

Inside Conoco Phillips: Last Quarter's Progress

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Despite oil prices coming down from their mid-year peak last quarter, Conoco Phillips reported a strong quarter and even stronger year. Revenues were up 20% last quarter, and for all of 2022 revenues rose 71% with net income more than doubling. Conoco grew production 8% from a year ago and expects a modest 2-4% growth next year. It returned a massive \$15 billion to shareholders, which represented over half of its cash flow, well above its stated goal of 30% of cash flow. It closed on 3 major LNG (liquid natural gas) projects, as that will become a much larger part of its business in the next decade, and it recently got good news that its Alaskan Willow project is near approval, after years of governmental back and forth.

The Willow project would bring an additional 180,000 barrels of oil per day into the Alaskan market, which currently stands at 500,000 barrels per day, so is a very significant project. Once running, it will be among the lowest greenhouse gas emission production in the world, helping the world's goal towards cleaner energy. The project has support from locals, Alaskan politicians, and labor unions, but got thrown off course when a judge threw out the permits for the project in 2021, citing "error" in the Interior Department's initial approval. The current administration just finalized its new environmental review, setting the stage for approval within weeks.

Alaska's North Slope, the location of Willow



Conoco's Permian basin performance (Texas shale) was a highlight last year. Overall oil production from the three shale basins Conoco operates in increased by 20%, led by the Permian's 27% rise. The trend in shale drilling has been towards longer laterals (horizontally drilled wells), with top companies now trying

to drill 3-mile long wells. In 2022, Conoco drilled over 30 wells at the 3-mile-or-longer distance, more than any other competitor, with 60% of its wells over 2 miles long. Its 3-mile wells not only are 30-40% cheaper to drill, but they also slow the rate of decline, which is rather steep for shale wells. Not every company is able to complete this many 3-mile wells because of the patchwork land leases they own. Not only does Conoco own large blocks of the Permian, thanks in part to its major acquisitions last year, but it also completed “swaps” to core up 25,000 acres, enhancing its lateral-making abilities.

The next year is sure to be volatile in oil price swings again, but average prices should stay elevated, especially due to demand coming back from China’s reopening. Conoco’s financial strength and improving performance is likely to continue.