Conoco Plunge Shows U.S. Oil Struggling to Exit Crisis Mode (1)
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By Kevin Crowley
(Bloomberg) -- ConocoPhillips plunged the most since the oil-market crash began after disappointing earnings showed U.S. energy heavyweights are struggling to emerge from the crisis. The silver lining: There may be some cheap shale assets to buy.
The oil major said that by September it will restart most wells that were shut to weather the demand collapse, but left investors in the dark on future plans. More production means more short-term revenue but adds to the risk of an oversupplied market.
The American oil patch was hit harder than most when Covid-19 brought the global economy to a halt in March and April. Debt-fueled, breakneck growth left many smaller explorers too vulnerable to withstand the blow. Worse-than-expected results from Conoco, the third-largest U.S. producer, may portend similar surprises from peers Exxon Mobil Corp. and Chevron Corp. when they report earnings Friday.
Conoco posted a second-quarter adjusted net loss of 92 cents per share, worse than the 58-cent loss estimated by analysts surveyed by Bloomberg. It said it suffered from “regional differentials” in pricing, as well as the wider market drop.
“Conoco’s 2Q20 results are a throw away quarter due to significant curtailments, which muddy results,” Phillip Jungwirth, an analyst at BMO Capital Markets said in a note.
The oil producer’s shares were down 6.3% at 1:32 p.m. in New York, after earlier plunging 10%, the most since March 27.
Oil futures were down 3% to about $40 a barrel.

Noble Deal

On the bright side, Chief Executive Officer Ryan Lance said he’s encouraged by low premiums for shale acquisitions, citing Chevron’s recent agreement to buy Noble Energy.
When asked if Conoco also looked into buying Noble, Lance said “we did look,” but he was worried that Noble’s Israel assets might have been the source of political tension, since Conoco operates in other areas of the Middle East.
“The gem is certainly the Middle Eastern gas position,” he

said. “With some of the other things we’re doing in the Middle East, that creates maybe a little bit of an issue and problem for us politically.”

Conoco’s earnings miss followed reports from three shale-focused explorers on Wednesday that signaled a grim rest of 2020 for the broader U.S. oil industry. QEP Resources Inc. cut its production outlook, WPX Energy Inc. further reduced its capital spending budget, while Concho Resources Inc. stuck with plans to keep crude volumes flat from 2019 levels, ending years of growth.

Shale Drillers Signal Bleak 2020 While Trump Champions Oil Patch

“Field declines are setting in, capital continues to be scarce, we’re seeing the effects of a shrinking industry,” Concho Chief Executive Officer Tim Leach said on a conference call with analysts Thursday. “There were very few business plans that were viable in our industry.”

Concho will only increase spending at “sustained higher prices,” Leach said. Any excess cash flow will be used to pay back debt.

Cash on Hand

With more than $7 billion of cash on hand, Conoco doesn’t have the same debt problems as many others but left analysts confused at its future trajectory.

The Houston-based company said curtailed production in Alaska was restored in July, and the company is in the process of bringing back shale operations in the Eagle Ford region in Texas and the Bakken formation in North Dakota, according to a statement Thursday. Conoco shut around a quarter of its output in the March-to-June period due to the plunge in prices.

U.S. oil production has tumbled by some 15% from its record high of 13.1 million barrels a day in February and many analysts are predicting it will take years before it reaches those levels again, given the amount of investment needed.

Due to its curtailments, Conoco’s production was just 981,000 barrels of oil equivalent per day in the second quarter, 26% lower than a year ago and the lowest since 2002, according to data compiled by Bloomberg. Conoco sold off a large portion of its assets after taking one of the biggest writedowns in the industry’s history on U.S. gas in 2008.

To contact the reporter on this story:

Kevin Crowley in Houston at kcrowley1@bloomberg.net
To contact the editors responsible for this story:
Simon Casey at scasey4@bloomberg.net
Carlos Caminada, Joe Carroll

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