E&P NEWS

Oxy Looks to Build Cash Flow, with Low Growth Following $8.4B Loss

Houston-based Occidental Petroleum Corp. is throttling back from growth to ensure it can build cash flow to pay down some big debt maturities due in 2021, CEO Vicki Hollub said Tuesday.

The company, better known as Oxy, has set spending priorities on maintenance, debt reduction and eventually a sustainable dividend before expanding, Hollub said during a conference call to discuss second quarter performance.

“We intend to live within cash flow to sustain our production” going into 2021, Hollub said. “I don’t really see us growing next year. I see us optimizing and following our cash flow priorities, which is really the maintenance first.”

The push toward improving cash flow came after posting tremendous losses in 2Q2020. Oxy’s net losses were $8.4 billion, or a loss of $9.12/share, fueled by a $6.6 billion writedown on the value of the oil and gas assets. In 2Q2019, Oxy earned $632 million (84 cents/share).

APPALACHIAN BASIN

Seneca Continuing Appalachian Shut-ins on Weak Natural Gas Prices

Seneca Resources Co. LLC cut its drilling program to one rig in June and continues to curtail Appalachian spot market production as it has for most of its fiscal year because of low natural gas prices.

Seneca, National Fuel Gas Co.’s (NFG) upstream affiliate, curtailed 7.3 Bcf production during the fiscal third quarter (3Q2020) “due to sustained low Appalachian pricing. The shut-ins came on top of the 2.7 Bcf the company curtailed in the 2Q2020.

NFG said last week it’s assuming New York Mercantile Exchange (Nymex) prices will average $1.85/MMBtu for the remainder of the fiscal year ending Sept. 30. Given the forward curve and Appalachian basis, NFG said Seneca would likely curtail this year’s remaining 6 Bcf of Pennsylvania production volumes that are exposed to the spot market.

OUTLOOK

Bankruptcies Accelerating in North American Oil Patch, with More Carnage Said Likely

Bankruptcies in the North American oil patch “have substantially picked up pace” so far in 2020, due largely to the impact of Covid-19 on prices and demand, according to a new report published Tuesday by Haynes and Boone LLP.

The Dallas-based international corporate law firm has been tracking bankruptcy filings in the exploration and production (E&P) sector since 2015.
Bonanza Creek, Highpoint Lift DJ Basin Volumes, Rein in Capex Amid Price Pressures

A pair of prominent oil and gas companies active in the Denver-Julesburg Basin (DJ) are keeping capital expenditures (capex) in check while posting modest upticks in sales volumes.

Bonanza Creek Energy Inc. and Highpoint Resources Corp., both based in Denver, reported substantial second-quarter losses, however, dinged by lower sales prices in the wake of the crash in crude oil prices earlier this year.

Bonanza reported average sales volumes of 24,900 boe/d for the second quarter – with oil accounting for 56% of total volumes – up 2% from a year earlier. The company provided full-year production guidance of 24,500 boe/d at the midpoint, up from earlier guidance of 24,000 boe/d.

“During the quarter, we had the opportunity to acquire working interest in over 25 wells that we operate, including interest in wells that have been recently turned to sales and are still building production,” Bonanza CEO Eric Greager said during an earnings call last week. “A combination of wells turned to sales in the last six months performing stronger for longer, and this acquired interest, has led us to increasing our annual guidance range for the year.”

Crude oil sales prices in 2Q2020, though, were half of where they were a year earlier, and natural gas prices were down nearly 40%. Net oil and gas revenue for the second quarter was $36.2 million, down from $85.8 million in the same period a year earlier.

That helps explain why the company is keeping capex and operating costs low.

Second-quarter capex of $21.7 million was nearly half the level of the first quarter and brought the year-to-date capex to $62.8 million, at the lower end of annual guidance expected in the $60 million to $70 million range. The company maintained that range.
“As we have previously stated, we had expected our capex for the year to be heavily weighted to the first half of the year,” Greager said.

Bonanza said its cash general and administrative expense, which excludes stock-based compensation and cash severance costs, was $6.1 million for the second quarter, down 21% from the first quarter.

The company finished the second quarter with $58 million of debt and a leverage ratio of 0.3x. It expects to fully repay outstanding debt by the end of the year.

It reported a second-quarter net loss of $38.9 million (minus $1.87 per share), compared to a profit of $41 million (1.99) a year earlier.

Highpoint’s ‘Capital Discipline’

Highpoint, meanwhile, also posted an uptick in volumes. The company reported second-quarter production sales volume of 2.9 million boe, up 1% from a year earlier. Volumes for the second quarter were 57% oil, 23% natural gas and 20% natural gas liquids.

“The quarter was highlighted by continued positive well results” from both the Wattenberg and Hereford fields in the DJ Basin, “as high-fluid intensity completions continue to exceed previous well results,” Highpoint CEO Scot Woodall said on the company’s earnings call last week. “This contributed to total production volume exceeding the high end of our guidance range by 12% and oil volumes exceeding the high end of our guidance by 11%.

“Importantly,” he added, “this was accomplished with a capital expenditure that was 38% lower than our guidance, highlighting our commitment to capital discipline.”

Highpoint’s second-quarter capex of $25 million was down from
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Oxy in June had warned the 2Q2020 charges would be $6-9 billion. In March it slashed its dividend and capital expenditures in response to the coronavirus and tanking oil prices.

Revenue plunged by almost 34% from a year ago and nearly 54% sequentially to $2.98 billion, crimped by the demand loss related to the coronavirus. However, operating expenses came in below guidance at $4.69/boe, and Oxy achieved its 2020 annualized run rate for operating cost savings in 2020 at $800 million.

The available cash from operations would be used to retire upcoming debt maturities, sorely needed following the $55 billion takeover last year of Anadarko Petroleum Corp. The ill-timed merger, which preceded the dire slump in demand, was keyed to boosting its hold in the Permian Basin. However, the deal built a $40 billion debt burden, including a $10 billion loan owed to Berkshire Hathaway.

Oxy now faces $5 billion of maturities due in 2021. Progress was made in 2Q2020 as Oxy raised $2 billion of new debt used to refinance some bonds, which eliminated some maturities due in the first half of next year. It ended the quarter with $1.1 billion cash and had $5 billion of available credit.

More quarterly earnings coverage by NGI may be found here.

"On our first quarter earnings call, we outlined the cost reduction measures implemented across our company to adapt to the immediate crisis of the pandemic and to the ensued prie time to resume activity," he added. “We have an inventory of over 20” drilled but uncompleted wells “that will allow us to quickly resume completion activity if prices warrant.” Should crude prices continue to hover in the $40s, activity could start to pick up in the fall, he said. But before adding a rig, prices would need to range from $45 to $50.

Highpoint said it had cash and cash equivalents of $3 million at June 30, and long-term debt of $795 million, with $175 million outstanding on its credit facility.

It reported a second quarter net loss of $67.6 million (minus 32 cents/share), compared to a loss of $1.9 million (minus 1 cent) a year earlier.
ing market volatility,” Hollub noted. “Compared to a few months ago, our financial position has noticeably improved as we are currently free cash flow positive and expect to generate significant free cash flow over the remainder of this year…

“We are determined to build upon this progress ever mindful that Covid-19 remains a threat to the global economy, the demand for the products we produce and to the health and safety of our employees and their families.”

The goal is to improve efficiencies to reach a breakeven oil price of under $40/bbl West Texas Intermediate, Hollub said. With board approval, maintenance capital for 2021 tentatively would be set at $2.7-2.9 billion, keeping output basically flat for the year.

“We do have things planned beyond next year that will help to increase cash flow without significant additional capital, part of what we really needed to do to maximize the cash flow that we get out of our operations was first to capture the synergies,” Hollub told analysts.

To improve the bottom line, the top of the list is divesting assets. Thus far, Oxy has sold about $6 billion in properties, but the process took a nearly three-month pause in March, April and May “when everybody was really dealing with the crisis” related to Covid-19, she noted.

Oxy also doesn’t want to sell assets for less than they are worth. The plan is “not to sacrifice value for timing, so we’ve got some room to make the right decisions around our divestitures.” Another avenue down the line is adding more joint ventures (JV) on core acreage, including in the Permian. The JVs would enable Oxy to “bring on another wedge of cash flow that will get us to where we need to be to be able to get back to a stronger balance sheet and get back to growth probably sooner than most people are modeling at this point,” said the CEO.

Oil and gas production in 2Q2020 was 36,000 boe/d, above the midpoint of guidance, fueled by the better-than-expected output from the Permian. However, the gains in production came when prices were weak and wells were curtailed. Realized oil prices averaged $23.17/bbl, down 51% year/year.

“Operability remains high across our oil and gas operations, and we’ve reduced downtime across the legacy of the Anadarko acreage faster than originally planned,” Hollub said. “To maximize the economic benefit from our existing base production, we have increased production by bottlenecking surface infrastructure, mitigating decline and reducing operating costs.

“We are employing remote surveillance processes, utilizing artificial intelligence to further enhance our predictive maintenance schedules, optimizing artificial lift systems, adding an additional well to centralize gas lift and reducing back pressure throughout our gathering systems and facilities.”

**Moderate Boost To Output**

Second quarter curtailments in the Permian averaged 29,000 boe/d, peaking in May at 47,000 boe/d. Permian output in the quarter exceeded the high end of guidance by 5% at 465,000 boe/d.

“We have now brought back online the majority of the domestic production that was shut-in for economic reasons with no detrimental impact to oil performance across our portfolio,” Hollub said. “This quarter, we achieved our combined overhead synergy and cost reduction goal by decreasing our overhead costs to below $400 million. On an annualized basis, we have fully realized $1.5 billion of total overhead savings versus our original synergies target of $900 million…

“We also reduced our operating costs by $800 million, which is an additional $600 million more than our synergy target of $200 million. We expect more than two-thirds of the additional operating cost savings will be permanent, even as we return to normalized activity levels…”

Oxy is committed to spending within the capital budget of $2.4-2.6 billion this year and plans to “moderately increase drilling and completion activities in the third and fourth quarters.” Plans are to restart activity with the Permian Midland JV partner Ecopetrol, with two rigs running by the end of September.

“We will also selectively resume activity across other assets,” Hollub said. “And in the Gulf of Mexico, we are restarting our drillship that was idled earlier in the year…”

“In any eventual growth scenario, we expect an annual production growth will be less than the 5% per year that we’ve previously stated,” the CEO said. “Our desire is to at least stabilize production next year. Our 2021 capital budget will depend on what market conditions are indicating when we roll up the budget in the fourth quarter.”

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**Seneca Continuing Appalachian Shut-ins on Weak Natural Gas Prices**

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The company still produced 56 Bcfe during the quarter, up 1.3 Bcfe from the year-ago period. The gain was primarily related to production from new Marcellus and Utica shale wells.

*More quarterly earnings coverage by NGI may be found [here](#).*

NFG also released preliminary fiscal 2021 guidance, indicating Seneca should produce 305-335 Bcfe, or 77.5 Bcfe more than in 2020. The gain is expected to be driven by new acreage acquired in western and north-central Pennsylvania from Royal Dutch Shell plc. Given the decline in Seneca’s activity this year, both in Appalachia and Kern County, CA, where it has legacy oil operations, capital expenditures for the exploration and production segment are expected to be $290-330 million next year, or $75 million less than this year.

Average realized natural gas prices, including hedges, declined by 44 cents from a year ago to $1.92/Mcf.

NFG reported consolidated 3Q2020 net income, which also includes results from the midstream and downstream segments, of $41.3 million (47 cents/share), which included a $13.2 million after-tax impairment on the value of oil and natural gas properties. That compares to net income of $63.8 million (73 cents) in the year-ago period.

**Montage Efficiencies**

Demonstrating the divergent paths leading operators have taken in the Appalachian Basin this year in response to consistently low gas prices, Montage Resources Corp. said its second quarter production
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and Denbury Resources Inc.

Together, CRC and Denbury account for more than $7.7 billion in aggregate secured and unsecured debt, the Haynes and Boone team said.

“The recent resurgence of confirmed Covid-19 cases in the U.S. and abroad would indicate that any near-term sustained demand growth is unlikely to prop up world oil prices higher,” they continued, forecasting that “lower for longer remains the watchword for producers and their creditors.”

Other high-profile bankruptcies this year include Lower 48 onshore heavyweights Chesapeake Energy Corp. and Whiting Petroleum Corp., whose debt loads stand at $9.17 billion and $3.57 billion, respectively.

“It is reasonable to expect that a substantial number of producers will continue to seek protection from creditors in bankruptcy even if oil prices recover over the next few months,” the report’s authors said. “In July, nine producers filed, which, combined with the rest of the filings this year, represents a 66% increase over this time last year.

“It’s not quite the level of filings reached in 2016 but a disturbing trend nonetheless.”

According to Haynes and Boone, 240 producers have filed for bankruptcy over the five-year period as of July 31, involving more than $171 billion in aggregate debt, with more than $49 billion so far in 2020.

Not Just Onshore, Not Just Producers

Recent days have shown that it’s not just the onshore segment that’s struggling, with Gulf of Mexico giant Fieldwood Energy LLC announcing last week that it’s seeking relief under Chapter 11 as well.

The oilfield services (OFS) and midstream segments are facing the same unprecedented turmoil, Haynes and Boone said, noting that OFS firms are especially vulnerable to the downturn.

OFS bankruptcy filings declined in number (33 filings) and aggregate debt ($11.9 billion) in 2018-2019 versus 2017 (about 40
filings and aggregate debt of $35 billion), Haynes and Boone team said in a separate report.

However, “with immediate cutbacks in producers’ capital expenditure (capex) budgets for drilling, completions and other activities in the field, oilfield service companies will feel the brunt of this impact,” the report said. “Many smaller or highly leveraged OFS companies may not be able to hold on, avoiding seeking protection of the bankruptcy courts.”

The midstream segment, meanwhile, “has not suffered the same level of distress experienced by E&P or oilfield services companies,” Haynes and Boone said.

However, researchers said, “it is likely that a number of midstream companies may need to seek protection of the bankruptcy courts over the remainder of 2020” amid the current turmoil.