COP.N - Q3 2021 Conocophillips Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Q3 2021 ConocoPhillips Earnings Conference Call. My name is Zanera, and I'll be the operator for today's call.

(Operator Instructions)

I will now turn the call over to Ms. Ellen DeSanctis. Ellen, you may begin.

Ellen DeSanctis  ConocoPhillips - SVP of Corporate Relations

Thank you, Zanera, and welcome, everyone, to the third-quarter earnings call. In the room with me today are Ryan Lance, our Chairman and CEO; Bill Bullock, our Executive Vice President and Chief Financial Officer; Tim Leach, our Executive Vice President of the Lower 48; Dominic Macklon, our Executive Vice President of Strategy, Sustainability and Technology; Nick Olds, our Executive Vice President of Global Operations. Mark Keener, our Vice President of Investor Relations, is also in the room today.

The format of our call will consist of some very brief prepared remarks, and then, as Zanera mentioned, we'll go to Q&A. A few reminders. In conjunction with today's earnings release, we posted a deck of supplemental material addressing third-quarter earnings and cash flow results as well as some fourth-quarter full-year 2021 guidance updates.

Today, we will make some forward-looking statements based on current expectations. Actual results could differ due to the factors described in today's press release and in our periodic filings. And we'll mention some non-GAAP financial measures this morning. You can find reconciliations to the nearest corresponding GAAP measure in this morning's press release and on our website.
With that, I will now turn the call over to Ryan.

**Ryan Lance - ConocoPhillips - Chairman & CEO**

Thank you, Ellen. As Ellen mentioned, I'll make a few opening comments, and then Bill will address a few details about this quarter's results. And then we'll begin the Q&A session.

In this morning's release, I referred to the quarter’s results as notable. Obviously, financial and operating results were outstanding, but the context for describing them as notable meant something different. For the past year, we’ve been integrating Concho, improving underlying metrics across the business and creating the most competitive E&P for the energy transition. The significance of this quarter’s performance is that it represents the post-Concho go-forward baseline for the company.

On a run rate basis, the integration is essentially complete. We’ve captured the announced $1 billion of synergies and savings from actions the company took in connection with the transaction, all ahead of schedule. We’re unhedged, but even more importantly, our torque to upside is helped by having high conversion of revenue to income and cash flow. The core executables of our global operating plan are delivering as expected.

We’ll close out 2021 as a stronger company compared to any time in the past decade. Every aspect of our triple mandate is moving in the right direction. Our underlying portfolio cost of supply is improving. Our overall GHG intensity is lower. Our emissions-intensity-reduction targets are more stringent. Underlying margins are expanding, and our trailing 12-month return on capital employed is headed toward an estimated 14% by year-end, reflecting the benefit of more than just stronger commodity prices.

Between now and year-end, our top priority is closing the Shell transaction, which we expect to occur in the fourth quarter. Once we close, we will be working diligently to integrate these properties and capture efficiencies in a similar fashion to what we’ve achieved through the Concho integration. In addition to layering in these properties on top of our existing high-performing platform, we’re continuing to high-grade our portfolio and optimize the business drivers everywhere. The setup for next year is, well, notable.

We're now in the process of setting our 2022 capital plans, which we expect to announce in early December. Directionally, we don't anticipate a significant departure on CapEx from what we included in our June update, excluding Shell. In June, we provided an outlook based on a roughly $50 per barrel price that included a modest ramp in the Lower 48 to reactivate our optimized plateau plans, some incremental base Alaska investment and some longer-cycle low cost of supply investments in Canada, the Montney and in Norway.

Since June, we see some inflation pressures, especially in the Lower 48. However, at this point, we’d expect to adjust scope modestly in response to maintain our base capital at a level that is roughly consistent with our June update. And then, of course, we’ll add CapEx for the Shell properties once we’ve brought them into the portfolio.

As we finalize our 2022 plans, we’re watching the macro closely, keeping an eye on inflation and potential OBO pressures and undertaking our typical capital high-grading processes. It goes without saying the market certainly appears to be more constructive, but we must always remember that this is an incredibly volatile business. But there’s more to come on that in December.

It’s certainly been a busy year for the company, but an incredibly successful one so far, and that’s thanks to our dedicated and talented ConocoPhillips workforce. We believe we’re entering a very constructive time for the sector, but even so, we know that there will be relative winners. The relative winners will be companies with the lowest cost of supply investment options, peer-leading delivery of returns on and of capital, and visible progress on lowering emissions intensity. That’s what we offer. Our third quarter represents a glimpse and a strong jumping-off point to what you can expect from ConocoPhillips going forward.

So now let me turn it over to Bill, who will cover some of the key items from this quarter.
Bill Bullock - ConocoPhillips - Executive VP & CFO

Thanks, Ryan. To begin, adjusted earnings were $1.77 per share for the quarter. Relative to consensus, this performance reflects production volumes that were slightly above the midpoint of guidance, better-than-expected price realizations and lower-than-expected DD&A.

As for the better realizations, we captured a higher percentage of Brent pricing in our overall realized prices. We've provided supplementary information in this morning's material to address the realizations variance. And as Ryan mentioned, we're unhedged, so we're getting full exposure to the current higher prices. As for DD&A, we're trending lower compared to the previous guidance as a result of positive reserve revisions due to higher prices. You saw in today's release that we lowered full-year 2021 DD&A guidance from $7.4 billion to $7.1 billion.

Excluding Libya, production for the quarter was 1,507 thousand barrels of oil equivalent per day, which represents about 2% underlying growth. Lower 48 production averaged 790 thousand barrels a day, including about 445 thousand from the Permian, 217 thousand from the Eagle Ford and 95 thousand from the Bakken. At the end of the quarter, we had 15 operated drilling rigs and seven frac crews working in the Lower 48. Across the rest of our operations, the business ran extremely well. In particular, our planned seasonal turnaround activity across several regions went safely and smoothly.

You will have noticed that we provided production guidance for the fourth quarter and for the full-year 2021 in this morning's release. This reflects the impact of a decision we're making to convert Concho 2-stream contracted volumes to a 3-stream reporting basis as part of our ongoing efforts to create marketing optionality across the Lower 48. We expect to convert the majority of our contracts in the fourth quarter. Reported production is expected to increase by approximately 40 thousand barrels a day, and both revenue and operating costs will increase by roughly $70 million. In other words, this conversion is earnings neutral.

Besides DD&A and production, there were no other changes to 2021 guidance items. Now once we've closed the Shell acquisition and can see where the ongoing U.S. tax legislation conversation lands, we'll provide an updated earnings and cash flow sensitivities that consider such factors as projected 2022 price ranges and how those ranges might impact our cash taxpaying position in various jurisdictions around the globe.

Coming back to third-quarter results, cash from operations was $4.1 billion, which was reduced by about $200 million for nonrecurring items, so a bit higher than the average of external estimates on an underlying basis. Free cash flow was almost $3 billion this quarter, and on a year-to-date basis, this is about $6.5 billion.

Through the first nine months of the year, we've returned $4 billion to shareholders, and we're on track to meet our target of returning nearly $6 billion by the end of 2021. This is through a combination of our ordinary dividend and buybacks.

So to summarize, as Ryan said, it was a notable quarter. The company is running exceptionally well, and we've achieved a significant reset of the base business post-Concho. That creates a powerful platform for entering next year.

We're focused on closing the Shell Permian acquisition so that we can begin the work of getting those properties fully integrated into the business, setting our capital plans for 2022, maintaining a leading position of returns on and of capital, and lowering our emissions intensity. That's the "triple mandate." That's what ConocoPhillips is all about. And we look forward to providing additional information in December.

I'll now turn the call over to the operator to begin the Q&A portion of today's call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Roger Read from Wells Fargo.
Roger Read - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst

Hopefully you can hear me.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes we can.

Roger Read - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst

Sorry, just it was like really quiet there. Anyway, I just want to come back to the inflation question. I know you’ll talk more about CapEx in December, but maybe an idea of what you have seen to date and where you think the bigger inflation headwinds may arise.

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. Sure, Roger. As we’re kind of in the middle of -- like I said in our opening comments, in the middle of putting all our plans together. Right now, the supply chain organization tells me that globally, we’re thinking about mid-single-digit kind of inflation rates as we go into 2022. But it’s bifurcated into two pieces: the U.S. being, depending where you’re at geographically in the U.S., anywhere from kind of the low double digits to the higher single digits, the Permian being the area probably that’s most influenced or most experiencing inflation right now and as we go into 2022; and then the rest of the world though still at about 2% to 3% inflation rates kind of globally. So the categories that you can imagine are inflating right now certainly are those that are in need here in the U.S. as we start to recover out of the low point, things like OTCG, (labor, sand, pressure pumping and the likes.

I think as we think about it going forward, it’s an opportunity for us to try to offset as much of that through some modest scope reduction and efficiencies, which I think is where Tim is focused in the Lower 48. I can ask -- Tim, if you want to add anything to that relative to the Lower 48, in the Permian.

Tim Leach - ConocoPhillips - Executive VP of Lower 48

No, I think that covered most of it. But I would say that where we are seeing inflation on those items, we have size and scale advantages of our combined organizations. And the operations continue to improve in the Lower 48, so I think there’s many ways that we can mitigate those inflation factors.

Roger Read - Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst

Okay. Great. And then just since it’s been in the news quite a bit, what’s been going on in Alaska, I was just curious. Willow can’t go forward, what do we think about in terms of other opportunities in Alaska? And have you noticed any meaningful changes since Hilcorp became the other partner in Prudhoe Bay?

Nick Olds - ConocoPhillips - Executive VP of Global Operations

Yes. Roger, this is Nick. Just maybe a quick update on Willow. As you’ve probably seen in the press, both the Department of Justice and ourselves decided not to appeal the Alaska District Court decision. We feel the best and most efficient approach there is to really work through the three substantive issues that were identified in the district court ruling. We’ll do that through additional NEPA analysis. We’re currently engaged with the BLM and the cooperating agencies up there, just working through those three particular issues.
As you look forward, as we've mentioned, we continue to work through our detailed engineering in service of continued refinement of our cost and schedule and any development modifications, all in service of doing an FID. If you look at 2022, our capital program, that will reflect the continued engineering work. And then from a shareholder standpoint, we still see significant support from the Alaska delegation, the State of Alaska as well as the North Slope Borough. So we remain committed on this front.

As far as other projects, we spoke about in the June 30 market update, in part, as an example, we've got Nuna, we've got Coyote. These will leverage existing infrastructure, so existing pads, facilities and pipelines, very low cost of supply opportunities that we're progressing. And then on the Prudhoe front, we're seeing great efficiency improvements and safety performance. They continue to reduce costs across the board. So our teams are heavily engaged. So all three legacy assets are performing well.

Operator
Our next question comes from Jeanine Wai from Barclays.

Jeanine Wai - Barclays Bank PLC, Research Division - Research Analyst
Our first question is on Scope 3. In conjunction with the Shell Permian acquisition, you announced an improvement in your Scope 1 and 2 emissions-intensity targets, which is great. At this year's meeting, I believe shareholders voted in favor of the company setting Scope 3 reduction targets as well. So could you maybe update us on the company's strategy for addressing that vote? And perhaps any color on feedback that you've received from your shareholders regarding Scope 3 reduction targets for Conoco.

Ryan Lance - ConocoPhillips - Chairman & CEO
Yes. Sure, Jeanine. I'll — let me make a few comments, and I'll turn it over to Dominic, who's been involved in all our shareholder engagement activity that's a normal part of our process this time of year. But yes, you saw consistent or coincident with the Shell acquisition announcement that we increased our targets related to Scope 1 and Scope 2. And not -- maybe hopefully not missed in that, we went from a gross-operated to a net-equity, which we think the industry needs to move to as well. So it's not only what you operate, it's what you are involved in from a net equity perspective. So yes, pretty focused on our commitment to reduce our Scope 1 and Scope 2.

And then as you state, we did get a resolution. It got 50-some percent of the vote, not binding but one that we have to engage with our shareholders on. So we've been doing that on the Scope 3 side specifically. And I can get Dominic maybe to comment on what that looks like and what we've heard so far from shareholders.

Dominic Macklon - ConocoPhillips - Executive VP of Strategy, Sustainability & Technology
Well, thanks, Jeanine, for the question. We are continuing in dialogue with shareholders. This is an ongoing process on this very important matter. I think to share some key elements of that dialogue, as an E&P company, we continue to believe our Paris-aligned climate risk framework that we launched about a year ago is both credible and ambitious and addresses the realities of our triple mandate that you often hear us talking about. So that's responsibly meet transition pathway demand, deliver competitive returns and achieve net-zero emissions on the emissions we control, and that's Scope 1 and Scope 2.

And we have established just earlier this year a dedicated low-carbon technology group, and they are supporting our business units in their ongoing progress to achieve our Scope 1 and 2 targets and our net-zero ambition. But we are not ignoring Scope 3 end-use emissions. So our new low-carbon group are also working to develop new opportunities in low-carbon businesses with a focus on carbon capture and storage and hydrogen, both of which have a strong adjacency to our core business and our competencies. But those opportunities must, of course, deliver competitive returns for shareholders.
And on the policy side, we continue to advocate for a well-designed economy-wide price on carbon, and we see that as the most-viable solution for addressing demand and actually reducing Scope 3 end-use emissions. But we don't believe a Scope 3 target for a Paris-aligned E&P company like ConocoPhillips makes sense, as it wouldn't address consumer demand and it would shift supply away from top-tier ESG producers to less accountable producers and jurisdictions.

And we believe, in fact, that a Paris-aligned E&P company with a focus on low-GHG intensity and low cost of supply of production has a valuable and crucial role actually to play in the energy transition. So now of course, we take our stakeholder -- our shareholders' views very seriously, and we're continuing our engagement to understand their perspectives. It's an ongoing process. We'll continue that through the next couple of months here. But that perhaps gives you a flavor of the nature of the dialogue.

**Jeanine Wai - Barclays Bank PLC, Research Division - Research Analyst**

Okay. Great. That's really helpful. We look forward to the carbon capture and hydrogen development.

So I guess our second question, maybe a little housekeeping item here, is on the affiliate distributions. So the distributions, they were slightly below what we think was implied by prior commentary on the 2Q call, and it was a little bit below our forecast. So we're just wondering if there was anything unexpected related to the timing of distributions, we understand there's seasonality for the quarter, or if there's any change in the full-year outlook of $700 million in APLNG distributions for this year?

**Bill Bullock - ConocoPhillips - Executive VP & CFO**

Sure, Jeanine. We received distributions of $85 million from APLNG in the third quarter, and that brings our total year-to-date to $430 million for the year. And we now expect full-year distributions of around $750 million from APLNG this year.

As you noted and as a reminder, we typically receive lower distributions in the first and third quarters and higher distributions in the second and fourth quarters. And as you think about APLNG, due to the pricing lag with APLNG's long-term LNG sales, there's really little sensitivity to price for the remainder of 2021 distributions, as LNG pricing is essentially set. So we feel very good about $750 million for the full year.

**Operator**

Our next question is from Neil Mehta from Goldman Sachs.

**Neil Mehta - Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst**

And let me start by thanking Ellen for her service to the industry and to the investment community. Congratulations on your retirement, Ellen. You are going to be sorely missed.

**Ryan Lance - ConocoPhillips - Chairman & CEO**

Thank you, Neil. Appreciate the call-out, Neil. We're going to miss her as well.

**Neil Mehta - Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst**

Yes. Ellen, you can't escape us, so you know where to reach us.
Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

I'm not going to try.

Ryan Lance - ConocoPhillips - Chairman & CEO

And she's not going to escape us completely either.

Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

You're in great hands. It's been an honor everybody, truly an honor. And ConocoPhillips won't miss a beat.

Neil Mehta - Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst

That's great. Well, you've left it in great shape.

Ryan, I want to kick off on a big-picture question for you. And then Tim, I had a follow-up for you on the Permian. But the big-picture question is, Ryan, do you think we're at the beginning of a structural upcycle here, which is we've been through seven years of a very dark period of oversupply in the industry, Underinvestment might be kicking in here. Do you see multiple years ahead of a potential recovery?

And to the extent we actually are at the beginning of a structural up cycle, the last time we had one, the industry destroyed a lot of value over the long term by not seizing the opportunity appropriately. And so as a leader of the E&P industry, what is the message you're telling your folks about how you do it differently this time to create structural value to the extent you have a period of excess cash flow?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. Thanks, Neil. Certainly, pretty constructive for a number of reasons. We're seeing the demand recovery post-pandemic. And for all the reasons you stated, this becomes a -- turns into a supply problem. And I think that's going to be some pretty constructive tailwinds for the industry.

So yes, you asked a bit of a provocative question there. So what would I say? Maybe a few things. For my peers, I would say we've got to restore sector sponsorship. And that's only going to happen through consistent returns on capital employed, and they have to be competitive with the market. I think that's the opposite of what we saw in this boom/bust industry. So I think investors need to have us on a short leash and I think that would be good for this sector. So that's kind of what I would tell my peers.

What would I tell investors? It is different right now because I think shale industry is being run as a free cash flow business. And so now we have short-cycle inventory that can be managed for returns of and returns on capital. But I think you have to remember one thing in that shale business, that inventory quality really does matter.

Because the ones with the best inventory like ConocoPhillips, we're going to be able to make market-competitive returns, and we can do that without having -- blown through the roof on growth. So with modest growth, you can deliver those kinds of market-competitive returns for people that have the top-quality shale inventory. And I think that's a pretty big paradigm shift. So that discipline on growth and returns on and of capital really, really matters.

Lastly, and this would be for investors and my peers, for everyone really, is the energy transition is happening. We are going through a transition today, but I think that's a new lens that we have to look at this business through, and it requires a bit of new thinking. And I think Dominic just referred to that in the last question that Jeanine had, which is our triple mandate. We must do those three things simultaneously, and we've got to do them really, really well.
So we have to meet the transition demand, whatever slope that demand's going on, we've got to be there to supply it with low cost of supplies barrels because we've got to deliver on our returns. And we've got to meet our net-zero ambition ultimately by 2050 in this business. So I guess that would be the few things that I would offer, Neil. And really, shame on us if this industry can't do it, and I can guarantee you ConocoPhillips will.

Neil Mehta - Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst

Yes, you guys absolutely have delivered the playbook. And that's a good dovetail into you, Tim. And just your perspective on the Permian position at this point, and specifically talk about where we are in terms of integration of the Concho assets. And you've probably gotten more time to take a look under the hood of the Shell assets. How do you feel about what you've acquired?

Tim Leach - ConocoPhillips - Executive VP of Lower 48

Yes. It's pretty exciting that -- first of all, I'm really proud of our team of being able to integrate this Concho acquisition and deliver on all the production and cash flow and get the wells drilled and not miss a beat on execution and so -- and deliver all the synergies that we've talked about. That's an important concept as well.

So things -- the blocking and tackling of our business is going really well in the Permian. But in addition to that, ConocoPhillips has four really great shale basins in the U.S. And watching how information is being transferred, how much teamwork is going on between those groups, they're continuing to make everything better. The wells are getting better. We're delivering more efficiency all the time. So that's exciting for the future.

And then when you look at the opportunity with the Shell acquisition, what we can do with those assets and how we can create value with them -- and that's kind of what our teams live and die for, is the opportunity to go get something like that and make it better. So I'm pretty excited, and I'm proud of the work that's being done right now.

Operator

Our next question comes from Stephen Richardson from Evercore.

Stephen Richardson - Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Oil and Gas & Exploration and Production Research

I was wondering if I could follow up on that last question with Tim. Tim, I appreciate that you haven't closed the Shell transaction yet and haven't got your hands on the assets, but it seems to us one of the big areas of upside could come from equalizing working interest and some swaps and trades and blocking up your total position, including Shell. Could you just talk a little bit about that opportunity as you see it? And have you had incomings from industry knowing that you will be the holder of those assets in short order?

Tim Leach - ConocoPhillips - Executive VP of Lower 48

Yes. Managing assets like that is kind of what I think we do best. And there are so many different ways that we can create value, from the way the wells are drilled, the way the wells are completed, the marketing arrangements. And it also gives us the opportunity with those additional assets coming in. We have way more flexibility on what we can dispose of and how we can high-grade our portfolio.

So it's -- it gives us the opportunity to do what I think we're really good at from an operations standpoint but also from property management. And the swaps and trades, we have a dedicated group around that, and they can create a lot of value in the basin. All the operators are trying to get out of each other's way and not have so much outside-operated and create longer lateral drilling opportunities, all kind of things like that.
Stephen Richardson - Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Oil and Gas & Exploration and Production Research

If I could just follow up with Bill on Cenovus specifically. It looks -- from what we can glean from the public filings, it looks like that sell-down is happening kind of in a pretty orderly way in terms of pace. But I was wondering if you could talk about experience so far executing on that. And also, noted a nice uptick in the contingent payment associated with that Western Canadian sale a number of years back at these oil prices. And maybe you could remind us all of the quantum of that and where that will stand and the duration of that as well, please.

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes, sure. Happy to. So first, starting with the CVE monetization program. We've sold about 67 million shares year-to-date. That's about 30% of our original balance. And so we reduced our equity stake in Cenovus from about 10% to about 7%. And those proceeds have been used to buy back about $600 million of ConocoPhillips shares through the third quarter. And you'll note on our slides for cash that, that was about $400 million for the third quarter.

We have accelerated our sales. We expect to exit our position sometime early part of next year, and we're executing those sales in a thoughtful and measured way. We continue to monitor market conditions as we move forward. Assuming that they remain supportive, we'll be out early part of next year.

You also asked about the contingent payments from Cenovus. During the quarter, we recognized about $100 million in pretax earnings, bringing our year-to-date total to about $200 million so far in Cenovus contingent payments. And at current pricing, we'd expect to recognize another $100 million in the fourth quarter. Now the contingent term expires at the end of the second quarter 2022. But at current strip prices, we'd expect to continue to accrue contingent payments in the first and second quarters of next year.

It's probably also worth mentioning that we are still continuing to receive contingent payments also from our San Juan sale. Just would throw that in there a bit. We've accumulated so far $30 million in pretax this year with $21 million in the third quarter and expect to accrue another $21 million on that in the fourth quarter. And at current prices, that should continue through calendar year next year.

Operator

Our next question is from Doug Leggate from Bank of America.

Doug Leggate - BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research

Let me add my congratulations to Ellen. I'm pretty sure I'm not going to be on the call list, Ellen, but good luck and thanks for all your help over the years. Really, we're going to miss you.

A couple of things, if I may. Ryan, I know we get to the cash return question a lot when I come to question you on this. But I just wonder if I could pick your brain on whether your thinking is evolving. And what I'm looking at is you're pretty much bigger than BP at this point. You're knocking on the door of both Total and Shell in terms of scale. And on average, your yield is about -- running about 60% of those peers. You could easily step that dividend up and get greater recognition for the value proposition, in my opinion. Why not?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. I think I tried to be pretty clear, Doug. I appreciate the question and the push. I think what I tried to be pretty clear about is our 30% of CFO is going back to the shareholders. So that's a commitment you can take to the bank as an investor in ConocoPhillips. And with this run-up in the prices that we've seen here lately, you should expect to get 30% of our cash coming from our operations as a result.
You asked, “What about the channel?” I’d say maybe before the channel conversation, too, the Shell acquisition will probably look to try to put some more money onto the balance sheet as we go through the course of this. But more directly to your question about the channel, I’ve been comfortable, based on our outlook and our view of the macro, where things are going right now, to split the distribution between the ordinary dividend and share repurchase.

So how do I think about the ordinary dividend? For me, it needs to be something that’s incredibly reliable. It’s transparent. It’s growable. It’s reliable. You can count on it. You can take it to the bank. And it works at the downside of this sector in the -- whenever we go through those downturns. That’s how I think about the dividend.

And I think you can get your fork when these times are pretty good, but I think you got to think about the dividend being commitment, reliable, always there and it’s growable. And so that’s how I think about the dividend. But more importantly, you should expect to get 30% of our cash coming back from our operations. That’s our commitment. That’s what we’ve done for a number of years, and that’s what we’re going to continue to go do. So as that CFO goes up, you’re going to get those dollars.

And we’ve been pretty open to the channel. We’ve had this conversation with the market and with our investors. And as we see circumstances changing, we’re not locked into a specific channel to go do that. But -- so I take your point, Doug. I think -- I probably think about the ordinary dividend just a little bit differently.

I appreciate the answer. I guess it’s more about trying to figure out what the market is best prepared to recognize, is kind of what’s behind my question. But I appreciate the answer.

Yes. And that recognition, Doug, needs to be over the long term, not just over a month or a quarter. But well, what builds value? What’s the right model over the long haul in a very volatile business?

Sure. Very different capital structure today for you guys than a few years ago.

My follow-up, very quickly -- you touched on high-grading the portfolio. I don’t think we’ve heard you say that in a little while, and obviously, you’ve now got a very large slug of production coming in. I just wonder if I could push you a little bit to touch on some of the things you were thinking there to flesh that out. And I’ll leave it there.

Yes, thanks, Doug. I think we’ve sold through this quarter a couple of hundred million dollars’ worth of assets. Those are largely in the Lower 48. We’ve got another couple of large packages in the Lower 48 on the market today that are significantly larger than what we’ve talked about closing today and a couple of other things.

But we’re pretty committed. We announced at the -- after the Shell transaction that we would sell $4 billion to $5 billion. We had $2 billion to $3 billion out in the market from the June market update. We’re well on the road to delivering that $2 billion to $3 billion.

We upped that to $4 billion to $5 billion as a result of the Shell transaction just because, when we get the first look at the portfolio, primarily in the Permian, we think there’s going to be some cleanup that we can do with Tim’s team and the trading and the swapping that he described earlier.
and some outright sales. So feel pretty comfortable with that $4 billion to $5 billion target. Obviously, takes us into 2023, but making probably a lot of progress through the first half of next year in delivering those targets.

Operator

Our next question comes from Phil Gresh from JPMorgan.

Phil Gresh - JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst

My first question is just on the prior guidance around the ending 4Q cash balances post the Shell acquisition of about $4 billion in cash. Any updated thoughts there now that we’ve gone through 3Q? And any other moving pieces that you talked about on the call here today?

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes. Sure, Phil. We still feel very good about that $4 billion of ending cash. The Shell transaction headline price is $9.5 billion, but the effective date is July 1 of this year. And so as we go through the year, we would expect to end up with a little over $4 billion of cash by the end of this year.

Phil Gresh - JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst

Okay. And then second question, Bill, for you would be -- you gave a little teaser in your prepared remarks around cash taxes. Do you have any updated thoughts around when you would become a cash taxpayer, kind of factoring in the impacts of the Shell acquisition, the higher oil prices, et cetera?

Bill Bullock - ConocoPhillips - Executive VP & CFO

Yes. Sure, Phil. So at current pricing, if current pricing continues into 2022, we would expect to move into a significant taxpaying position in the U.S. by early to mid-2022.

Phil Gresh - JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst

And how about just for the overall company?

Bill Bullock - ConocoPhillips - Executive VP & CFO

Well -- so the overall company would be similar. So if you look across our international assets, many of them are already in a cash taxpaying position, so the main change is in the U.S.

Operator

Our next question comes from Paul Cheng from Scotiabank.

Paul Cheng - Scotiabank Global Banking and Markets, Research Division - Analyst

Let me add first my congratulations to Ellen, and wish you a wonderful and healthy retirement. So thank you for your help.
Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

Thank you.

Paul Cheng - Scotiabank Global Banking and Markets, Research Division - Analyst

Two questions. Maybe this is for Tim. Maybe we read too much. In the third quarter, Eagle Ford production actually is sequentially down. I think in your previous 10-year strategic long-term, the target is Eagle Ford may be reaching, say, close to about 300 in the longer term and stay there for a long period of time.

So wondering, with the asset -- Permian asset, is that still the game plan and what we've seen in the third quarter is just the timing of the wells coming onstream or we should read more on that? So that's the first question. And maybe I will ask the second question maybe later.

Tim Leach - ConocoPhillips - Executive VP of Lower 48

Good. Thank you. Yes. The way we think about managing the Eagle Ford and the Bakken and the Permian is one asset that we can allocate capital around. But we've said on this call before that the Eagle Ford and the Bakken are much closer to being at their optimal plateau than the Permian is. The Permian doesn't get there for a long time.

But we are increasing activity in the Eagle Ford. It will be at that optimal plateau rate that you referenced. And the sequential quarter-over-quarter is more about timing and things like that of wells coming online. But I'm very pleased with the performance of that asset. And there have been things like refracs and other things that we've talked about that have continued to improve the performance of the Eagle Ford.

Paul Cheng - Scotiabank Global Banking and Markets, Research Division - Analyst

Tim, when do you think Eagle Ford will reach that plateau kind of production rate, in 2024, 2025 or maybe sooner? So in other words, how aggressive are you going to ramp that up?

Tim Leach - ConocoPhillips - Executive VP of Lower 48

Yes. Well, it's -- we haven't given guidance on things like that. But generally, it reaches its plateau much sooner.

Paul Cheng - Scotiabank Global Banking and Markets, Research Division - Analyst

Okay. And the second question maybe is for Bill or for Ryan. I think when you set up the $6 billion on the cash return, that's based on the $60 WTI for this year. Obviously, the price is much stronger. So should we assume that you're going to return more than that or because of the Shell transaction, you're going to stick to that and just have the additional cash to strengthen the balance sheet?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes, at this point, we're -- our guidance is the $6 billion of return this year. And stay tuned for what that looks like for next year. But yes, we're sticking to the plans we have in place for 2021 that gets us pretty close to $6 billion total return. That's through the ordinary dividend and through our -- the shares that we're buying and the shares that we're swapping with CVE or Cenovus.
Operator

Our next question comes from Neal Dingmann from Truist Securities.

Neal Dingmann - Truist Securities, Inc., Research Division - MD

Ryan, just a quick follow-up on what you just said. I just want to make sure I was clear on the shareholder return on the $6 billion. It looked like the bulk -- a good size of that, I think 1/3 of it is coming this quarter. Is that just the result of how it played out from the cash flow -- the stated cash flow payout?

Ryan Lance - ConocoPhillips - Chairman & CEO

Yes. I think you probably saw some ramp-up in the swap with the Cenovus shares. The dividend is obviously ratable across the four quarters other than the raise that we announced here recently. And we had -- we restarted our share buybacks outside of the Cenovus swap after the first quarter. So yes, they’re not quite ratable. And you saw the ramp-up there in the third quarter if you look at our results, and you should assume that that continues into the fourth quarter.

Neal Dingmann - Truist Securities, Inc., Research Division - MD

Okay. Okay. Great clarification. And my second, probably for Tim. Tim, you just mentioned earlier on the activity. My question is more on Permian activity that you were talking about. I know one of your peers suggested kind of a notable increase in Permian activity for remainder of this year and into ’22. And I’m just wondering, post the Shell deal, would we continue to see a ramp in that? I just want to see if that’s what you were indicating on the last -- given you mentioned the plateau on the other two plays. Could we see some ramp there? Or is it still in the works to hold things steady? Obviously knowing you don’t have ‘22, ’23 guidance out yet.

Tim Leach - ConocoPhillips - Executive VP of Lower 48

Yes. We haven’t completed all our planning for next year. That’s what Ryan referred to that we’re still going through. But I would tell you that as we’re planning for Shell, until we get our hands on the steering wheel, that’s kind of just continuing the level of activity that they currently have going on there.

I would tell you that we really believe strongly in the steady-as-she-goes. And as we add activity, it will be ratable and kind of a -- I wouldn’t call it a ramp. I would call it slow steady growth because I think that will build the most efficiency in our operations.

Operator

Our next question comes from John Freeman from Raymond James.


I just -- I wanted to revisit the 10-year plan, which obviously got enhanced after the Shell transaction. And just when I’m thinking about the different sort of, I guess we’ll call them, toggles that you have, obviously, given the unhedged nature of the portfolio, you’ve talked about if you do have a $10 higher oil price, then your oil assumption there, it’s an incremental $35 billion. And I’m just trying to make sure that I’m on the same page with how you all are thinking about that.
The last time that the free cash flow got enhanced from a shale transaction with the incremental, let's call it, $10 billion over that 10-year plan, that full $10 billion basically went to the incremental shareholder distributions. So I'm just trying to -- I guess, Ryan, just how do you think about what it would theoretically take for you all to look at something other than that kind of 3% kind of production CAGR? Is it just it doesn't really matter what the oil price is, the incremental goes to the shareholder distribution? Or just how you think about it, Ryan, would be helpful.

**Ryan Lance - ConocoPhillips - Chairman & CEO**

Yes. No, thanks, John. I think -- yes, I think you should think about it on top -- again, the market update plan was at a $50 a barrel price deck. So our commitment to our investors is that 30% of the cash will go back to the shareholders. As prices increase and our cash flows increase, you should expect the distribution to the shareholders to increase.

We're still going to maintain a very strong balance sheet, and having some cash on the balance sheet is important to the company. And then we'll deliver modest growth. That's always been kind of an output out of our plans. We want to make sure that we have a good idea of where the macro is going to go for the next year. We're going to set our capital budget plans to deliver the strongest returns on that capital that we can manage. We don't want to blow into the face of really high super inflation. We've seen what that's done before to return, so we'll be very conscious of that as we go into what we think is a pretty constructive view of the macro going for the next two to three years.

So you ought to expect us to act like we've done in the past. We'll be really judicious how we spend our capital, make sure we're getting the most out of every capital dollar we can. Shareholders are going to get 30% of their cash back. They'll get that through the dividend and through some share buyback, maybe another channel. We'll see if that's the right thing to do for the company with where we're at, and we're going to maintain a very strong balance sheet as we go through this process.

But adding the shale just made the company better, made it more resilient and made more cash flow and more -- so that means there'll be more returns of capital back to the shareholder. And then remember we're running the shale assets just like we're running our own Lower 48 assets at about a 50% to 60% reinvestment rate. We're -- again, that's what I tried to say at the beginning. We're executing the shale differently than what this industry did a number of years ago.

**Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations**

This is Ellen. We'll take John's second question and then wrap it up.


Okay. And then just my follow-up question. Ryan, you talked about the inflationary pressure you're seeing in the Lower 48 with that kind of high single-digit to low double-digit inflation versus the international part of your portfolio, which is still rather modest at kind of 2% to 3% inflation. Obviously, Tim and his team have done a great job on the efficiency gain side on the Lower 48.

But it doesn't sound like, at least for the 2022 plan, that we should anticipate any material shift in sort of that, I guess, international versus Lower 48 sort of mix. But just -- I realize this is oversimplifying it. But like how wide would that spread have to be from a service concentration perspective, Lower 48 versus international, where we might see you lean a little bit more on the international portfolio?

**Ryan Lance - ConocoPhillips - Chairman & CEO**

Yes. I don't think we'll probably allocate capital based on how we see those different inflation rates going. So I think we just want to be clear about how we kind of see it developing in the significant categories of spend that we have in the company and try to give you an idea of what we're seeing today. We'll continue to watch it.
I think it probably more goes to our Lower 48 business. If we see hyperinflation and start seeing it running away from us, we might adjust our scope modestly. So we’re not going to try to go into that. So again, it’s with a, really, focus on making sure the returns are adequate for the capital that we’re investing. And I think Tim said in one of his responses we’re a large company. We’ve got a very sophisticated supply chain organization, very sophisticated commercial organization, and the efficiencies that we’re bringing out of the business are still there. So we think we have a way to mitigate quite a lot of it, and we’ll just adjust our plans if it gets out of control as an example.

So that’s where we stand out as an E&P company. We’re global. We’re big. And that’s a huge advantage to us when we think about the impacts of these kinds of things on our business.

Operator

We have no further questions at this time. I’d like to turn the call back over to you, Ellen. Thank you.

Ellen DeSanctis - ConocoPhillips - SVP of Corporate Relations

Terrific. Thank you to our listeners. Thank you, Sanera. Really appreciate it. Feel free to ring Investor Relations if you have any additional comments. Have a wonderful day and week. Be safe. Thank you.

Operator

Thank you, and thank you, ladies and gentlemen. This concludes today’s conference. Thank you for participating. You may now disconnect.