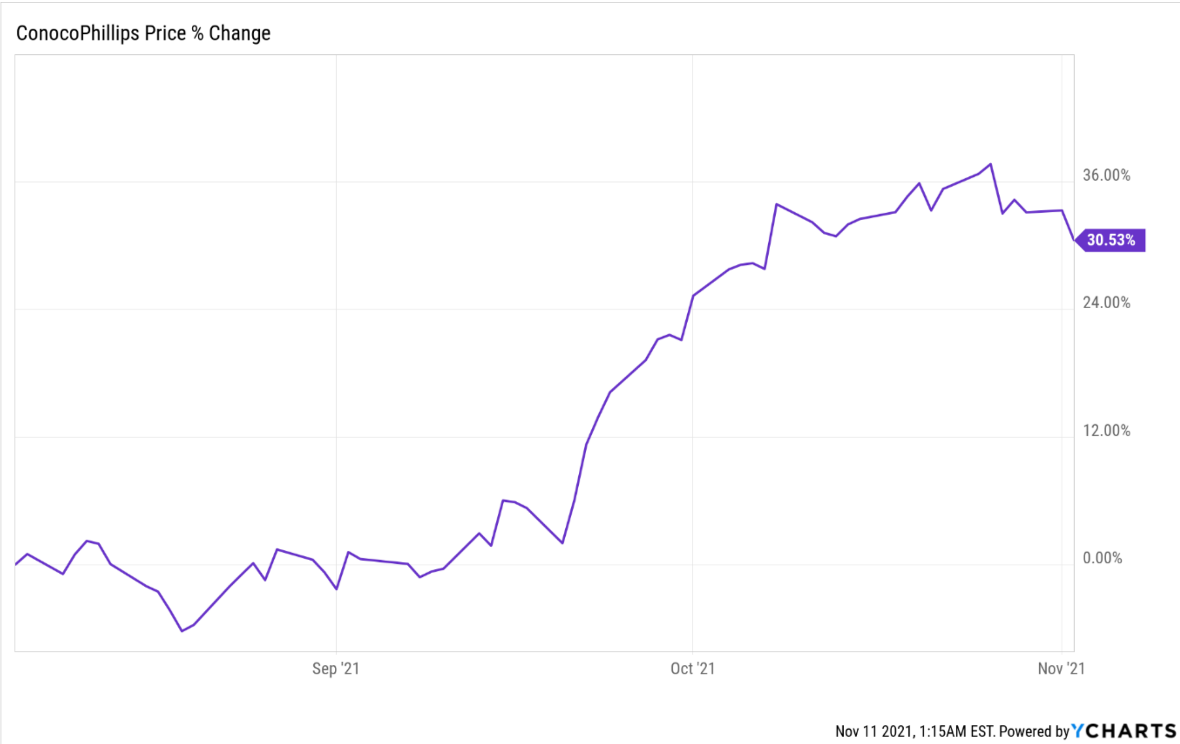
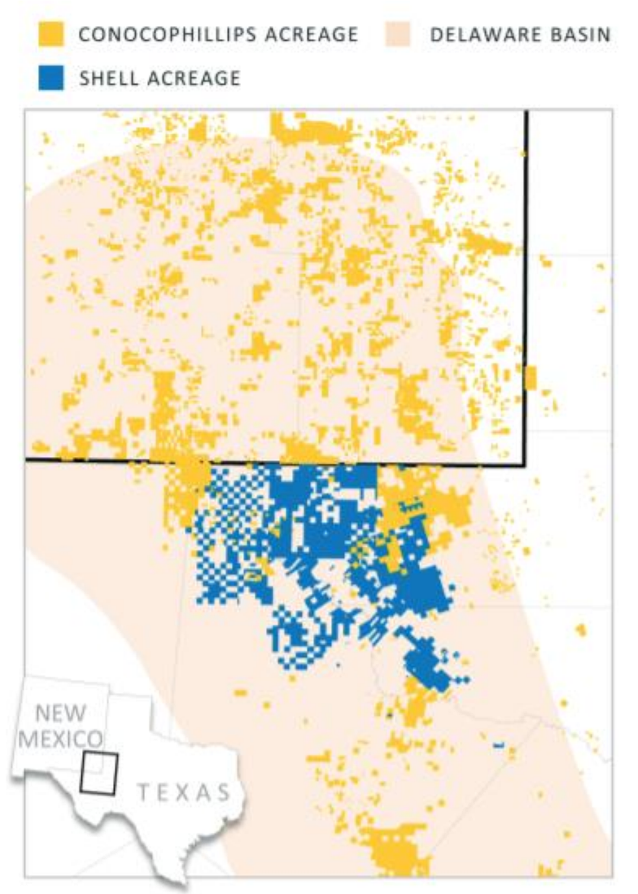
Inside Conoco Phillips: Last Quarter's Progress.

Nov. 11, 2021



We end this quarter's wrap up of Outlook's core companies with a fun one, as it isn't every day that we experience a 30% stock price increase between earnings announcements. It was a noteworthy quarter for Conoco for multiple reasons. For the past year, we have been talking about Conoco's purchase of Concho Resources, one of the biggest Permian drillers in the US. This quarter represents the first full quarter of the "new Conoco", post Concho-acquisition. Oil production came in 41% higher than a year ago, the combined company realized over $1 billion of structural savings earlier than expected, and it has lowered its cost of supply. Since Conoco is unhedged, meaning it reaps all the benefits of higher oil prices, it generated record cash from operations. Its policy is to return 30% of cash from operations to shareholders, so higher oil prices directly result in greater benefits to investors.

The major spike in the stock price in the graph above was from the mid- September announcement of Conoco's purchase of Shell's Permian assets, making Conoco the second largest Permian producer. Not only will the additional land purchased increase Conoco's production by another 40%, but it will help lower costs as well. The more land that one company owns in a continuous geographic area makes drilling much more efficient and cost effective.



This map of Shell's and Conoco's acreage shows why this purchase will help Conoco. Oil reservoirs in the Permian often run north to south, but when drilling laterally underground, a company obviously has to stop wherever its acreage ends. Shell's blue acreage immediately extends the lateral lengths that Conoco can drill. The acreage also is "Tier 1" acreage, meaning it contains the best geology for optimizing oil production. Finally, adding this acreage and becoming a much larger player in the Permian and in the US in general helps Conoco's business operate smoothly. The larger scale the operations, the more it saves on costs of supplies and cost to the market, and the more wiggle room Conoco has to sell off some of its worse acreage that perhaps isn't "Tier 1".

For a while now Conoco has harped on the importance of getting the oil industry back into prioritizing making money and returning it to investors rather than growing production at all costs. This pivotal quarter shows that Conoco is putting its money where its mouth is: buying the best assets, working towards the lowest costs, and growing cash.