

# Big Oil Leaves Analysts Fuming About Being in the Dark on Refinery Outages



Darren Woods, Ben van Beurden and Mike Wirth, three of the world's most powerful oil executives, forged their reputations by efficiently managing razor-thin margins at their companies' refineries.

You wouldn't know it, though, given their latest earnings results.

Exxon Mobil Corp., Royal Dutch Shell Plc and Chevron Corp., the companies they lead, all missed earnings estimates due to issues with their downstream units. At a time when dedicated refiners such as Phillips 66 and Valero Energy Corp. have become the rock stars of the earnings season, the integrated oil majors are struggling to meet optimistic estimates largely based on rising crude prices.

“The market, looking at the numbers, clearly didn’t know or expect the downtime” at Exxon’s refineries, said Doug Leggate, an analyst at Bank of America Merrill Lynch, during a call with company management. “You guys obviously did.”

The misses took the shine off share-buyback announcements for Shell and Chevron, while for Exxon, which posted earnings per share 27 percent lower than estimates, it was yet another results-day bloodbath, with \$11 billion wiped off the stock within an hour of the first trade.

## **Big Oil’s Big Miss**

The three oil giants missed earnings estimates by a wide margin

Meanwhile, refining outages are a source of frustration for analysts and investors because many of them are scheduled, meaning they can be communicated to the market ahead of time and baked into their estimates. That clearly didn’t occur this earnings season, said Mark Stoeckle said of Exxon, whose shares he manages among \$2.5 billion at Adams Funds in Boston.

“They knew that was going to happen, why didn’t they share this with the sell side?,” he asked. “Woods has said ‘we’re working toward more transparency.’ Well, they spit it out this quarter because they could have been more transparent about this but they weren’t.”

Refining, a key stabilizing element of Big Oil’s business model, is usually a world away from the deal-making, high-stakes exploration and big-spending world of upstream production. Downtime for maintenance is a necessity but usually scheduled. When it’s not, it can throw the whole system out of whack.

Bank of America’s Leggate called on Exxon to “find some way of signaling” analysts and investors on their refining plans “to avoid the kind of volatility that we have quarter to quarter

in your share price.”

Exxon’s Senior Vice President Neil Chapman response: It’s “a valid point” and “of course we’re taking that into account.” Exxon’s refinery outages, some of which were unplanned, are not a “systemic” problem, Chapman said. “We’re all over it.”

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Chevron’s refining operations were also wildly outside of analysts’ estimates. Its U.S. refineries earned 19 percent more than expected while international earned 56 percent less than estimated, Giacomo Romeo, a London-based analyst at Macquarie Capital (Europe) Ltd., wrote in a note.

Shell also came under fire as its downstream division, along with trading and foreign exchange, was blamed for its adjusted net income for the second quarter of \$4.69 billion falling short of even the lowest analyst estimate.

“What happened to the magic of capturing the margin?,” asked Thomas Adolff, a London-based analyst at Credit Suisse AG, on a call with management.

Van Beurden responded by admitting margins were “weak” but that was outside of the company’s control.

Big Oil’s poor downstream performance lies in stark contrast to strong performances by U.S.-pure play refiners. Phillips 66 was one of three refiners to blow away investor expectations for the second quarter, more than doubling its earnings from a year earlier with 100 percent utilization at the company’s fuel processing plants. Valero Energy Corp. and Marathon Petroleum Corp. also beat analyst’s expectations.