The Outlook: Sept. 28, 2021

Conoco's wall of worry: "The existential threat to this business is not around the corner."

There are some mountains like the Alps, with beautiful, snow-capped peaks and sheer cliffs of solid rock; and there are other mountains like gigantic piles of rubble, with an uncountable number of sharp-edged boulders—from watermelon to cantaloupe-sized—just piled up so steeply that it looks like a strong breeze might start an avalanche of bouncing pieces of rock. Serious climbers probably sneer at the "piles of rubble" type of peak—but ordinary hikers know how hard it is to get up them, barking their shins on those slipping boulders, sliding back two steps for each three painfully gained.

That's a good picture to keep in mind when we hear the old saying, "This market is climbing a wall of worry." That "wall" is like the pile of sharp boulders, dealing out cuts and bruises with every step up, pretty much. And in the 18 months since last spring's Virus and Lockdown Cliff Dive, there's been no better example of a stock climbing such a wall of worry than Conoco—America's pure oil-and-gas king. We can see the cliff dive and the painful haul up the wall of worry inside the red box, below.

The slipping, sliding boulders for Conoco have mostly been the oil market itself, which has climbed from negative $30 or so, back in March 2020, to $75 or so today. The speculators who play every day in the oil market have had a hard time believing that the world's use of oil and gas would actually climb back toward 2019's "normal" and beyond. As speculators do, they bet on every passing headline which suggested the oil business was doomed, airline travel ditto, global economic growth the same, almost, and so on. We can see from the jagged shape of Conoco's climb how many of those headlines there were. But as

speculators also do, they had to notice the facts which kept stubbornly floating by, month after month, which testified to the slow but steady return of oil consumption all over the world.

We own Conoco, however, not only because we were pretty certain those facts would show up, but because this company's leaders and people have set the gold standard for excellence in handling a crisis. Conoco built Rock of Gibraltar financial strength; lowered its cost of oil production amazingly; and created a rising river of cash flow to use in building the company and rewarding investors in the future. A brutal but beneficial rule of free market competition and capitalism is "In a crisis, the strong get stronger and the weak disappear." Last week Conoco reminded us of that truth, announcing its purchase of Royal Dutch Shell's Texas shale-gas holdings for $9.5 billion. Only 9 months earlier, Conoco's Ryan Lance had bought another big shale company, Concho, for $13.3 billion. Concho and Shell were hurting for various reasons, and looking to sell. Conoco was looking to buy from people who *needed* to sell. When strong companies pull that off, they get extraordinarily strong indeed, for a long time to come.

How strong? Well, if the price of oil averages only $50 ($75 today, remember) Conoco aims to return the entire value of the company to its shareholders over the next 10 years—by dividend payments and share repurchases. The Concho and Shell acquisitions, which add tremendously to Conoco's ability to produce oil at low cost, are making that remarkable goal possible.

Conoco's "wall of worry" will continue to be piled up with sharp-edged boulders, slipping and sliding underfoot. But if America's oil companies were expert climbers, eyeing that rough mountain above, they'd know Conoco is far ahead of them . . . uncatchable, pretty much. While many of them looked at the threats to the oil business and stepped back, this past 18 months, Conoco kept climbing. "We don't believe the existential threat to this business is around the corner," said Mr. Lance. We think Conoco is going to keep proving him right.

© Dave Raub
Outlook Capital Management, LLC
125 S. Wilke Road, Suite 200E
Arlington Heights, IL 60005
847-797-0600

The remarks above aren't a general recommendation to buy or sell particular securities. Such decisions should only be made in the context of an investor's own circumstances. Stocks and bonds carry the risk of loss.