






# Oil and Gas Investment Opportunities for Companies in Modern Conditions



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**Abstract** The article discusses the company's oil and gas investment opportunities. Abroad, venture capital companies provide opportunities for direct investment in the growing oil and gas industry. With extensive experience in developing horizontal oil and natural gas fields, venture capital firms use long-term industry knowledge to provide their partners with high-yield investment opportunities that allow them to diversify their investment portfolios and ensure a stable cash flow while simultaneously getting the right to benefits and significant tax. Venture companies are constantly working to reduce the risks associated with oil and gas projects by partnering with the best operators in the industry. This article discusses the company's oil and gas investment opportunities. Abroad, venture capital companies provide opportunities for direct investment in the growing oil and gas industry. With extensive experience in developing horizontal oil and natural gas fields, venture capital firms use years of industry knowledge to provide their partners with high-yield investment opportunities that allow them to diversify their investment portfolios and ensure stable cash flow and simultaneously entitle benefits and significant tax. Venture compa-

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nies constantly working to reduce the risks associated with oil and gas projects by partnering with the best operators in the industry.

**Results:**

1. Presented analysis of the world's leading oil and gas companies.
2. Shown various ways to invest in oil and gas.

**Keywords** Financial investments · Investment attractiveness · Investors assessment mechanism · Economic viability

**JEL Codes** O10 · O20 · O30 · P33 · P47

## 1 Introduction

The goal of the study is that oil drilling remains an investment opportunity with the greatest potential. The US has a long history of entrepreneurs who found opportunities to invest in oil wells that have resulted in huge dividends. This is a good time to invest in oil wells.

## 2 Background and Methodology

The instrumental and methodological apparatus of the research is based on analysis and synthesis, the method of induction and deduction, analogy, system approach, structural and functional approach, and perspective methods. These methods in their relationship allowed an in-depth study of the subject of this work and make objective conclusions and generalizations. The subject of the research is the methods and analysis of the development of oil companies. The methodological basis of the research is based on fundamental provisions, concepts, structural approaches, and methodological basis.

## 3 Discussion and Results

The analysis revealed that the Chinese group Sinopec took the first place in the list of the world's leading oil and gas companies with revenue of 430 billion USD in 2019, ahead of Shell and Saudi Aramco. According to the company's filings, American oil and gas company Exxon Mobil ranked sixth this year with total revenue of about 275 billion USD in 2019.

Triple-digit sales in billions are not uncommon in oil and gas companies in this industry. However, earnings dependent on the price of crude oil on the world market. Sinopec has integrated both as energy and chemical businesses into its operations.

Saudi Arabia's oil company, Saudi Aramco, was the newcomer to the list in 2018, and this year remains the only known, renowned indicator for the company. In April 2019, Saudi Aramco for the first time placed bonds worth about 12 billion USD on the exchange to prepare for the IPO, which was eventually postponed until December. The Saudi Aramco is still largely controlled by the state, it has published financial figures for the first time, previous accounts remained mostly secret because the company was nationalized in the 1970s.

Oil makes the world go round. Oil demand remains high because it is an efficient way to generate both BTU (British thermal units, a measure of energy) and kilowatt-hours. Oil has many implementations in industry, as it is a key component in creating plastics.

Natural gas is a popular source of energy for heating and cooking. This can be converted into diesel fuel and electricity, and it's also important in the production of chemical fertilizers. While crude oil and gasoline prices are relatively high compared to historical norms, with adjusted inflation, natural gas prices were close to a 10-year low at the beginning of 2012. This creates a natural point for purchase if demand for natural gas is increasing—or if supply will fall—it leads to higher prices.

There are different ways to approach investments in oil and gas. For example, you can consider the industry as a collection of companies that provide goods or services to consumers, and other players in the oil and gas industry itself.

You can approach the industry as a product and seek to profit from changes in the price of crude oil, gasoline, diesel, and other products.

1. Mutual funds or ETFs. As an alternative, you can buy shares in several mutual funds focused on oil and gas, or ETFs. This will help you get significant information about the product without taking a direct risk in the wholesale prices of goods and without tying too much of your fortune to the prospects of any company.
2. Large stock of shares or American Depositary Receipts (ADRs).

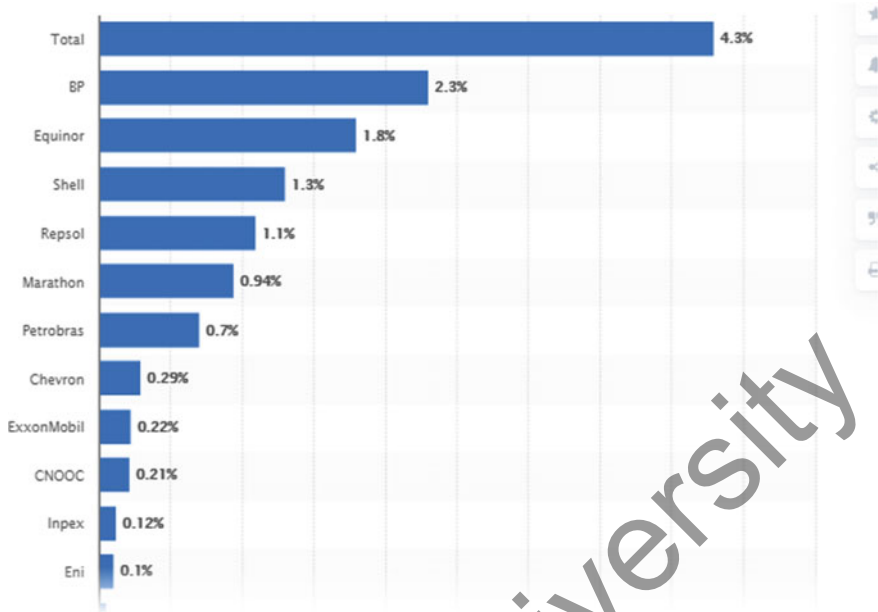
These are two methods of gaining access to the oil and gas markets, both through exchange-traded companies, the most obvious is Exxon-Mobile (NYSE: XOM), one of the largest companies in the world measured by market capitalization. You can buy shares of British, Chinese, Russian and other oil and gas companies. Each of these companies is engaged in oil exploration and gain direct access to them by purchasing shares or ADRs (American Depositary receipts) from their broker.

3. Futures contract.

Purchasing futures contracts for oil and gasoline; however, this can be risky, because futures contracts can expire with no value.

4. Small or microprocessor-based shares and partnerships with limited liability.

You can take a direct equity position in a small for a company or project, you can think about developing the game down the “food chain” in the oil and gas industry into a small or micro—limited stock, or even a limited partnership that focuses on oil and gas.



**Fig. 1** Low-Carbon investments of leading oil companies world Cup 2010-2018 (share of total capital expenditures). Source: <https://www.statista.com/statistics/1085091/low-carbon-investment-oil-companies-worldwide/>

It's the more specialized sphere of investment, where you will need to use the services of a broker that specializes in this area. If you have a significant amount of money, then you can invest by contacting the company's management directly for the possibility of a private placement [1–4].

Figure 1 shows the low-carbon investments of the world's leading oil companies between 2010 and 2018 (as a share of total capital expenditures).

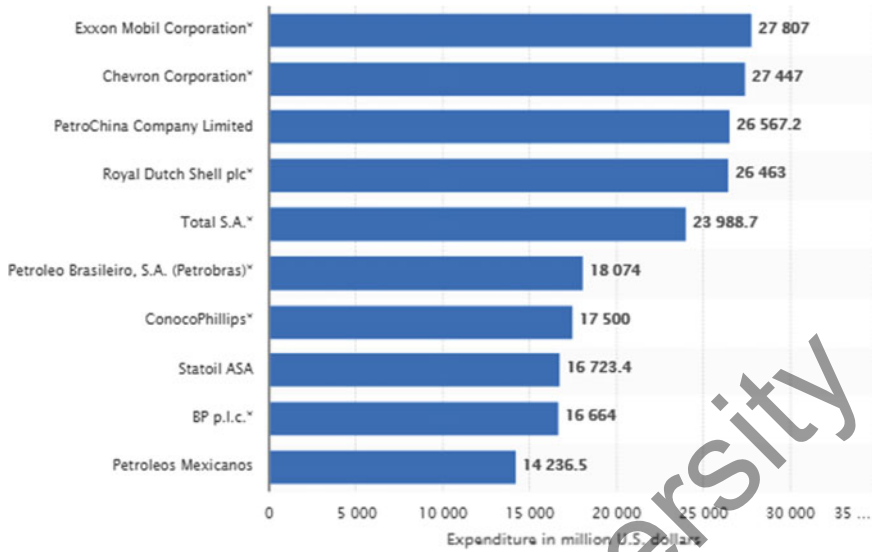
Figure 1 shows us that from 2010 to the third quarter of 2018, many large oil companies around the world have invested in renewable/low-carbon technologies. During this period, BP's low-carbon investments accounted for approximately 2.3% of its total capital expenditures.

Figure 2 shows the world's largest oil and gas companies by capital expenditures for development in 2013. Figure 2 shows that in 2013, the world's largest oil and gas companies sent huge capital expenditures tools. Royal Dutch Shell plc spent on the development of around 26.5 billion USD.

Shell ranked fourth in terms of capital expenditure on development.

#### **Types of oil and gas investments:**

1. *Investigation.* Oil companies or projects buy or rent land and invest in drilling. If they produce oil, the investment can pay off 10 times—sometimes much more if the company uses borrowed funds to finance operations. If it's not, they can



**Fig. 2** The world’s largest oil and gas companies by capital expenditures for development in 2013 (in millions of USD). Note: developed by the authors based on data <https://www.statista.com/statistics/1085091/low-carbon-investment-oil-companies-worldwide/>

- lose almost everything they’ve invested in the project. Exploration companies are best suited for those who have very high resistance to investment risk.
2. *Development.* The projects explore close to the explored one’s stocks in the hope of getting additional value, but there is no guarantee that their efforts on any piece of land bear fruit.
  3. *Revenue.* Projects include the acquisition of land, either by lease or purchase, with proven oil and gas supply and seek to create a steady stream of income over expenses. It is considered as the safest way to take part in drilling and production operations, because of a speculative game. However, the risk is that oil or natural gas will run out faster. These investments are intended for those who are looking for a passive income, but who can take on more risk than those who invest in other traditional sources of income, such as investment-grade bonds and annuities.
  4. *Services and support.* Oil companies provide an unlimited menu of support services for the oil and gas industry. For example, transportation, and logistics companies, pipeline companies, construction and rigging companies, manufacturers of equipment and equipment for drilling and processing, processors, and many others.

Investing in companies is similar to investing in any other company that provides B2B services, logistics, technology, etc. Some of these investments do not depend on higher fuel prices to be profitable. For example, pipelines make money by charging for a barrel of transportation. They will be about the same amount regardless of whether fuel prices rise or fall, as long as demand remains constant [5–7].

Let's look at the advantages and disadvantages of oil and gas investments.

**Advantages:**

1. *Diversification.* Oil and gas investments have historically provided diversification to the economy. When gas prices rise, the economy tends to slow down, which can cause the rest of the inventory and funds to stumble. But when oil and gas prices rise, supply rises with them. Exposure to oil and gas supply can help protect you from the economic downturn caused by oil shocks.
2. *Profit potential.* Investments in small companies and limited partnerships can sometimes pay off. One well can increase its value many times if drillers break through the oil, and the well can pay dividends for many years.
3. *Tax advantage.* There are some tax advantages to investing in oil and gas. For example, it allows companies to deduct for depletion—a method of accounting for the gradual depletion of mineral reserves in a given area. If you purchased stocks of publicly traded shares, this benefit will be invisible to companies, because shares of public corporations do not pass their profits and losses on the shareholders' tax returns [8–10].

**Disadvantages:**

1. *Volatility.* Oil and gas investments can be subjected to sharp price fluctuations, especially if you're investing in small companies. If you take part in exploration (wild) drilling projects, you can easily lose a large amount of money. Diversification is the key to investing in oil and gas. Losses of 50% or more are not unusual, and you can lose it on any project.
2. *Liquidity.* While it is usually possible to sell stock in larger companies, it is difficult to find a buyer for stocks in smaller companies. Sometimes, you might have to buy out your interest directly from a limited liability company or partner, it's often happening with closed, non-public companies and limited liability partnerships.
3. *Commission.* When you buy a limited liability company or closed Corporation, you usually pay a commission to a broker or intermediary. These commissions are much higher than standard stockbroker commissions and can exceed 20% for illiquid companies.
4. *Complexity.* Interest in oil wells and other oil and gas projects is not for everyone. Abroad, there are special tax rules governing investments in oil, gas, and minerals, and there are rules specific to limited partnerships that may affect the consideration of stocks at the sale.

Thus, oil and gas investments give accredited investors the opportunity to diversify their portfolio and generate large monthly cash flows, while taking advantage of significant tax incentives allowed by the US government. Each investor receives a share in the constant stream of profits generated from their owned wells, also known as a percentage of net income (NRI). In the worst-case scenarios, rarely when exploration hits a dry well, investors can recoup their investment in a 100% write-off of losses [4, 5, 9, 11] (Rudyk,2019, Kurmankulova,2019).

## 4 Conclusion

Consequently, the importance of oil and gas investment opportunities for companies is important today. As oil and gas drive the global economy, and in the absence of better alternatives, demand is expected to grow exponentially in the coming years. Global oil consumption expected to reach 119 million barrels per day by 2040. Thus, investments in oil and gas allow investors to receive long-term and stable income from their investments.

Investments in oil wells are less susceptible to economic downturns compared to reserves and other liquid investments. Thus, the US Government allows significant tax exemptions on the investments, makes them the most profitable option for accredited investors, which leads to more people with high income and accredited investors turning to the investment channel.

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