Seed Global

At Seed, we believe that the distinction between local and global investing is merely an artificial construct, and we can help you navigate the path. This is your guide to borderless investing with Ian De Lange, Chief Investment Officer.

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Outrageous Profits

When investing in a company, you are buying into all its future earnings. There is always a level of uncertainty when trying to estimate these earnings, with some industries far more unpredictable than others.

Companies in the crude oil and natural gas industry, being a commodity industry, are considered cyclical because their profitability, and hence value, is highly sensitive to the business cycle and key macro inputs, i.e., the global oil price. This industry is also impacted by some of the major current narratives, such as energy security amidst global geopolitical tensions, and the transition away from hydrocarbons to a low carbon world.

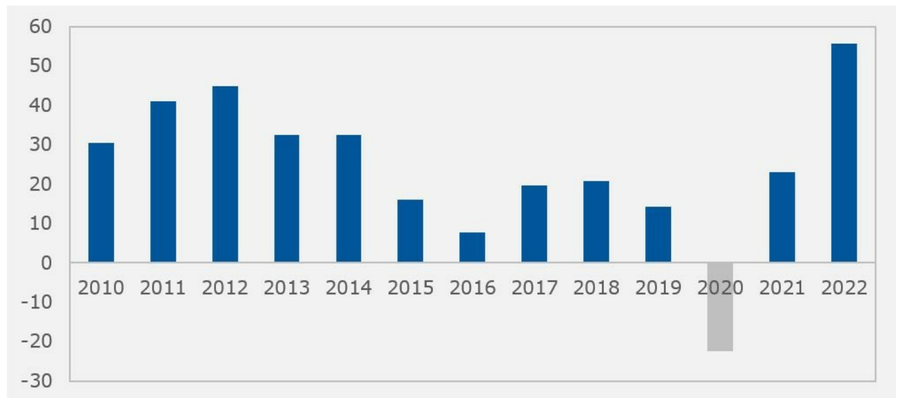
In 2022, however, the crude oil and natural gas industry shrugged off all these concerns, with the global oil majors, outside of China and Saudi Arabia (Exxon Mobil, Chevron, BP, Shell, and Total), producing record profits of nearly $200 billion. This was due to a strong oil price, a resurgence in demand and generally low stock levels. **Biden views these profits as "*outrageous*".**

Exxon Mobil, a US-based company with roots dating back to John D Rockefeller's Standard Oil Company, is one of the largest of the oil majors, and reported **record earnings of $55,7 billion** in 2022, a staggering 142% increase from the previous year. However, the volatile nature of earnings is demonstrated by Exxon Mobil's **loss of $22,4 billion during the 2020 pandemic**.

Under 2022's favourable market conditions, investors saw substantial returns (the share price increased by 87%), but the inconsistent earnings of these companies make them unsuitable for a long term "buy and hold" investment strategy. Despite the impressive profits in 2022, **earnings have only increased 5% annually since 2010**. This stands in contrast to a non-cyclical business such as Visa, which we highlighted recently, whose earnings have grown at a rate of 14.5% annually over the same period.

Given the cyclical nature of this industry, **it is unlikely to be a core holding in our global portfolios**, but we do have some exposure through the iShares S&P500 tracker fund, where Exxon Mobil is one of the top 10 holdings.

Exxon Mobil earnings (in $bn)



For guidance and assistance, please reach out to Ian and our Global team on global@seedinvestments.co.za.

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