

A Case For Oil Stocks — And Climate Control

The Green Transition is not news or a surprise for the oil companies, many have been preparing for it, yet many of the stocks have not reached their pre-pandemic levels despite an increase in the price of oil to 7-year highs.

In fact, oil stocks are at such aggressively depressed levels due to college endowments and “woke funds” selling them that oil stocks may present a generational buying opportunity, even with Energy being the best performing sector of the S&P 500 thus far in 2021.

The long term thesis that has caused their multi-year decline does not hold up when considering some of these cash-flow behemoths may actually be savvy.

[“ExxonMobil has signed an agreement with Global Clean Energy Holdings to purchase 2.5 million barrels of renewable diesel per year for five years from a converted California refinery starting in 2022.”](#)

This deal with GCEH is an expansion of what was a previously existing deal, but because the renewable diesel product showed positive results and is very logical, it was expanded.

Trucks take long trips and use a lot of energy, so current charging times can cause immense delays over a quick fill up on lower (or no) carbon fuel. In addition, the speed at which renewable diesel can be ramped up is much faster than the multi-decade process of converting all fossil fuel trucks to electric.

Renewable diesel is a particularly important and practical step we can do now to address carbon-induced climate change. This is not a step we take in 10 years, Exxon is taking and implementing it now.

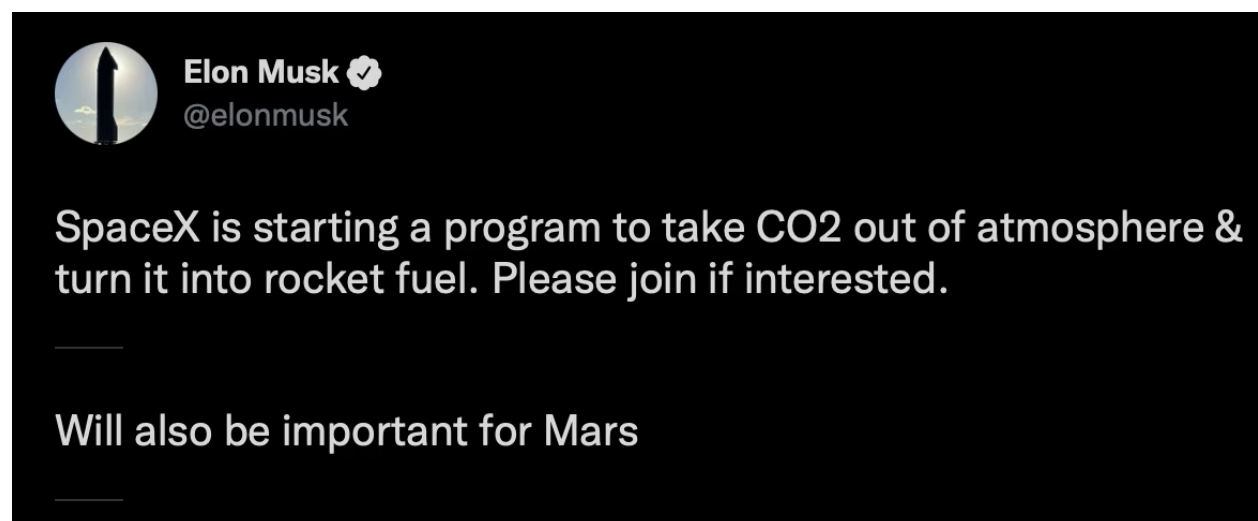
In addition, consider [Exxon’s deal with Porsche](#) on Carbon-Neutral fuels when considering if the company’s stock deserves to be below pre-

pandemic despite the price of oil being at multi-year highs and having improved margins, with more still to come.

Carbon-Neutral fuels?

They're real. These fuels take CO₂ existing in the atmosphere and turn it into fuel. The result, no carbon added to the atmosphere, and quick fill up fuel that enables the beloved vintage Porsche's (and Ferrari's (and others)) to remain on the road. The fuel is backwards compatible in all engines.

It seems Elon is even trying to enter this potentially lucrative market, and cites it as "important":



<https://twitter.com/elonmusk/status/1470519292651352070?s=20>

The same day Elon tweeted this, [a podcast he did went live](#) where he discussed various war planes and artillery, discussing turbo and supercharged engines. Not a single electric motor was discussed.

But, our society has added carbon to the atmosphere, and this will only prevent more from being added on a net basis, not remove any.

Exxon shines in this arena again.

[From 2000 to 2020, Exxon spent \\$10 billion in R&D to develop Carbon Capture technology. The result? They were “taking the equivalent of 100 million passenger cars off the road for a year.”](#)

That was merely a \$10 billion R&D budget dating back to 2000. Just imagine what they can do after [doubling their earnings and cash flow potential](#), and possibly getting a few governments as customers to address Elon's assertion of excess carbon as a negative externality, with their most updated technology.

It seems hard to imagine that even in a fossil fuel free world Exxon wouldn't maintain a significant economic role by capturing the excess carbon that has been emitted into the atmosphere over decades, if not centuries. Scaling this technology, which exists today, could ultimately give us Climate Control.

However, it's unlikely Oil demand goes to 0 any time soon, even with electric cars.

Do electric cars have plastic parts? Plastic is made from oil.

Do they use tires? Tires are made from oil.

Do they drive on roads? Roads are made from oil.

The average age a car comes off the road is 20 years, so assuming we start the transition today and achieve maximum conversion (100%) to electric cars, it will take 20 years to fully convert.

We are currently far away from the maximum conversion rate ([2% in 2020](#)). The bottom line is that oil is still here and will be here for some time.

Rather than pulling money out of and politically attacking Exxon and similar companies causing the price of oil to rise, we should invest money into them and demand they future-proof themselves as shareholders (in addition to providing us dividends :-)).

The future-proof concern has made many people fear these stocks, but I think we've addressed that fear's futility earlier in the article.

The company earned \$6.75 billion in net income in Q3, where the average price per barrel was less than the projected average for Q4. If we annualize Q3 earnings, we end up with an Exxon P/E less than 10. Q4 will likely result in even higher earnings.

We should then consider future growth, with [Exxon expecting to double earnings and cash flow potential by 2027](#). A double of earnings would mean a P/E of 5 assuming all else equal, including the stock not rising from here (falling stock would improve the ratio to earnings). Exxon also pays a 5.72% dividend relative to its current \$61.54 price per share.

With a S&P 500 currently offering a P/E of 28.65 and a dividend of 1.29%, Exxon looks like an extremely attractive investment relative to what many consider to be an expensive market.

Exxon is not alone in its quest to make a long term pivot towards the long term future of the energy complex. They know it won't happen overnight, but it doesn't need to happen 20 years from now, it can happen now. What they are doing is noble, and should not be ignored by these politicians who would rather bash them for votes than simply become happy customers of their carbon capture technology.

To disclose, I own \$XOM, \$SLB, and \$OIH stocks in the energy sector.