

The Outlook: July 22, 2022

Conoco: deciding exactly who is “disconnected from reality.”

At Outlook we’ve used the phrase “disconnected from reality” more than once, lately, to describe the market’s spiral into “sky is falling” values. But of course the other side can say “disconnected from reality” as fast as we can. The only certainty is that one side will turn out to be right; and the other side will be wrong. We investors, of course, are mighty interested in finding out: is the market’s vast crowd of pessimists right, so that we optimists were disconnected from reality a couple of months ago, when we were happily continuing to buy “at the top?” Or is it the other way around? Let’s glance at a picture of Conoco’s last 12 months.



It’s quite a picture. There was Conoco in the green circle exactly one month ago, at \$124. Disconnected from reality? And there is Conoco today at \$88, having bottomed a week ago at \$82: a 34% “sky is falling” spiral if ever there was one. Disconnected from reality?

Conoco CEO Ryan Lance gave a talk a couple of days ago, which amounted to: “Watch out. A supply crunch is coming in the global oil market.” He named the obvious event behind the crunch: mainly a drastic, years-long cutback in spending by the world’s oil producers on exploration and development. “There will be a reckoning for that kind of hammering to supply,” was Mr. Lance’s point. Nobody would argue that point . . . unless they were sure global oil demand was going to take just as drastic a beating.

The market's betting crowds—the oil market's and the stock market's crowds—aren't sure of that. They're never sure of real-life events on Main Street, in the world's actual operating economy. They don't try to be sure. They mostly try to be sure about the mood dominating the rest of their own crowds, at every given moment, so they can bet on the strength and life of those moods. One month ago those crowds changed bets from “everyone thinks supply will be crunched” to “now everyone thinks demand will be crunched, due to all the global economic problems.”

If Mr. Lance were asked to comment on that change of moods . . . he wouldn't, most likely. He would merely say, “Oil is and will be vital for a good while. My job has been getting Conoco ready to deliver that oil very profitably no matter where oil's up and down price happens to be, as we move toward the future.” Mr. Lance and his team have been spectacularly successful at that job. It's not possible to examine Conoco's finances and operating results without being amazed at just how well that job has been done. This company will be highly profitable at today's prices, or lower; and it will be, well, astoundingly profitable at last month's prices, or higher. At today's \$88 price Conoco trades at 6 times earnings; and its dividend yield comes in around 3.7%--and strongly rising.

Those numbers describe a stock which the market hates, pretty much. The betting crowd is like that: it either loves 'em or hates 'em, and spends the time in between debating which mood to adopt next. When it hates a company and stock like Conoco, though, it is “disconnected from reality” indeed. Mr. Lance knows that very well, and his company's numbers win the argument. So at Outlook we buy, and buy more.

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