Argus News
Financial

US shale firms hold the line on growth

Published date: 22 February 2022

Share:

The leading publicly traded independent oil and gas producers in the US shale sector vow to continue resisting any temptation to cash in on surging oil prices by turning on the taps.

Pioneer Natural Resources, Devon Energy and Continental Resources in the latest round of quarterly calls have all pledged to return their considerable profits from oil's rally to shareholders — through buy-backs and dividends — rather than step up drilling. While that self-restraint may not last forever, as oil prices above $90/bl mean they can both improve returns and grow production at the same time, company valuations have yet to reflect the huge amounts of cash being generated by the sector. "They have tons of money and are not getting credit for it," consultancy IHS Markit's vice-president of energy, Raoul LeBlanc, says. "Only when that happens do you see that growth."

Even if they wanted to, it is not clear whether independents could easily ramp up output fast enough to profit from oil prices, given concerns over supply bottlenecks and inflation. A lack of takeaway capacity for natural gas is a perennial issue, and inflationary pressures are mounting, including warnings that prices for the sand used in hydraulic fracturing operations risk spiralling out of control. Investment bank Evercore cites a large private operator in the Permian basin in Texas and New Mexico that is having to rely on out-of-basin hires for 60pc of its workforce, a level only seen at the peak of past cycles.

The reluctance of the independents to step up output stands in contrast to the majors, with ExxonMobil and Chevron planning to boost their combined production from the Permian by about 175,000 b/d this year. And privately held companies are also leading the way in growing output, much as they did last year, although there are fears that they could run out of drilling inventory. The Permian basin has rebounded from its pandemic-induced slowdown and production is forecast to reach a record 5.21mn b/d in March, while the nationwide rig count has also shown signs of renewed vigour.

Quick access: Argus crude oil resources

Explore Argus crude oil offerings

Argus Media on LinkedIn

Latest free news

Argus crude oil products

Comfortably numb

Continental, which gained a Permian foothold through its $3.25bn purchase of assets from Pioneer last year, is ramping up spending this year but keeping production growth firmly in check. "We're real comfortable in that zero to 5pc range and that's probably the appropriate range for us to be looking at in the long term," it says. Devon Energy chief executive Rick Muncrief peppered his fourth-quarter earnings statement with references to a "shareholder-friendly" approach that favours "value over the pursuit of volume". That enabled the producer to boost its share buy-back authorisation by 60pc to $1.6bn and declare a record quarterly dividend payout of $1/share. Pioneer says it will cap annual growth at 5pc. "At $100/bl oil or $150/bl oil, we're not going to change our growth rate," chief executive Scott Sheffield says. "It's important to return cash back to the shareholders."

While the booming Permian is forecast to put the US on track for record output next year, prospects for other parts of the shale patch are less rosy. Based on feedback from operators, the Bakken — the forerunner of the shale revolution — is no longer in growth mode, North Dakota officials say. "The Bakken has been rebranded — whether we wanted it to be or not — as mature," North Dakota Department of Mineral Resources director Lynn Helms says. "The growth opportunities are considered to be in the Permian." But consultancy Rystad Energy predicts an additional 2.2mn b/d of US tight oil could be unleashed by 2023 in the event of a supercycle, if oil prices trade above or near $100/bl.

By Stephen Cunningham

Related News

07 March 2022

CCUS hubs to force upstream change

Creating large-scale carbon capture, utilization, and storage (CCUS) hubs will require oil producers embrace sharing proprietary information with former rivals, according to executives from two upstream firms collaborating on CCUS projects.

Filter:

Crude oil Natural gas/LNG North America

07 March 2022

US awards another SPR crude loan

The US Department of Energy today awarded another 2.7mn bl loan of crude from the US Strategic Petroleum Reserve (SPR), under a program launched last November to help reduce US gasoline prices.

Filter:

Crude oil North America

07 March 2022

Oil market challenged before Ukraine: ExxonMobil

Global oil markets faced challenges well before the Ukraine crisis because of the decline in investments caused by the Covid-19 pandemic, according to ExxonMobil's chief executive.

Filter:

Crude oil FSU North America

07 March 2022

More SPR taps needed amid Ukraine 'emergency': Hess

Governments have done too little to soften the impact of Russia's invasion of Ukraine on global oil and gas markets, according to Hess chief executive John Hess.

Filter:

Crude oil FSU North America

View all articles