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FRI, JAN 29, 2021

Chevron Takes Patient Approach to Leasing Ban

Chevron is one of the largest operators in the US Gulf of Mexico, but the major is taking a wait-and-see approach toward recent federal actions to restrict activity.

Management addressed investor concerns during the company's fourth-quarter conference call Friday, which kicked off earnings season for the Western integrated.

CEO Mike Wirth also fielded questions about his appetite for more acquisitions following last year's headline deal to acquire Noble Energy, and discussed how that deal has helped keep the company's strategy on track despite the unprecedented downturn ([OD Jul.20'20](#)).

Measured Approach

The Biden administration only took office last week, but the US oil industry is already facing a moratorium on new federal oil and natural gas leasing and a temporary freeze on new drilling permits by lower-level officials ([OD Jan.27'21](#)).

But Wirth was cautious in raising the alarm bells: "It's early days to understand exactly how these will play out."

"There are questions about this that I think we're just going to have to work our way through," he said, adding his hope that the Biden administration will engage the industry as future plans are defined and that work on existing leases will remain unimpeded.

Chevron produced more than 340,000 barrels of oil equivalent per day from the US Gulf of Mexico in 2019 and is advancing several major projects, including the Anchor development and a waterflood at its St. Malo field. One area to watch will be the proposed Ballymore tie-back, which Chevron was expected to reach a final investment decision on this year.

A Noble Addition

The completion of Chevron's acquisition of Noble last October appears to have mitigated many portfolio impacts last year's downturn would have wrought on its plans ([OD Oct.5'20](#)).

Chevron expects annual production, excluding asset sales, to rise up to 3% this year at \$50 per barrel Brent due to the addition of Noble and lower curtailments.

A 3% rise would translate to nearly 3.18 million boe/d -- generally in line with the annual growth rate Chevron expected before the coronavirus pandemic upended global oil markets.

Without Noble, Chevron's output would likely have trended well below 3 million boe/d this year. Production hovered around 2.83 million boe/d in the third quarter before the acquisition closed.

Noble also helped Chevron avoid a decline in its proved oil and gas reserves to their lowest levels since the Chevron-Texaco merger in 2001 ([OD Aug.6'20](#)). In fact, Chevron booked a net 832 million boe in proved reserves for 2020 despite significant negative revisions from its lower capital spending program, end-year price adjustments and asset sales.

As Wirth noted, Chevron will have essentially invested the \$40 billion it planned for 2020-21 before the impact of the Covid-19 pandemic, but in a very different manner than originally intended.

Rather than those funds going exclusively to capital expenditure as laid out early last year, Chevron instead spent \$13 billion acquiring production and reserves from Noble

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PRICES

Futures Markets Snapshot

| Crude Oil | Last | Chg. |
|------------------------|--------|-------|
| ICE Brent (\$/bbl) | 68.91 | -0.05 |
| 3 rd month | 68.07 | -0.03 |
| 12 th month | 64.60 | +0.11 |
| Nymex Lt. Sweet | 65.53 | -0.10 |
| 3 rd month | 65.25 | -0.10 |
| 12 th month | 61.00s | +0.07 |
| DME Oman | 67.60s | +1.05 |
| Natural Gas | | |
| Nymex HH (\$/MMBtu) | 2.94 | 0.00 |
| ICE UK NBP (p/therm) | 62.93 | +1.23 |
| Products | | |
| Nymex RBOB (\$/gal.) | 2.14 | -0.01 |
| ICE Gasoil (\$/ton) | 554.50 | -4.75 |
| Nymex ULSD | 2.00 | 0.00 |

Change vs. prior close - Data provided by [www.barchart.com](#). Last Updated at - Thu, May 6, 2021 06:20 AM Eastern Daylight Time



Spot Markets Metrics

| Crude Oil (\$/bbl) | Last | Chg. |
|------------------------------|-------|-------|
| Opec Basket | 66.67 | +1.58 |
| Natural Gas (\$MMBtu) | | |
| New York | 2.43 | 0.00 |
| Henry, LA | 2.97 | -0.03 |
| Katy, Texas | 3.05 | +0.01 |
| AECO, Canada | 2.34 | +0.02 |

Change vs. prior close - Source EIG Gas Market Reconnaissance. Last Updated at - Wed, May 5, 2021 05:14 PM Eastern Daylight Time

near the bottom of the downturn and will invest \$28 billion in capital spending over the two-year period.

Bargain Buyer

Even with the Noble purchase, Chevron will not shy away from other corporate or asset acquisitions if the price is right.

"It's still a tough market, and ... I would say both companies and asset valuations are down from where they've historically been. So there's opportunity in circumstances like that, and we've got the capacity to consider doing things," Wirth told investors.

The Chevron boss stressed that the bar will remain very high from both a valuation and strategic fit perspective. But the company will be "aware and alert" to any deals that might tick these boxes.

Casey Merriman, Phoenix

| Chevron Q4 Earnings | | | | |
|------------------------------------|----------|----------|-------|----------|
| (\$ million) | Q4'20 | Q4'19 | %Chg. | Q3'20 |
| Revenue | \$25,246 | \$36,350 | -31% | \$24,451 |
| Operating Cash Flow | 2,200 | 5,700 | -61 | 3,500 |
| Net Income | -656 | -6,610 | -- | -207 |
| Adjusted Income | -11 | 2,540 | -- | 201 |
| Upstream -- US | 101 | -7,465 | -- | 116 |
| Upstream -- Intl. | 400 | 731 | -45 | 119 |
| Downstream -- US | -174 | 488 | -- | 141 |
| Downstream -- Intl. | -\$164 | \$184 | -- | \$151 |
| Liquids Production (million b/d) | 1.978 | 1.893 | 4 | 1.707 |
| Gas Production (Bcf/d) | 7.796 | 7.110 | 10 | 6.764 |
| Oil and Gas Output (million boe/d) | 3.277 | 3.078 | 6 | 2.834 |
| Refinery Throughput (million b/d) | 1.347 | 1.551 | -13 | 1.390 |
| Products Sales (million b/d) | 2.247 | 2.512 | -11% | 2.286 |

Source: Chevron



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