July at Chevron Phillips Chemical's new polyethylene pilot plant in Bartlesville. The petrochemical company is a joint venture between Chevron Corp. and Phillips 66. JAMES GIBBARD/Tulsa World file