Chevron

Barclays CEO Energy-Power Conference Edited Transcript

Wednesday, September 7, 2022

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September 7, 2022
8:00 AM ET

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Jeanine Wai: Good morning, everyone. Thanks for joining us. We are very excited today to kick off the second and highest interest day of our 36th annual Barclays CEO Energy-Power Conference with Mr. Mike Wirth, CEO of Chevron. Chevron is an integrated oil company whose goal is to deliver higher returns and lower carbon.

Before we start off the session, I thought it would be a kind of fun, little icebreaker today, to start with two polling questions, and then we'll get into the fireside chat. Everybody has a keypad at their seat. It's been wiped off. There's another hand wipe there if you want to do it again. We'll be doing these ahead of every single session, and we'll be publishing the results probably next week.

Our first question, please. What price do you think WTI will average in 2023? Press one for less than $70 for you bears out there; two, $70 to $80; three, $80 to $90; four, $90 to $100; five, $100 to $110; and all you bulls press six as many times as you can for over $100. We'll pause for a couple seconds, and then the results will pop up right away.

All right, three to four. That's better than yesterday. Yesterday, the majority of the people, by far, were $80 to $90, so people are feeling more bullish today. I like it.

Next question, please. This is an interesting one. How much of a priority should the energy transition be for integrated oil companies only? Number one, top priority; number two, medium priority; number three, low priority; and number four, I see our ESG woman in the back, she wouldn't like that, but not a priority. So, top priority, medium, low, not a priority at all.

Medium priority. Sounds good. Yesterday, we did a sort of similar question in an E&P session, and it was, should it be necessary for E&Ps to have Scope 1 net zero? 75% of people said yes, so it's an important topic.

With that, Mike, would you mind coming up here?

Mike Wirth: All right, well, welcome to my world. Nobody knows what the price is going to be, and everybody has an opinion about how much ESG you should be involved in.

Jeanine Wai: Thank you for joining us. I thought we could start with the big announcement alongside Q2 earnings, which was the buyback. You increased the buyback [range] from $5 to $10 billion to $5 to $15 billion [annually]. In our view, Chevron is somewhat of a victim of your own success in that people were anticipating an increase given the really strong free cash flow and the already strong balance sheet that you don't really need to repair like some other companies. But I think the $15 billion on the top end still exceeded what our view of the market expectation was, so that's great. Can you walk us through the "why now?" on the increase given there is still a lot of volatility in commodity prices, and then how you really settled at the high end at $15 billion?

Mike Wirth: Jeanine, you've been writing since last year I think, and kind of foreshadowing or anticipating this, and I think we've been saying the same kinds of things. We've got strong cash generation in our business. We continue to be very disciplined on allocation of capital. The balance sheet is stronger than our guidance [of 20% to 25%] for a through-the-cycle net debt [ratio]. And we've got a pretty strong macro. It's an uncertain outlook if you want to try to predict prices in the next quarter, the next two quarters, but overall, the fundamentals of the industry are pretty constructive, more so than we've seen in a long time.

We run a lot of different scenarios, and this is supported by multiple scenarios, as we look at how we think our business could perform over time. The key is that we're not really trying to time things with our share repurchase. We're trying to stay with it through the cycle. We've got the cash generation and the balance sheet capacity to do so. We don't think of it as a pro-cyclical or a counter-cyclical approach. It's a through-the-cycle approach that we want to be confident that we can sustain, and we are.

Jeanine Wai: You give investors an inch and they want a mile. The range that is through the cycle is $5 to $15 billion [annually]. How sustainable is the $15 billion? Is that really tied to a range in prices? I know you said it's through the cycle, but how do you think about that $15 billion going forward?

Mike Wirth: It's a range. If you go back to the materials we put out during our [Chevron] Investor Day earlier this year, we showed a downside scenario at $50 [Brent] and an upside scenario at $75 [Brent], which, at the time, seemed like interesting scenarios to talk about. At $75, we could sustain share repurchases for a number of years. We're now obviously in a stronger position financially than we would have anticipated in that scenario, and I think it is very sustainable.

If we were to see a strong down cycle and that were to extend for years, we would probably use the range. We ended last quarter at an 8% net debt [ratio]. Third quarter is strong again, so even as we're buying shares back now at the highest [rate] ever – our highest ever share repurchase year was 2008 [at] $8 billion, so we're now repurchasing at a rate of $15 [billion annually], essentially twice what the highest in our history was – the balance sheet continues to be very strong. We're confident we can sustain this for multiple years and through whatever down cycle may lie ahead.

Jeanine Wai: You just mentioned net debt to cap is 8%, very low. Lots of flexibility there on buybacks, base dividends. When you think about the competitiveness of Chevron's total return, what's really the goal there? One management team was complaining to me the other day that every note they see from the sell-side has a bar chart on total returns, and if you're on one side, you're good, and the other side, you're bad. So, for Chevron, how do you think about that? Is the goal to be number one, top tier, or does that not really factor in the calculus?

Mike Wirth: We think about it. You always need to be competitive. We really think about it within the framework of our four financial priorities, which we've long held.

The first of which is to support and grow the dividend. We've grown our dividend 20% since the beginning of the pandemic, when others in our industry have slashed their dividends. Our dividend is up [approximately] 50% more than the S&P 500, since the beginning of the pandemic. We've increased our dividend payout for 35 years in a row and haven't cut it since the Great Depression. Over the last 15 years, we've grown it at a rate greater than the S&P 500. The payout's about double the S&P payout right now – we're 3.5% and the S&P 500 is not even half of that. So, first of all, is to protect the dividend.

Second priority is to invest and grow our core business that generates the cash to support that dividend, which we can do in a more capital efficient manner than at any point during my 40 years. We can talk about that more if you like.

The third is to maintain a strong balance sheet, and we just talked about that.

And finally, to return cash through share repurchases.

We can satisfy all of those priorities, and we look at it in totality.

I've had discussions with shareholders as recently as this week and last week, and I've asked for input on other, different ways that you think about this or different ways you want us to think about that. The general response is, you're predictable, you're consistent, maybe even a little bit boring. But that, in fact, is differentiated in an industry that has seen wide swings in shareholder return behavior on the part of others in the sector.

Jeanine Wai: As part of those feedback sessions, does anything come up on the method of your cash return? Chevron chooses base dividends and buybacks. What about special dividends, variable dividends? Is there an appetite out there for your shareholders?

Mike Wirth: We talk about it because we're always looking to understand their point of view, and you hear different points of view from different shareholders. In general, our point of view has been that special dividends, variable dividends, something that's got some sort of a twist to it, best fit those that don't necessarily have a track record like our track record. I just talked about three and a half decades of dividend increases, conservative balance sheet management, steady paths. We've repurchased shares 15 of the last 19 years. It's $58 billion over that time at a price of about $90 a share, [which] is within a dollar or two of what [it would have been] had we been in the market every single day. We weren't in the market every day, [but] nearly every day.

We have a track record that speaks strongly to what investors can expect. If you didn't have that track record, and I know there's companies out there, particularly maybe in the E&P sector, that haven't [got that track record], I think you've got to come up with some sort of a framework for people to believe in and try to buy into. I think ours is well established, and I haven't had anybody convince me that a different or kind of a twist on that makes it stronger. In fact, I've had some people tell me, look, if you guys started to offer some different thing, it would worry me that something's changed, and so I've had kind of the opposite reaction, actually.

Jeanine Wai: To support that track record, you need assets, you needed a good balance sheet, you need cash as well. I just wanted to hit one last thing on this topic, which is the optimal cash balance. I think everything that's happened over the past two-plus years has really shown that there's a lot of volatility in the business. One thing that stands out to us is, if we remember correctly, Chevron would like to hold maybe a little less cash going forward than historically, which is a little bit different from your U.S. competitor, who wants to hold more cash going forward. Can you talk about your optimal cash balance?

Mike Wirth: We've got access to lots of cash if we need it for any sort of a short-term pinch. Globally, our operating cash needs are on the order of a $5 billion cash balance, and we can manage our business with that. We've got more than that today, because we've paid down all the debt that's economic to pay down, and industry conditions have been strong as we've been talking about. In the short term, that cash goes to the balance sheet.

It's not economically efficient to carry a lot of cash on the balance sheet, so the intent is that over time that cash gets deployed consistent with the four priorities that I mentioned. It goes back in the form of dividends. It goes back in the form of share repurchases. As we've said, our organic investment needs are pretty ratable and fixed. It's on the balance sheet now because we don't want to just try to time the market and push it all back at once, but the cash will go back to the shareholders, by and large.

Jeanine Wai: Moving to timing of the market and how that changes, we can look to the macro. Chevron is built to not only withstand cycles, but to thrive through cycles, at least in our opinion. Given your global reach, can you share your view on the macro, whatever it is right now? We think upstream capital is going to hold, and our recent investor conversations suggest that folks are really more focused on the demand side than on the supply side. I think the supply side, a lot of it is discipline on the producers' side. So, can you kind of talk about how current demand is trending and how you've seen any reaction to price, especially since crude has gotten pretty weak since June?

Mike Wirth: You really have to talk about these things in the context of recovery from the pandemic. Last year, demand was up nominally five million barrels a day, this year another couple million barrels a day, so we see strong underlying demand. There are certainly questions that I think people are appropriately asking about the effect of tightening in monetary policy and the risks that we see in Europe, for sure, [and] China, as well, had a very weak second quarter report. They've still got a lot of lockdowns underway. In the short term, there are questions about the durability of demand growth.

We have seen only modest softening in the U.S. for a fairly brief period of time as gasoline prices hit high levels in the May, June, July time period, but that data was not inconsistent with past recessions. We went back and looked at what similar data would suggest during past recessions. I don't want to get into the discussion of are we or are we not [in a recession]? What's the definition of a recession? I'd just say light-duty transportation fuel demand in the U.S. softened a little bit through the summer, but not in a way that would be alarming.

We have other things that are likely over time to continue to support demand growth. Particularly, China can't stay locked down forever, so we'll see how that plays out after the party congress in October. And certainly international air travel continues to be constrained by, in many cases, pilots, baggage handlers, and the workforce. Demand seems to be there, but the capacity of the industry is adjusting. We continue to believe that we're going to see pretty good demand growth going forward. I think your comment about discipline on the spending on the supply side is consistent with everything that I hear from the people that I talk to.

Jeanine Wai: Okay, great. Now that we have the macro stage set, maybe we can turn to how Chevron specifically is navigating through it. We know that you take a multiyear view in your planning cycle. You've committed to $15 to $17 billion as your medium term [C&E] range. About 3% or more [production] CAGR is associated with that. What would really cause you to skew to either the high end or the low end of your capex range?

Mike Wirth: This year, we're at the low end. We're at $15 [billion], and that's for organic [C&E]. We've done an inorganic transaction this year which you don't plan for because you're not sure if those are going to come up or not. But our organic spend is at $15 [billion]. That's coming up from less than $12 [billion] last year during the pandemic.

Our goal is not to hit a certain capital number or to hit a certain production number; it's to improve returns. All of our optimization is driven towards return on capital. It's a capital-intensive business. The production number is an outcome of that. It just so happens [that] we're delivering a 3% compound annual growth rate over the next five years at that investment level.

When I talk to investors, I say, would you view us differently as an investment if we said, we're going to grow faster, we're going to spend more capital, we're going to go to $20 [billion] or $22 [billion for C&E], or pick a number, and grow at 5% or 6%? Almost universally the reaction is: that doesn't make you a better investment; that may make you a riskier investment. That's what I don't trust about this industry, that you will remain disciplined and focus on returns; we're afraid you're going to chase the returns out of the business in the pursuit of growth.

And I think people are also very familiar with the fact there are very real constraints in terms of execution right now: there are limitations in the service sector; there's limitations on equipment; inflation is alive and well in our sector as well as other sectors of the economy. Feeding more capital into an inflationary environment generally is, [based on] the feedback I've received, something people don't think would be a wise move.

We can deliver strong improvement in financial performance, we can meet our lower carbon milestones and trajectories, deliver improved returns, and sustain the financial performance I talked about earlier at that capital range. It allows us to plan our work and work our plans, so we can really execute because we've got a very consistent view on how the work lines out well into the future.

Jeanine Wai: Energy security, it's really front and center these days. How does Chevron strike the right balance between providing the world with affordable, reliable energy that it needs with trying to get through the low carbon initiatives? And I guess, in particular we have in mind, has the social license to operate, has it gone too far in the sector or for Chevron? And how do you respond when critics say that you could be benefiting from perhaps putting a little bit more capital in there?

Mike Wirth: We're a long-term business. We've been around for 143 years. I sometimes tell people we were doing ESG before anybody heard of the letters because [we're] a responsible company. I can go back and show you [things from] 100 years ago. I keep things on my desk that are pulled out of our archives that talk about protecting the environment, protecting our workforce, that talk about a 40-hour workweek, that talk about the value of investing in communities and community relationships, that talk about good governance. I look at all of these as how a well-run company approaches their business.

Yes, we have a fiduciary responsibility to create value, but you've got to do that because you're a good neighbor, you're welcome in the communities where you want to operate, you have a business model that attracts talented people, and you've got governance processes that identify and manage risk very well. That's all part of how you approach running a business that can endure for nearly a century and a half. To me, those are actually conversations that I welcome because it's really in the DNA of our company.

Jeanine Wai: Okay, great. You know we had to ask. Switching to LNG, topic du jour for a long time now, maybe we can talk about EG expansion opportunities there. You have a lot of opportunities. We know that the Eastern Med is the crown jewel in the portfolio. You recently FID'd a small project offshore Angola to help feed the plant there. You have that nice, but relatively small position in EG and there's an LNG plant there. Are there opportunities in the portfolio on the LNG side that maybe aren't on people's radars?

Mike Wirth: We've built our LNG business up over the last decade and a half with a Pacific Basin focus. That's where the demand has historically been. It's where the big customers have been. It's where our resource position has been the strongest. We've had some exposure to the Atlantic Basin through Angola, and now through EG and the Eastern Mediterranean, but the real core was built out for the Pacific Basin.

Historically, in the Atlantic Basin, to compete in Europe, you had to compete with Russian pipe gas, and Russian pipe gas wins as long as it's flowing. Now things have changed. I think there's different views on how much of this is a sustained structural change, how much of it may be a temporary change, and where things may land. I'm not sure anybody knows the answer to that, including leaders in Europe right now. But to think that we would go back to a market that looks like it did two years ago, that's probably a low likelihood, that everybody just says, okay, let's go back to that model. I think you're going to find the Atlantic Basin is a more attractive destination, and I think Europe is going to need LNG in the mix in a way that historically they may not have.

We've got some assets, as you say, in Angola, in Equatorial Guinea. We've signed two [LNG sale and purchase] agreements here in the U.S. We've got a lot of gas production here that's got Henry Hub price exposure, [and there are] a lot of projects being developed that need financing. We can support that with contracts and get pretty good terms and add some TTF exposure to our portfolio, potentially JKM. We convert the Henry Hub price exposure to another index, and we can manage that through the way we structure contracts and manage our portfolio so some of that gas can go into Europe.

The Noble position in the Eastern Mediterranean really is good, better than we had even known when we did the transaction. There are opportunities for expansion there that can serve both regional markets in the Middle East and potentially serve Europe, probably through liquefied natural gas, but there's talk about a pipeline as well.

We're working on all of those options, but they've got to deliver returns. I'll come back to that core message which drives all of our capital allocation. We stepped away from a project in British Columbia, a Kitimat project, that we'd been working on for a number of years, because we didn't believe it would offer returns competitive with other sources of gas and investments that we could make. We didn't see a way all the way through the process in Qatar, again, because we felt like we had higher return opportunities to invest in other assets in our portfolio. These projects have to deliver returns to shareholders, not just product to market. They've got to do both.

Jeanine Wai: You didn't mention the Haynesville. We know that you're putting rigs back to work in the Haynesville, and you've got a very nice, strong Permian position. Is there an updated view on the U.S. natural gas strategy? You talked about the contracting you did on the 4 million tons per annum. What about monetizing the U.S. gas?

Mike Wirth: That'll be one of the vehicles for doing that. We are putting rigs to work in the Haynesville. We've got a very strong position there. It's proximate to one of the LNG facilities that we've talked about. Gas prices, whether you're talking Henry Hub or LNG, indicate support for some additional development drilling. It's an asset we've had, we've been assessing for a long time, and again, within the disciplined allocation of capital, it competes with other things, so we'll step up some activity there.

Jeanine Wai: We're interested to see how that goes. Maybe in our last couple of minutes here, energy security, Kazakhstan, CPC, maybe we could spend a minute or two talking about that? CPC has been in the news. There's some repair work that's going on right now. Just maybe your latest on what the current status is there, and what potentially are some of the other alternative routes to get some of the crude out?

Mike Wirth: Sure. We have a big position in Kazakhstan. The primary export route for the country, for multiple oil fields is through the Caspian Pipeline Consortium. Right now, there are three loading buoys in the Black Sea at a port called Novorossiysk in Russia. The pipeline transits through Russia to a port and then loads out. Two of the three mooring positions are not in service right now because of concerns about the integrity of the buoyancy systems associated with those, and repairs are being advanced to both of them. Through the third SPM about 70% of pipeline capacity can be loaded out, so about a million barrels a day. There are no constraints right now on loading because all three of the projects actually have maintenance, either planned or unplanned maintenance, underway, so the pipeline flows can be handled through that one buoy as the repair work is being planned for execution [for the other two buoys]. We'll continue to monitor that and advise as we know more.

In terms of alternate [routes], it's a big pipeline that carries a lot of oil every day. Investments [have not] been made in a bunch of other alternatives. There are ways to do it. We've used rail cars before. It can be done. It costs a little bit more, but for many years, we've shipped a lot of oil via rail out of that area. The country of Kazakhstan has indicated a desire to evaluate some other options, including getting across the Caspian into Baku in Azerbaijan, and potentially one of a couple of different pipeline routes out there. We'll work with the government to explore things that they believe are worthy, but the reality is, in the near term, the primary and the large-scale option remains this pipeline.

Jeanine Wai: All right. In our last minute, I'd like to end on M&A. We get a lot of questions from investors, what are they going to do with all the money? Disciplined on the investment side, balance sheet is good, total return is very strong for investors, so that leaves M&A. How do you evaluate the opportunity set, both on maybe the organic and inorganic side, but mainly on the inorganic side with the low carbon ventures? You announced the REG deal. That was relatively small for Chevron's size. How do you evaluate the framework? How is it different between maybe the base business M&A, and then on the low carbon side?

Mike Wirth: At one level, they're no different at all. We screen a large universe of companies against a set of criteria that include asset quality, strategic fit, financial performance of that company, where they are in valuation and willingness to transact, et cetera, so the way you actually go through the process is no different.

The reality is, there are a couple of things that are different with some of these newer energy opportunities. One is they tend to be smaller just because they're newer and they haven't scaled, so the price tag is less. And I think the risk is higher because they really haven't been proven out yet. You have to account for both of those as you evaluate these things. REG was a mature business in their field. We're the second largest renewable and biodiesel producer in the U.S. now, and that's a business model that had been proven. They've got some nice expansion projects that were underway. You can find things that have less risk, but in general, I'd say smaller bets, higher risk, and we need to be mindful of both of those and remain disciplined. That's the key thing for us. We don't have to do anything. We've got a very strong portfolio today, and we should only do deals that we think make our company even stronger.

Jeanine Wai: All right, well, we're out of time. I've got to admit, this has been a real pleasure and a real treat. Thank you, Mike.

Mike Wirth: Thank you, Jeanine.