Inside Conoco Phillips: Last Quarter's Progress.

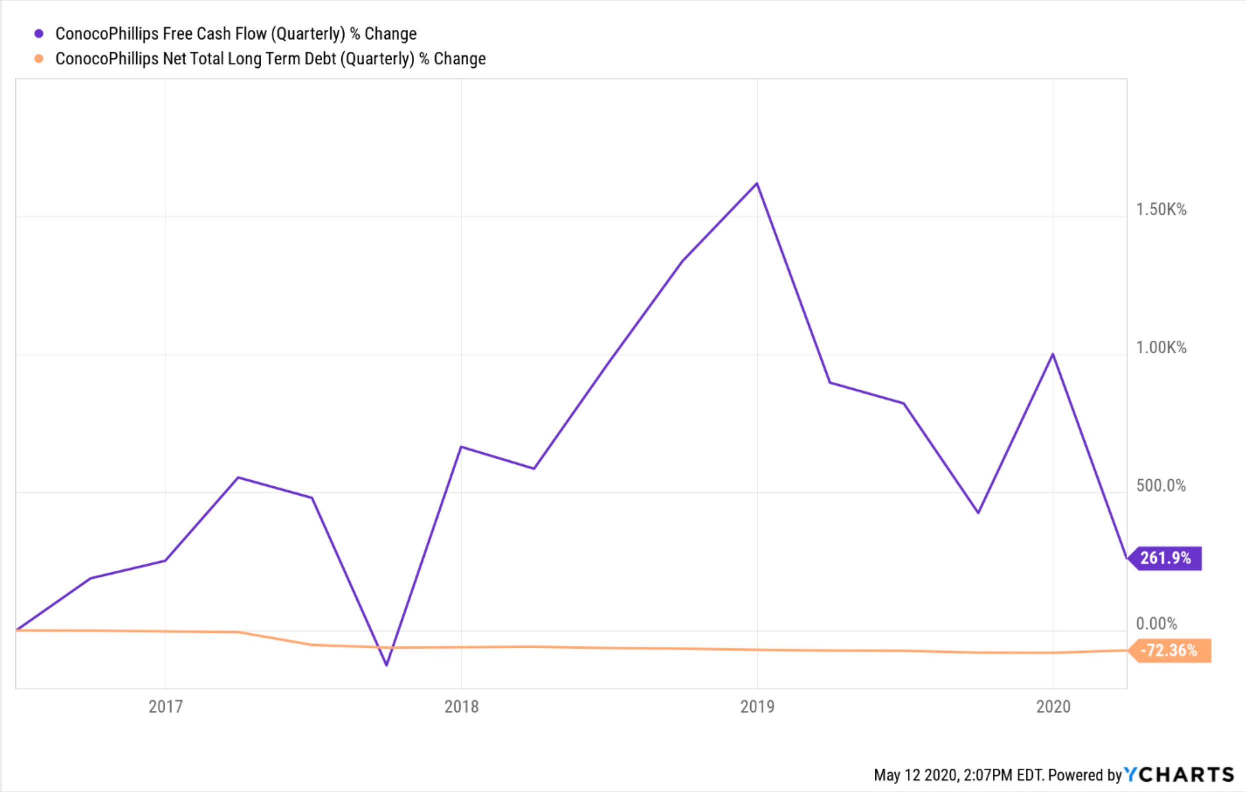
May 12, 2020

Revenue slid 32% from last year during Conoco Phillips first quarter due to oil's recent price crash. Since Conoco only produces oil and has no refining capabilities, its revenues are more exposed to oil's price swings than other big oil majors. It was one of the first oil companies to respond to the new oil environment (or at least to let the public know its response). Its plan is as follows:

- Maintain the dividend but suspend the share buyback program for 2020. This "saves" about $3 billion in cash.
- Cut capital expenditures by 35%, saving about $2.3 billion. The spending cuts mostly affect its shale and oil sands businesses in the Lower 48, Canada, and Alaska, since these operations have the most flexibility.
- Cut operating expenses (such as admin costs) by 10%.
- Cut 265,000 barrels per day in production in May and 460,000 barrels per day in June. This equals about 1/3rd of its first quarter production. It will decide the size of future production cuts on a monthly basis after June.
- Will not complete any new wells in its shale drilling acreage in the Permian, Eagle Ford, and Bakken for the rest of 2020.

Although no one knows the timing of when supply cuts or a ramp up to normal demand will boost oil prices again, it's safe and smart to assume a very low price for the rest of the year. Conoco has the flexibility to add back that curtailed production should prices rise, but also has room for more spending and production cuts should pricing lower even more.

Even though these actions paint a dire picture for Conoco's 2020, as Outlook remarked yesterday, CEO Ryan Lance didn't seem all that concerned at the quarterly earnings call. Conoco Phillips had a rough time during the 2014-2016 oil crash, posting heavy losses and lowering its dividend. As we've noted over the past few years, Lance and his team transformed the company, improving its financial position and its portfolio of oil assets. Here's Conoco during that transformative period: net debt down 72%, free cash flow up 261% (even after this last quarter), and one of the lowest debt positions in the industry (second chart).


ConocoPhillips Free Cash Flow (Quarterly) % Change
ConocoPhillips Net Total Long Term Debt (Quarterly) % Change
1.50K%
1.00K%
500.0%
261.9%
0.00%
-72.36%
2017
2018
2019
2020
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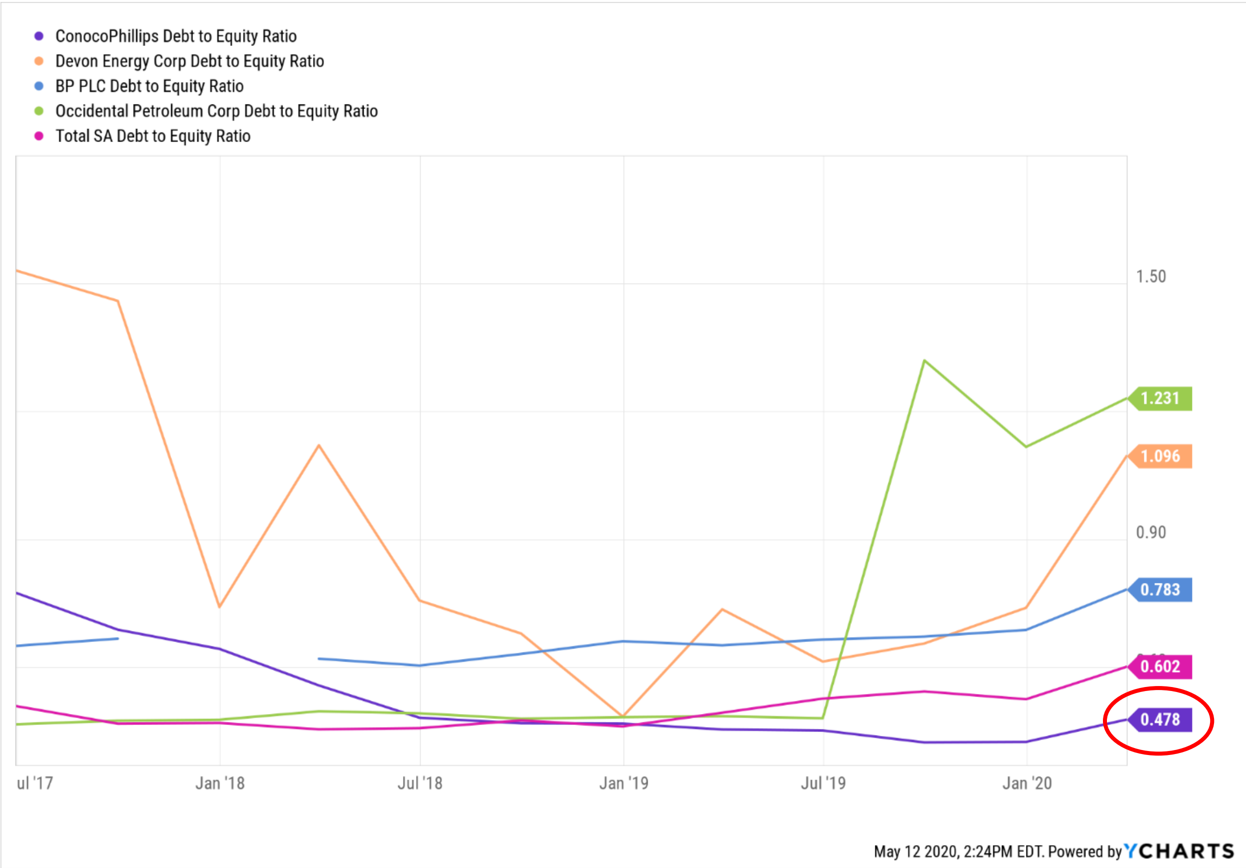
ConocoPhillips Debt to Equity Ratio
Devon Energy Corp Debt to Equity Ratio
BP PLC Debt to Equity Ratio
Occidental Petroleum Corp Debt to Equity Ratio
Total SA Debt to Equity Ratio
1.50
1.231
1.096
0.90
0.783
0.602
0.478
ul '17
Jan '18
Jul '18
Jan '19
Jul '19
Jan '20
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Ryan Lance most likely didn't come across as too concerned because he knows his company has the cash to get through this oil crisis. In response to a question from a Wall Street analyst about potential mergers or acquisitions, Lance responded:

> "There's going to be significant stress for many companies. It's obvious this E&P industry needs structural change. There are too many names for investors. We believe assets could be run more rationally for improved returns. It will take time for some of this to realize, but I think it needs to happen."

That sounds like someone who has embraced today's current pain in hopes of a brighter future. We tend to agree with Mr. Lance, are happy to own Conoco through this downturn, and are excited to see how the oil market plays out.