Barclays CEO Energy-Power Conference Edited Transcript

Wednesday, September 6, 2023

Chevron

September 6, 2023
8:35 AM ET

This transcript has been edited by Chevron Corporation. It is generally consistent with the original fireside chat transcript. For a replay of the Barclays CEO Energy-Power Conference fireside chat, please listen to the webcast presentation posted on Chevron.com under the headings "Investors," "Events & Presentations."

Betty Jiang: It's my tremendous pleasure to introduce Chevron's EVP of Oil, Products & Gas, Nigel Hearne, as our next speaker. Nigel started at Texaco and has been with Chevron and including its predecessor for over 30 years and has held roles across upstream, downstream and strategy. In his current role, he's responsible for the entire value chain, ensuring an integrated approach to capital allocation and value chain optimization.

Nigel will start with some prepared remarks, and then we get into the fireside chat. Nigel, thank you for being here, and the stage is yours.

Nigel Hearne: Thank you, Betty. Good morning, everyone. It's a pleasure to be here today.

(Slide 2) Before we begin, please be reminded that this presentation contains estimates, projections and other forward-looking statements. Please take a moment to review the cautionary statement on the screen [that can be found with today's presentation materials on Chevron's website].

(Slide 3) Our strategy is straightforward and consistent – safely deliver higher returns and lower carbon.

We apply capital and cost discipline to a focused portfolio of advantaged assets as we aim to sustain strong financial performance and provide superior cash returns to shareholders in a lower carbon future.

Because the world's demand for energy is growing, we intend to grow both traditional and new energy supplies focused on businesses and regions where we can leverage our strengths.

We aim to remain among the lowest carbon intensity producers – our 2022 U.S. upstream methane intensity was 64% lower than the U.S. average. And our renewable fuels production capacity is increasing, building off our position as the country's 2nd largest bio-based diesel producer. We continue to advance foundational projects in hydrogen and carbon capture with plans to drill a stratigraphic well to further assess the storage potential of our Bayou Bend CCS project on the U.S. Gulf Coast.

We just delivered our eighth consecutive quarter of return on capital employed above 12% and another quarterly record in cash returned to shareholders. Over the next 5 years at $60 Brent, we expect to grow free cash flow over 10% per year – in part from the assets that I'll provide an update on over the next few slides.

(Slide 4) We completed the acquisition of PDC Energy in early August, making our Colorado business one of Chevron's top-five assets in terms of production and free cash flow. We continue to be impressed by the PDC team and are excited to have them join Chevron.

Our teams are working to evaluate well spacing and frac designs to build a development playbook focused on optimizing returns and delivering $400 million in annual capex efficiencies. With a deep inventory of permitted locations already approved, we're confident in our ability to deliver on our plans in the DJ Basin for years to come.

We're also on track to deliver $100 million in annual opex synergies including early wins like already paying off some high-cost debt.

We're always looking to add high quality resource at a good value. This acquisition is accretive to all important financial metrics, adds approximately 10% to our proved reserve base for a little more than 2% of our outstanding shares and is expected to add $1 billion in annual free cash flow at $70 Brent.

(Slide 5) Capital discipline always matters in a cyclical commodity business.

In our company-operated assets in the Permian, we're improving drilling and completions efficiency. For example, we have reduced non-productive time using new bottom hole assembly designs and digital tools to optimize drilling parameters. In completions, we're improving cycle time with Simulfrac and we have reduced frac crew mobilization time. We're also reducing lost production and workovers through optimized gas lift design.

We are getting more out of our rig and frac fleet. We're drilling and completing more lateral feet with fewer rigs. This leads to more wells put on production while maintaining flat unit costs in an inflationary environment.

We expect to average 13 to 14 company-operated rigs in 2024, fewer than previously anticipated, but up on average from this year. Higher activity levels, increased water handling facilities and lower inflation are expected to lead to a capex budget next year around $5 billion.

We still expect to hit one million barrels of oil equivalent per day in 2025 as we continue to focus on execution efficiencies to deliver higher free cash flow.

(Slide 6) TCO generates strong cash and has paid large dividends to Chevron over its history. Over the last several years, the base business cash flow, supplemented with partner loans, has been used to invest in the Wellhead Pressure Management Project (WPMP) and Future Growth Project (FGP). We have already started to see higher dividends as capex levels have declined and expect the base business cash flow and the higher oil production from FGP to further contribute to higher distributions in the coming years.

TCO continues to deliver base business production while we remain focused on safe, reliable start-up of both projects. The project is forecasted to be mechanically complete this quarter. Recent commissioning progress has been slower than expected due to technical challenges on the utilities systems and lower productivity rates. We're taking actions to mitigate schedule pressure, including making resource adjustments. We'll assess the impact of these actions on project progress over the next few months.

In summary, these are just some of our key assets driving growth in free cash flow. In Q&A, I hope we'll have the chance to cover some of our other growth assets like our upstream projects in offshore Gulf of Mexico and in the Eastern Med and downstream projects in petrochemicals and renewable fuels.

With that, I'll turn it back to Betty.

Betty Jiang: Nigel, thank you for the prepared remarks and setting the stage for strategy and some of the key assets. I want to start with the strategy side. Do you think that Chevron's model of higher returns, lower carbon should apply to everyone in the energy sector? And it really reflects the essence of what shareholders and stakeholders are asking the sector to do? But I think you have to deliver that with increasing volatility in the commodity market. There's a lot more government regulations and the operating environment that you're in today may be different from what it was years ago. Just your thoughts. Do you think energy companies have to operate differently today than they did in the past decade to adapt to the changes that you see facing the market?

Nigel Hearne: Our company has been around for almost 150 years. I would say, over that time, we've constantly been evolving and changing. I actually don't think that's going to change anytime soon. Energy companies have had to deal with price volatility, geopolitical risk and demand uncertainty. The complexities of running our business mean we have to manage and operate our strategies and our execution across a whole range of business cycles. We're in a long-term business, and we've got to be able to adapt and flex to do that.

For Chevron, we're playing to our strengths. We're going to play to our strengths and leverage our strengths to safely deliver lower carbon energy to a growing world, a world that desperately needs that energy.

We use our financial priorities to guide how we think about our investments. They've been consistent for decades. If you don't know what they are, I'll remind you that they are about delivering superior shareholder return through predictable dividend growth, through investing in long-term competitive returns, maintaining a strong balance sheet and then buying back [shares] across the cycle. Those guide how we think about how to allocate our capital.

Our company, given the discipline that we do have, has upside leverage and downside resilience. At $50 Brent, we cover both our dividend and our capital program. We have a very strong balance sheet with net debt less than 10%. That positions us really well to work in a volatile and uncertain space. We are going to be cost and capital disciplined. So, your comment around where we've been historically, we are going to be cost and capital disciplined, and remain so. We'll invest in the highest return opportunities. We'll continue to grow our traditional oil, products and gas business and our new energies business. We think the world is going to need more affordable, lower carbon energy.

Why? Because the world is going to need economic prosperity, energy security and environmental protection. In Chevron, we've been around for 143 years, and we're going to be around for many decades to come. I'll be proud to be part of that journey.

Betty Jiang: Proud to follow that. So the answer is not or, but, and?

Nigel Hearne: You have to do it all.

Betty Jiang: Yes, exactly. In your prepared remarks, you touched on a number of things that's important for Chevron and really ranging from your unconventional development to major capital projects that you're seeing in Kazakhstan and then including M&A as well. So I wanted to ask about capital allocation. How do you balance between short cycle versus long cycle against that volatile commodity environment?

Nigel Hearne: Two principles. We work on a long-term view of commodity price. It's very difficult to react and respond to short-term changes in commodity price. We're going to take a long-term view on commodity price, and quite simply, we're going to invest in the highest-return opportunities.

We have more opportunities to fund than we're going to fund. That's a good place to be in as a company. We're going to allocate our capital to the highest returns, lowest carbon intensity projects to help deliver our free cash flow growth that we're focused on.

If you look at our diverse and advantaged portfolio, it has scale, it has materiality, it's long-lived. We have a low [base] decline rate in our company at less than 2%. So, that affords us the opportunity to invest in those high-return opportunities.

To take a specific example: in upstream, where most of our capital will be invested, about 2/3 of our capital is going to shale & tight if you look at our 5-year forward look of capital up to 2027. I would have said Permian and Argentina, now I'll add the DJ Basin and the acquisition through PDC.

The balance of the other 1/3 goes into long-term projects or MCPs, like Gulf of Mexico, like TCO, our base business and our exploration program. It happens that they go into shale & tight because they're short term, higher returns. But if you look at our portfolio and the opportunities we have, what we're investing in is the highest return opportunities. The short-cycle project also gives us flexibility. I like the way we've invested our portfolio. We have lots to choose from, lots to invest in, and I think we've got the right balance.

As to M&A, specifically, we spent a lot of money in M&A over the last 3 years. People often now talk about that as part of our capital program and internally with a tension between could we have more capital, how would we use it. You've got to remind people, we spent a lot of money in some really good investments.

I would say I like our portfolio. We don't need to do anything in our portfolio. We can grow our enterprise value through our existing portfolio mix. We don't need to do a deal, but we're always looking, and we're always looking in a way that creates value, where we can create an advantage to either scale up an existing business or add accretive value to an acquisition.

We have a high bar. We set a high bar. We're disciplined about how we think about those things. And I think we've shown discipline around that. We have financial priorities – particularly around a strong balance sheet – that allow us to be opportunistic when we see value created and there's an opportunity there. But we don't need to do a deal. I think we've demonstrated the discipline in the acquisitions we have made, like Noble, PDC and the Renewable Energy Group, and we've also shown discipline in the acquisitions we didn't make, like Anadarko. That will continue.

Betty Jiang: It has definitely shown discipline there. So, with the wealth of projects, it's not for the lack of opportunities within the portfolio, it's more capital constrained more than anything else. Then the output, the growth that you have projected, it's 3% CAGR by 2027.

How did you land to that production growth rate? Why is that the right number? If there is more opportunity, why not higher? And then I'm sure that you also get pushback on why grow at all?

Nigel Hearne: Yes. There's a whole range of viewpoints. I guess the first thing I would say is production growth matters when it's profitable. That's when it really matters. If you think about our advantaged portfolio and our capital-efficient investments, our ability to choose where we think the most capital-efficient, highest-return investment opportunities given our scale and advantaged portfolio means we have a rich choice of where we could spend our capital.

We will continue to use our financial priorities to guide how we allocate our capital. So again, I come back to predictably growing shareholder return, investing in long-term returns for decades – competitive, long-term returns – maintaining a strong balance sheet and then buying back [shares] across the cycle.

We feel we have the right level of capital investment in our portfolio. We're growing both our traditional oil, products and gas business and our new energies business. We're confident in our 3% CAGR because we have line of sight to where the opportunities are, 3% over the 5-year period. We've got a low [base] decline rate. Growth is going to be driven by projects like shale & tight – the Permian and DJ Basin – completion at TCO with FGP, other shale & tight and our Gulf of Mexico assets. We have line of sight to where our growth is.

Could we do more? Yes, but I think we're maintaining our focus around our capital discipline and our financial priorities. Production growth rate of 3% is an outcome of those principles and discipline that we brought to our business.

Betty Jiang: All right. So, let's get into some assets. I do want to want to talk about East Med. But before we get into LNG, I wanted to ask specifically about your role as the Chairman of, let me get this right, Asia

Natural Gas and Energy Association. And that's more of a recent advocacy group that I believe has formed.

The reason I wanted to ask is because Asia is so important for the future of energy demand and gas demand in particular. And this is a group that's combining suppliers, buyers, and working with the government, to help them with energy policy. So we'd love to hear more about that. And then through that work, where are you seeing Asia's energy policy moving?

Nigel Hearne: If I had known you were interested, you could have joined my Board meeting at 4:00 a.m. this morning. We actually had an ANGEA Board meeting. That's the Asia Natural Gas Energy Association. For those who don't know, Chevron took a lead and instrumental role in setting that up. It's an organization of about 2 years old that I chair. We actually recruited a CEO who's actually celebrated his first-year anniversary on the 1st of September.

We saw a need for the role of natural gas as part of the energy transition, whether that solution be part of LNG, ammonia to hydrogen, part of a hydrogen value chain or even part of a LNG, hydrogen, ammonia and CCS value chain. What you see is a lot of the resource-rich countries weren't necessarily the countries that had the demand. After spending a lot of time talking to customers in the LNG business – and if folks don't know, I used to work in Australia in our Gorgon and Wheatstone assets – it was really understanding some of the policy changes that were going on in Australia and in Asia and the demand for resource.

It goes back to the fundamentals of the business. Long term, Asia is going to need a lot more natural gas. A lot of the countries that need it don't have some of the resource positions that they require, and they're looking to import or rely on the countries that do have advantaged natural gas to export. We felt there was a unique position to bring both suppliers and resource holders with customers to start advocating more effectively for what's the right policy to enable and support an appropriate and effective energy transition.

Too often, I've seen many people talk about the first few chapters of the energy transition, and people talk about the last few chapters, each thinking the other one is wrong. When the reality is they're probably both right, and the emphasis needs to be on how we get those middle chapters put together.

What that enabled is a business-to-business relationship, a business-to-government advocacy and then a government-to-government advocacy. We're starting to put together a little bit more definitive framework around the role of each asset or country or company can play in that energy transition because I'm confident, not one company, not one industry and one country is going to solve the energy transition or the energy mix of the future for Asia.

That's what ANGEA has done. It was a different, but very small and targeted, advocacy group. I feel proud of what we've done in the first couple of years of getting going. More to come. We just set our priorities out for the next 12 months, particularly around three policy areas you want to impact. The harder thing is saying what you're not going to do. Got lots of good things to go work on.

Betty Jiang: That's great. And does that give you confidence? At the bottom line, did that give you confidence that the gas demand is there and then it's going to show up in a meaningful way?

Nigel Hearne: At the end of the day, there's got to be policy that develops resources, so it can access the market that needs it the most. I'm getting more confident, but if you don't try these things and try and educate people, local policy is not going to create the right policy for the region. It's about setting the right policy framework across the region to both export low-cost, low-carbon natural gas to markets that need it the most.

Betty Jiang: Got it. So on the supply side, East Med, it's an exciting and new opportunity for Chevron there. So talk to us about the growth potential with the plan? And is that going to be the next LNG hub to watch there?

Nigel Hearne: I'll start with what we have in our portfolio today. We have 175 TCF of natural gas [resource] in our portfolio. The world is going to need more natural gas, and we just talked about why that is, particularly as you say, it's Europe today, it's Asia tomorrow. We have a great natural gas position. Our advantaged assets are really in Australia and North America where we produce low-cost natural gas.

As you think about our overall natural gas position that we have, first and foremost, we think about playing to our strengths. We can compete in both the Pacific Basin from Australia, and we'll have a growing position in the Gulf Coast with our advantaged Permian associated gas, and we take some export capacity [starting] in 2026 and 2027, we'll be able to grow our position in the Atlantic Basin. Both of those are very complementary. We also have positions in West Africa.

In our current portfolio, our emphasis is on keeping our existing infrastructure full in a cost-effective way. In Australia, it's about the backfill projects, developing future fields, getting to high utilization rates at Gorgon and Wheatstone. Same in West Africa around keeping those facilities full, a key part underpinning our LNG portfolio.

As you start to go to East Med, then it's about taking advantage of the growing position. So how do we grow an advantaged position of scale? We have producing assets, we have resource positions and we have an exploration play. It's about bringing those together to create, like I talked about earlier, a scale and advantaged position where you can compete.

Today, we're supplying gas in the region to Jordan, Israel and Egypt. We've got presence in Israel, Egypt and Cyprus. It's about bringing that mix together to create a competitive position.

What are we doing today? We're expanding at Leviathan. We've [sanctioned] a third frontline from the gas gathering field. It's a highly accretive project to the platform to go from 1.2 to 1.4 BCF a day. Again, there's a lot of demand in the market there locally.

At Tamar, we FID'ed, or sanctioned, our first phase of that optimization project late last year to optimize the platform. We're going to do the same at some midstream infrastructure, either late this year or early next year, which we'll see that asset go from around 1.1 BCF a day to 1.6 BCF a day.

Then the question is, with the remaining resource and the position we're taking to develop and strengthen that region, evaluating LNG opportunities. Floating LNG primarily is our current focus, where you can actually take the resource position we have with an LNG position, doesn't have to be floating LNG, but that looks to be the most likely concept. We're in concept development. We're not there yet. It will probably be early part of next year. And then thinking about additional LNG resources that would complement our other LNG portfolio assets.

Betty Jiang: Shifting gears to Gulf of Mexico. It's a growth area. So where's the growth coming from? There's always the perception of if it's not onshore, if it's not unconventional, it's perhaps less repeatable, but clearly, the portfolio, there's lots of opportunity in there. So tell us about that.

Nigel Hearne: I like our Gulf of Mexico assets. It's a growing business. We're going to be growing from about 200,000 to 300,000 barrels a day [in 2026]. We've got a proven track record of strong performance. We've got a great resource position. We're one of the largest acreage holders. We added 73 new blocks of exploration opportunity.

We've got some infrastructure already in the Gulf. We've got a mixture of brownfield and greenfield projects developed that underpin our growth. And the focus actually, as you said, it's not onshore and it's not shale & tight, but a lot of our emphasis is about driving to returns. One of the ways you

do that is to take a similar factory approach that you have in the shale & tight, apply it in the Gulf of Mexico. It's about, where we can, short-cycle tiebacks, leverage existing infrastructure, standard designs, shortening cycle times, getting a mixture of new greenfield and brownfield development and then a standard of application of technology to scale and replicate quickly.

It's a different model than perhaps when we were in the Gulf of Mexico 10 or 15 years ago, it's much more returns focused. It's much more focused on driving value. And again, it's about creating a scale and advantaged position in the basin. I'm excited about the opportunities to come. It is part of our growth story.

We have projects coming online. We had a Mag Dog project come online this year. We have two projects coming on next year in Anchor and Whale. And then we have a Ballymore project, which is a tieback, short-cycle tieback, which is a brownfield, coming online in 2025.

These are all good things to be excited about and all part of underpinning our growth story.

Betty Jiang: Right. It's really interesting to see the cross-pollination of knowledge from onshore to offshore, and then how offshore is no longer the offshore that was known years past. So excited to see these opportunities there.

Maybe shifting to low carbon, just have a few minutes left. It's been a little over a year since passage of the IRA, which was an incredibly powerful legislation in the U.S., providing incentives for a lot of new energy businesses where the energy sector can make a difference. That's carbon capture, hydrogen, renewable fuels. So since the passage of that law, has Chevron reevaluated any opportunities? Your portfolio has things becoming more interesting. Has the opportunity set really expanded? And what has the last year brought for new energy for Chevron?

Nigel Hearne: I'll go back to we're leveraging our strengths to safely deliver lower carbon energy. What does that look like? We're lowering the carbon intensity of our base operations, reducing flaring, energy management, methane reduction. I said earlier, we benchmark extremely well against our competition in the United States with [64%] lower methane emissions on average.

We're also doing some new things as you start to think about what we're doing in our traditional business, integrating new products and new solutions into our existing business. We've added a new liquid fuel business in Renewable Energy Group. We're now the second largest producer of bio-based [diesel in the U.S.].

We're still working to secure feedstock as we start to grow. We intend to grow our renewable natural gas [to 40,000 MMBTU a day by 2030], bio-based diesel and sustainable aviation fuels to around 100,000 barrels a day [of production capacity] by 2030. What does that require? New capabilities, new technology, feedstocks. We've acquired REG. We've got a joint partnership with Bunge where we're securing feedstocks, which is a key part of the future value chain of the renewable fuels integrated into our traditional hydrocarbon value chains. We've got partnerships with CalBio and Brightmark where we're getting dairy feedstock to build out our renewable natural gas stations. We've got 58 renewable natural gas points now in our CNG network. And then you start to say, "Well, what's the new technologies?" We're thinking about what solutions can we bring? How can you apply them at scale? And how can you apply them at speed?

The IRA helps. It really helps with some of that investment or some of the things we're looking for. In the CCS space, how do we take a core acreage position that has the ability to store carbon dioxide, it has policy that supports it and it's near emitters where you have customers? An example of that is Bayou Bend where we've got 140,000 acres. We believe that we could store up to 1 billion tons of carbon dioxide. As you start to evaluate those opportunities, the IRA is helpful. I think it's helping enable some lower carbon solutions. But in Chevron, we believe we need a robust set of policy to enable more energy forms to come to market. We're going to need more diverse, more complex and more energy solutions to come to market domestically.

The IRA plays a role, but it's not the only thing. Policy is going to be important. Infrastructure is going to be important. Believe it or not, markets and customers are going to be important. As you create new products, you have to have markets and customers to do that.

As I think about the broader energy transition, the IRA is helpful. It's a good start. I don't think it fundamentally changes how we think about our business going forward in the long term. I know one thing that the energy system of the future is going to look [like], we need more of it. But it's going to look more complex, it's going to be more diverse and it's going to require energy companies like ours to integrate those solutions to create the most effective, affordable, reliable and lowest carbon intensity solutions for the future.

Betty Jiang: That's a perfect end and wrap. Can't say any better. But thank you so much, Nigel, for being here. It's really been a treat.

Nigel Hearne: Thank you.