REFINITIV STREETEVENTS

EDITED TRANSCRIPT

MUR.N - Q2 2022 Murphy Oil Corp Earnings Call

EVENT DATE/TIME: AUGUST 04, 2022 / 1:00PM GMT

CORPORATE PARTICIPANTS

Eric M. Hambly *Murphy Oil Corporation - EVP of Operations*

Kelly L. Whitley *Murphy Oil Corporation - VP of IR & Communications*

Roger W. Jenkins *Murphy Oil Corporation - CEO, President & Director*

Thomas J. Mireles *Murphy Oil Corporation - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Arun Jayaram *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Leo Paul Mariani *MKM Partners LLC, Research Division - MD*

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

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

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

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Murphy Oil Corporation Second Quarter 2022 Earnings Conference Call. (Operator Instructions)

I would now like to turn the conference over to Kelly Whitley, Vice President, Investor Relations and Communications. Please go ahead.

Kelly L. Whitley - *Murphy Oil Corporation - VP of IR & Communications*

Good morning, everyone, and thank you for joining us on our second quarter earnings call today. Joining us is Roger Jenkins, President and Chief Executive Officer; along with Tom Mireles, Executive Vice President and Chief Financial Officer; and Eric Hambly, Executive Vice President of Operations.

Please refer to the informational slides that we have placed on the Investor Relations section of our website as you follow along with our webcast today. Throughout today's call, production numbers, reserves and financial amounts are adjusted to exclude noncontrolling interest in the Gulf of Mexico.

Please keep in mind that some of the comments made during this call will be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. As such, no assurances can be given that these events will occur or that the projections will be attained. A variety of factors exist that may cause actual results to differ. For further discussion of risk factors, see Murphy's 2021 annual report on Form 10-K on file with the SEC. Murphy takes no duty to publicly update or revise any forward-looking statements.

I will now turn the call over to Roger Jenkins. Roger?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thank you, Kelly. Good morning, everyone, and thank you for listening to our call today.

On Slide 2. Murphy continues to deliver a strong value proposition, our ongoing execution excellence from our 3 producing areas proves that we are a long-term sustainable company, as we disclosed in our '22 sustainability report released yesterday, significant improvements and emissions intensity and water recycling.

Our offshore competitive advantage is continually reinforced most recently with the achievement of First Oil ahead of schedule from the Khaleesi, Mormont, Samurai and King's Quay projects in April. We continue to generate strong cash flow with higher oil prices and well performance exceeding expectations as we've been able to increase our shareholder returns through quarterly dividend raises as well as accelerate our debt reduction goals.

On to Slide 3. Murphy remains focused on our three strategic priorities of delever, execute and explore. In June, we continue to advance our delevering plans with redemption of $200 million of our 2024 senior notes. Subsequent to quarter end, we announced an additional $242 million in long-term debt reduction, which will take out the last of our '24 notes along with reducing our maturities. These transactions put us well on our way toward accomplishing our $600 million to $650 million debt reduction goal for 2022.

The Murphy team continues to have outstanding execution across all projects. We have now brought online 4 wells in our 7-well Khaleesi, Mormont, Samurai field development, with the King's Quay floating production system, achieving 97% uptime. The fifth well of the 7-well project is expected to come online imminently. Additionally, we're also acquiring high-return bolt-on working interest in 2 nonoperated Gulf of Mexico fields, providing considerable upside to production with several planned development wells.

Looking at our onshore assets, recent online wells in the Eagle Ford Shale and Tupper Montney are exceeding production expectations due to enhanced completion designs and longer laterals with average forecast investment recovery or payback of less than 6 months.

Exploration program continues to advance. We have a drilling permit in hand for our Tulum exploration well in Mexico, and we're finalizing plans to spud in the fourth quarter of 2022. Murphy also recently received offshore operator approval from regulators in Brazil, completing a necessary step in attaining a partner's working interest in the Potiguar Basin. In the Gulf of Mexico, we are progressing plans for our '23 operated exploration program.

Overall, our strong execution across our operations has supported ongoing debt reduction, allowing us to fully restore our dividend to pre-2020 levels of $1 per share on an annualized basis announced yesterday, representing a 100% increase from the fourth quarter of 2021. Further, the three components of our strategy together support our new capital allocation framework that we're disclosing here today, as we target returns to shareholders through repurchases and potential dividend increases tied to debt levels with an ultimate long-term debt goal of $1 billion.

On Slide 4. In the quarter, we produced 164,000 barrels equivalent per day comprised of 62% liquids. I'm very pleased to see our production volumes at the high end of guidance as a result of the outperformance in the Gulf of Mexico and Eagle Ford Shale. Realized prices remained strong this quarter with oil at $109 per barrel once again above WTI prices. With NGLs at $41 per barrel of natural gas net back to us nearly $4 per 1,000 cubic feet.

On Slide 5, we're excited to have published our 2022 sustainability report yesterday. The team has done an incredible job once again as they work within their teams and roles to improve Murphy's environmental footprint year-after-year. Importantly, we have seen considerable improvement in our various submissions intensities from 2019 to 2021, with a 20% reduction in greenhouse gas emissions, 28% reduction in methane and incredible 49% reduction in flaring intensity. Our efforts are supported by receiving third-party assurance for a second consecutive year in our greenhouse gas Scope 1 and 2 data. Their support also focused on how we positively impact the lives of the people and communities where we work.

I will now turn the call over to our CFO, Tom Mireles, to give a financial update. Tom?

Thomas J. Mireles - *Murphy Oil Corporation - Executive VP & CFO*

Thank you, Roger, and good morning, everyone.

Turning to Slide 6. In the second quarter, we reported net income of $351 million or $2.23 in net income per diluted share, which is our highest quarterly earnings from continuing operations in nearly a decade. After tax adjustments included the $70 million noncash mark-to-market gain on derivatives and a $25 million noncash mark-to-market loss on contingent consideration. As a result, we reported adjusted net income of $305 million or $1.93 adjusted net income per diluted share.

Cash from operations, including noncontrolling interest, totaled $621 million for the quarter. After accounting for net property additions as well as $47 million for the acquisition of high-returning non-operated Kodiak working interest, we achieved positive adjusted cash flow of $267 million.

Murphy reported accrued CapEx of $266 million in the second quarter, which excluded noncontrolling interest in the Kodiak acquisition. Additionally, $25 million of contingent consideration payments were associated with achieving first oil at the King's Quay floating production system.

Slide 7. Our delevering efforts over the past 18 months continue to strengthen the balance sheet. During the second quarter, we redeemed another $200 million of our 2024 senior notes, resulting in $2.3 billion of long-term debt outstanding at the end of the quarter. As of June 30, we had approximately $430 million of cash and equivalents on hand.

Following quarter end, we announced an additional $242 million of debt reduction achieved by the redemption of the remaining $42 million of the 2024 senior notes as well as the tender offer of up to $200 million of senior notes due 2025, 2027 and 2028. These transactions disclosed through today totaled nearly $450 million in debt reduction this year, putting us substantially closer to achieving our debt reduction goal for the year of $600 million to $650 million.

With that, I'll turn it over to Eric.

Eric M. Hambly - *Murphy Oil Corporation - EVP of Operations*

Thank you, Tom, and good morning, everyone.

On Slide 9, we saw outstanding well performance from the Eagle Ford Shale this quarter as we produced 36,000 barrels of oil equivalent per day with 86% liquids. As planned, we brought online 17 wells in Karnes and 6 wells in Catarina, for a total of 23 operated wells in the quarter.

Last quarter, we disclosed CapEx revisions in our 2022 program related to revised completion designs, and I'm pleased at the great results we have seen from modifying to higher-intensity fracs. These wells have exceeded forecasts with Karnes gross IP30 rates averaging 1,900 barrels of oil equivalent per day. And Catarina gross IP30s averaging 1,100 barrels of oil equivalent per day, and all wells averaging 93% liquids volumes.

Overall, our 2022 drilling and completion program is forecast to average $5.5 million per well. Taking this into account as well as the strong production rates, we predict achieving full investment recovery or payout of 3 to 5 months for Karnes and 6 to 11 months in Catarina, assuming an $85 per barrel WTI price. Our 2022 operated program concludes in the third quarter with 4 Catarina wells, 2 of which will be in the Austin Chalk formation, and we look forward to reviewing those results.

Slide 10. In the Tupper Montney, Murphy produced 275 million cubic feet per day in the second quarter, 15 wells were brought online, 5 of which were slightly ahead of schedule. The remaining 5 wells were brought online in July, wrapping up the 2022 program. And we recently achieved a record high gross production peak of 415 million cubic feet per day across the entire asset. Our team has done an incredible job this year of managing costs and regulatory challenges, and we were able to bring these wells for an average of $4.8 million per well. Overall, we are realizing average investment recovery in less than 6 months, assuming an AECO price of $5.50 per million Btu.

Slide 12. Our Gulf of Mexico assets continue to be a home run for us, particularly the fields and assets we purchased in 2018 and 2019. Murphy produced 70,000 barrels of oil equivalent per day in the second quarter with 79% oil volumes. Approximately 80% of our Gulf of Mexico CapEx budget for the year is dedicated to our major projects at Khaleesi, Mormont, Samurai and the non-operated St. Malo waterflood, and we are pleased that they remain on schedule. The remainder of our capital plan for this asset is dedicated to the development and tie back wells with the operated Dalmatian #1 well and 2 non-operated Lucius wells, all being drilled this quarter, while a non-op Kodiak well is being completed.

Slide 13. As announced today, we have executed a series of accretive, highly economic bolt-on transactions in our Gulf of Mexico business at the non-operated Kodiak and Lucius fields. Together, the additional working interest and the 3 new wells online later this year at estimated incremental production of approximately 1,500 barrels of oil equivalent per day for the annualized full year 2022 and 4,100 barrels of oil equivalent per day estimated for the full year 2023.

Specifically, in the second quarter, we closed the acquisition of 11% additional working interest in the Kodiak field for $47 million after closing adjustments with expected investment recovery within 1 year. We have also signed a purchase and sale agreement to acquire an additional 3.4% working interest in the Lucius field for $77 million after estimated closing adjustments with closing expected in the third quarter and forecast full investment recovery within 2 years.

Following these transactions, we have a total working interest of 59.3% in Kodiak and 16.1% in Lucius. What we like most about these purchases is that they have active opportunities to further increase their value. Murphy and partners have recently drilled a successful well at Kodiak, which is now being completed, and we are part of a 2-well program at Lucius.

As we high grade our portfolio, we also disclosed today the divestiture of our 50% working interest in the operated Thunder Hawk field scheduled to occur in the third quarter.

Slide 14. After achieving first oil at the Murphy-operated King's Quay floating production system in early April, we have now brought online a total of 4 wells in the Khaleesi, Mormont, Samurai field development project. Results from these wells continue to be above expectations with current combined gross volume of 70,000 barrels of oil equivalent per day or 18,000 barrels of oil equivalent per day net to Murphy and approximately 87% oil.

The floating production system continues to achieve significant uptime at 97%. The fifth well and the last in the Khaleesi/Mormont field is anticipated to flow imminently. The rig will then move to the Samurai field to complete the remaining 2 wells in the 7 well.

I'll turn it back to Roger.

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thank you, Eric.

I'll review exploration today on Slide 16. Exploration remains the third pillar of our strategy, our most near-term opportunities located offshore Mexico, where we received a drilling permit and finalizing plans to spud the operated Tulum well in the fourth quarter of '22 at a net cost to us of approximately $23 million. We're looking forward to the results of this well, which is located on the western side of our Block 5 acreage.

On Slide 17, in the Gulf of Mexico, we're advancing our exploration portfolio there and are targeting a 2-well program in '23. The first plan well is the Oso 1 well, which we operate and hold 50% working interest. At this time, we're finalizing the second well with partners. We have several great choices among our 20 key prospects in the Gulf.

As looking at production on Slide 19. As announced last quarter, we made several adjustments to enhance our onshore well completion designs, which have been reviewed today. And I'm pleased to say we've been seen immediate positive results from that decision in our top-tier execution. This reduction has exceeded expectation. This continues to elevate our forecast for the year. And for the third quarter of 2022, we anticipate production range of 180,000 to 188,000 barrels equivalent per day with 49% oil and 55% liquids. This accounts for nearly 10,000 barrels of oil equivalent per day of onshore and offshore downtime as well as 6,000 barrels equivalent per day set aside for assume Gulf of Mexico storm downtime.

Importantly, due to outstanding Eagle Ford Shale and Gulf of Mexico execution as well as bolt-on acquisitions, we're increasing our full year 2022 production guidance today to a new range of 168,000 to 176,000 barrels equivalent per day at 52% oil and 58% liquids. This represents a new midpoint of 172,000 barrels equivalent per day compared to 168,000 barrels equivalent per day previously.

On our capital plan on Slide 20. Murphy is maintaining our 2022 CapEx guidance range at $900 million to $950 million, excluding acquisitions. Approximately 60% of our spending occurred in the first half of the year, in part to support our onshore program as more than 90% of our operated wells are online year-to-date. Further, approximately 80% of the offshore CapEx is dedicated to major projects in the Gulf.

By maintaining the spending level, our increased production volumes and stronger oil prices provide us significant free cash flow to allocate toward our increasing dividend of $1 per share annualized as well as nearly $450 million in announced debt reduction transactions at this time, with further debt reductions planned for the remainder of the year.

What's really important to us today is Slide 21, which is our new capital allocation framework. To expand on our previously announced 2022 debt reduction goal of $600 million to $650 million, the Board of Directors has approved a multi-tier capital allocation framework, allowing for additional shareholder returns beyond the quarterly base dividend of $0.25 per share, while advancing toward a long-term debt target of $1 billion. Additionally, the Board has authorized an initial $300 million share repurchase program allowing Murphy to repurchase shares through a variety of methods with no limited time.

Our framework disclosed today is three straightforward levels and it's based on an adjusted free cash flow metric calculated as cash flow from activities before changes in working capital, less capital spending, accretive acquisitions, our dividend, NCI distributions and other projected payments.

Murphy 1.0 is where we stand today. With long-term debt exceeding $1.8 billion, we will allocate adjusted free cash flow to reducing debt while maintaining our $0.25 quarterly dividend. Once debt is between $1 billion and $1.8 billion, and we will be reached Murphy 2.0. This time, we will adjust to allocating approximately 75% of adjusted free cash flow to debt reduction with the remaining 25% distributed to shareholders weighted toward repurchases with potential dividend increases.

Lastly, we'll achieve Murphy 3.0 when our long-term debt is approximately $1 billion or less. Our framework shifts at this point as to seek to allocate up to 50% of adjusted free cash flow to our balance sheet. Meanwhile, a minimum 50% of adjusted free cash flow will be allocated to shareholders through share repurchases and potential dividend increases. Our plan is primarily repurchase shares at various stages of Murphy 2.0 and 3.0. At any time, we reserve the right to advance share repurchases should our equity value significantly dislocate from crude oil prices, while our company continues to exhibit outstanding execution.

On Slide 22. In summary today, our assets continue to perform well with enhanced completions of accretive acquisitions, resulting in fast paybacks, higher volumes across all our operations. This leads to additional free cash flow, which allows us to advance our delevering goals and our dividend. We're looking forward to the exploration opportunity in offshore Mexico as we drill there later this year as well as progressing our 23 plans in the Gulf.

Most importantly, we were able to disclose an exciting capital allocation framework today as we target returns to shareholders through share repurchases and potential dividend increases that are tied to long-term debt levels, while we will be seeking an investment-grade credit rating.

In closing today, I'd like to thank our employees for their outstanding efforts this past quarter as this success in operational and financial execution would not have been possible without their contributions.

With that, now I'll turn it over to people on the phone here for the call, and I look forward to your questions this morning.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from Paul Cheng at Scotiabank.

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

The first quick one is the mechanic that you don't have a lot of that mature. So once you get to $1.8 billion in the gross debt, should we assume the debt repayment will be followed the maturity schedule or that you're just going to continue to use the tender offer for open market purchase to quickly get to that $1.0 billion or below if you have the excess free cash flow?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

I'm going to have our CFO, Tom, answer that for you, Paul.

Thomas J. Mireles - *Murphy Oil Corporation - Executive VP & CFO*

Paul, yes, thanks for that question. A lot of this -- the timing will depend on the type of price environment that we have. And at current prices, it's likely that we would have to tender to get to those longer-dated maturities. If things change, then we'll just have to see what the market offers at the time, but the tender offer is what we're thinking.

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

Okay. And that I think Roger mentioned that you guys will be seeking for an investment grade. And what needs to be done in order for you to get there? And what kind of benefit you will receive once that you are in that investment grade?

Thomas J. Mireles - *Murphy Oil Corporation - Executive VP & CFO*

Okay. Good question, Paul. Thanks for that. So the way we think about it is we need to execute on our operations as we have been and continue our debt reduction and what we think the benefits are over there is overall lower cost of capital, minimizes our requirements to post collateral with counterparties. There's a lot of advantages that we see with getting to it.

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

A final question from me. Roger, with the current commodity price outlook, does it in any shape or some change your investment plan in Tupper as well as the Kaybob Duvernay?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thank you for that question, Paul. Right now, as we look ahead in capital allocation, we have a plan of maintaining near the levels we are in the Eagle Ford. Next year, we have a capital plan to fill our Tupper Montney plant to a $500 million a day gross. So from last year to this year to next year, there's no changes in our onshore plan. And that's how we're thinking about it now as we continue on with this framework and not focusing on large production increases. But we will have higher production next year as we add on a full year of these Gulf projects and exit to the year with this guidance we're providing today, Paul, we're exiting the year at a very high rate and continue that on to the next year, and we're very excited about getting close to 200,000 barrels a day in our business.

Operator

The next question comes from Leo Mariani at MKM Partners.

Leo Paul Mariani - *MKM Partners LLC, Research Division - MD*

I wanted to hear a little bit more about the acquisition environment in the Gulf of Mexico. Obviously, a couple of small deals that you guys were able to get together here. It looks nice. I guess there's certainly kind of a handful of bigger deals floating around out there as well. Can you maybe just talk about kind of what you're seeing in the market? And then kind of what Murphy's additional appetite is for Gulf M&A and how competitive it is out there?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thank you so much for that question, Leo. Good question, something we do focus on a good bit because we really feel we have a competitive advantage in M&A in the Gulf. And we've been in the business so long, and so many -- we're partners of so many fields that we have a good bit of data and it gives us a real advantage in analyzing data. On occasion, 1 of the deals today was through a pref right that we had were very valuable and another is through a purchase of a company strategically wanting to exit the Gulf, an international company. We were able to work with our partnership group and execute that.

So we look and know about almost all deals vary into that business. What we like, number one, Leo, is high return accretive below 2.0 EBITDA payout deals that pay out very quickly where we understand the assets. And further, we like M&A on opportunities that have a growth component to it. Like when we more at Kodiak, there's a rig program there today, drilled a very successful well there. We're completing that well today with our partner. We are able to purchase more of Lucius that's operated now by OXY. After OXY's reorganization, they're operating that asset extremely well. And there's a 2-well program there and possibly more. So we're looking for things where we have a competitive advantage, information, a lot of knowledge about it with a good operator, with work to be done.

As to the other deals that come up when large PDP blowdown, large abandonment obligation deals are not our favorite and we'll be treating that accordingly. So that's kind of how we feel about, Leo, if that answers your question.

Leo Paul Mariani - *MKM Partners LLC, Research Division - MD*

All right. That's helpful for sure. And I guess I just wanted to kind of talk a little bit about kind of spending for next year. When you guys originally put out the multiyear plan, there was a big step down in capital in 2023. I guess, earlier on the call, you indicated there was no real change to your onshore plan. Just wanted to get a sense of these high commodity prices, if you still intend to kind of step the capital down a fair bit in 2023, are there other maybe projects in the offshore, they're interested to you that might to get more capital on a relative basis?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thanks, Leo, anticipated question today. Thanks for asking it. In the first quarter on our call, we disclosed and we had this capital range of $650 million for '23 and '24, which you're greatly familiar. We did increase that on that call to near $700 million with inflation at that time. So we'll still need to recalibrate these figures were some inflation information for '23 that's dependent on several things. As I stated earlier this morning, it's our plan to maintain our Eagle Ford and Tupper plans at this time. So there's no changes to onshore plan. Production will be higher due to Gulf wells being online.

So I need to work inflation and our team is in the middle of that and our final plans in the Gulf. And as usual, we just really have no plans to disclose our spending until our customary time in January. And I'm really pleased with our execution. I'm really pleased with our production level. I'm really pleased with the CapEx we've been spending in onshore and how we're able to do that. And I feel well positioned, but trying to keep CapEx where it was best we can without inflation is the main focus today, Leo.

Leo Paul Mariani - *MKM Partners LLC, Research Division - MD*

Okay. And then just on the return to capital, I just wanted to make sure I sort of understood. I know you have these debt targets to hit here and you're clearly paying off more debt this year and next. But just to be clear on the debt, is that an absolute kind of debt target you want to hit before you get to the kind of 25% return to capital to shareholders? Is that more of a net debt target?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thanks for that clarification, Leo. That's a very good question. No, it's straightforward long-term debt. We really don't use the term net debt here. Our net debt in those scenarios will be very low, but we're talking about bonds, long-term bonds and trying to return capital to shareholders, and that's what's significant about today, Leo. Return capital to shareholders as we pay down debt. And I think prior it was thought they wouldn't be additional returns to shareholders until we've reach debt levels, but we have a way of returning more along that path today. And we're really excited about that and think it's going to be very positive for our long-term investors.

Operator

Next question comes from Neal Dingmann at Truist Securities.

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

My first question is on shareholder return, maybe looking a little bit different. I'm just wondering, could you discuss, Roger, your view on how you view the value creation as it pertains to rewarding investors with shareholder returns as you've suggested going forward versus continued production reserve growth that you all so great at?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thanks for that question, Neal. It's a good question. We believe that we have a company that can be sustainable for a very long time in a 200,000 a day world slightly growing if we want to. And we believe during that time, we can build -- we can have an incredible balance sheet, which gives us incredible flexibility and derisks our company greatly and return a lot of money to shareholders. And also, rebuilding cash, which can advance shareholder returns further and use in other needs at that time. So we're really into a dividend, which we're a 60-year dividend-paying company. We've paid $1.6 billion in dividends over the last 10 years. So we see a strong dividend return to shareholders through buyback plan as our basis plan to create shareholder value.

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

No, makes a lot of sense. And my second is on -- it's been asked a little bit, but may I ask it a different way on offshore. I'm just wondering, can you talk about -- I know you've got a lot of things going at King's Quay. Can you talk about potential after these wells come on further incremental capacity? And then if you also could talk offshore, maybe about potential more about -- more potential Gulf of Mexico pref right deals you might be seeing.

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

I'll handle the M&A piece, and then Eric will talk about the specifics of the operation. These are incredible deals that we're able to be a part of here. It speaks a lot about our company. It's always an advantage to have a pref right. This was quite an old deal that came about months and months ago when we were able to step in. And then another deal with a strategic exits, again by an international player. And in these strategic exits, these companies seek an experienced company with long-term ability in the Gulf, great reputation in the Gulf, great safety, great regulatory, great balance sheet. And we've been there since the '50s, and it gives us a big advantage in buying things from people.

There will always be deals that come and go. We obviously have a very senior and experienced BD team here. We hear about things ahead of time. We know what's going on in the business from 30 to 40 years' experience really and puts us well positioned and know what's going on. We have a lot of information and we're able to have a unique ability to look at deals. We pass on lots of them, and we take some of them and have a high criteria because we really want accretive outstanding deals, and we've been able to do it, and I think we'll be able to continue to do it.

And then, Eric will talk about King's Quay.

Eric M. Hambly - *Murphy Oil Corporation - EVP of Operations*

Yes. Okay. Thanks, Neal. First of all, I just wanted to highlight, I think that we're extremely proud of our team's execution on the King's Quay, Khaleesi, Mormont, Samurai production. It's really setting us apart in terms of our execution offshore. The -- as we highlighted in our release and our earlier discussion, we're currently producing about 70,000 BOE per day from the facility that's on a gross basis. We will soon start flowing the last well in the Khaleesi/Mormont project, and that will add significant production. As we head toward the end of the year, we expect to be approaching the nameplate capacity of King's Quay facility, which is 85,000 barrels of oil per day.

So we've been doing some preliminary work on that to figure out what rate we can achieve possibly beyond nameplate capacity. And we think if we continue to see outperformance of our wells as we deliver the remaining wells in the 7-well program, we think we could very easily get to 100,000 barrels per day from the facility capacity with minor adjustments to how we operate the facility. So we're pretty excited about our trajectory as we head into the end of the year with the remaining wells to come online there.

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

No, it certainly sounds like a lot of upside.

Operator

(Operator Instructions) Next question comes from Roger Read at Wells Fargo.

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

Congrats on the quarter. Glad to see the dividend getting back. I guess 2 things I'd like to ask you about, one, just because it's topical with the -- I don't know if I'll call it apply named, but let's call it ironically Inflation Reduction Act. But the potential for royalty increase and how we should think about that potentially impacting your Gulf of Mexico? I'll hold up and then ask my second one.

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thanks, Roger, for that. I'll take that question. We see no impact on that. We have our leases have an existing contract with the U.S. government. It's held the test of time, and there's no ability in those contracts to raise our royalty rates. The royalty rates described in this ironically named bill, a good wording from you is that it's for new leases, so it would only pertain to the Gulf new leases from the new plan that's supposed to take place. And as you know, at Murphy, we have no federal onshore leases.

As far as other things in the bill such as methane taxes and things of that effect in our offshore environment, this will be very de minimis. And we see really no impacts of this very de minimis impact to this bill on Murphy Oil Corporation.

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

Good to hear. Second question for you. Given the Murphy 3.0 goals on long-term debt, yet today, you announced obviously, some acquisitions in the Gulf and a lot of the questions are focused on more. How would you or how should we think about any future opportunities to do acquisitions within that framework? In other words, if you had to delay the achievability of Murphy 3.0 by 6 or 9 months because of the very attractive, accretive transaction, just how should we think about that fitting into the overall system?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thanks, Roger, for that question. A good one. Naturally, any company with the framework, it's a targeted framework, an outstanding M&A that comes your way would have to be judged by you and your Board, do you want to forgo a framework of a few months like you say to do so. We also see many other named brand peers with frameworks occasionally buying assets as well. And so we would be no different. Also during that period, we would be building cash during that period, a significant amount at any kind of an oil price there, which will give us loads of flexibility around further shareholder returns or M&A or exploration success.

But we have a high bar on M&A. We're not looking at M&A to grow or to anything like that. It must make unique investment criteria that we focus on. And -- but sure, any company that has an incredible deal, and we've had some incredible deals and these 2 today are very good. You would have to delay that a few months as you state, but then during that time, there's a good bit of cash on the balance sheet as well, Roger.

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

Yes, I recognize that. It was more just trying to -- it does appear to be a pretty fertile environment out there in the Gulf right now for smaller transactions. So I was just curious how you think about it.

One last one, if I could sneak it in. On the Tulum exploration well, what's the expected time line? Like when should we anticipate a result to come out of that?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

The well should spud in October of 2022. The rig is actually working at Kodiak today with our non-op partner. The rig will then come to us. We're drilling a very nice well at Dalmatian, our field we've had for a long time is very successful. We will then be taking the rig from the Eastern Gulf to Mexico and drill the well under our control. And we anticipate that spudding in October is probably a 2-month well, that's sort of timing, Roger.

Operator

Next question comes from Arun Jayaram at JPMorgan.

Arun Jayaram - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

I was wondering if you could provide us some thoughts on how you expect maybe on a gross basis, the production profile to play out at the Khaleesi, Mormont, Samurai fields, excluding any -- obviously, you have some hurricane risking in 3Q and what type of -- kind of -- when do you expect to reach that kind of call it plateau peak rate? And I assume that you'd expect that to stay relatively flat next year outside of any hurricane-related impacts.

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thanks, Arun. I'll have Eric take that operational question.

Eric M. Hambly - *Murphy Oil Corporation - EVP of Operations*

Yes. Thanks, Arun. So I tried to highlight this in the discussion earlier with Neal. We will soon bring online Mormont 2 well, which is expected to add quite a bit production. And as we head into the third quarter, we're probably not too far away from facility capacity. We will have a very minor decline from the new wells and then bring on the remaining 2 wells in the overall development in the fourth quarter. And our exit rate for the fourth quarter, if we achieve the well results that we're predicting should be...

Arun Jayaram - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Understood. And then, Roger, sorry, there's 3 other calls that I cover at the same time, so I apologize if this has been asked, but we wanted to get a sense of when do you expect to reach some of your deleveraging targets in your fresh capital returns framework that we're excited to see this morning?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Well, Arun, as you know, more than anyone, and thanks for that question. It depends on a lot of factors. It depends on inflation going into '23, and you cover major service on that matter. It depends on pricing. Pricing been quite volatile lately. So as we launch our plan as to 1.0, we should be near the $1.8 billion at the end of the year because we're already well on that way. We haven't finalized our plans for '23 that I said earlier, as you would anticipate we wouldn't. But it's 75% to 85% oil, we expect will be close to achieving our long-term debt target of $1 billion in '23, of course. So -- and we should be getting there next year without great difficulty as long as we keep executing, and Eric's team has been doing a great job of executing there.

Operator

Next question comes from Paul Cheng at Scotiabank.

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

Just 2 quick follow-up. One, you talked about the opportunity in the Gulf of Mexico. How about in Eagle Ford, any bolt-on acquisition opportunity, are you even interested? Secondly, that given the current market condition, what is your going forward hedging strategy? Do you really need to hedge at all going forward?

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thanks, Paul, for that question on that. Paul, we do look -- our business development team, again, I'm blessed with a senior BD team that's been very successful. We do monitor bolt-on in the Eagle Ford. But to be honest with you, Paul, with the plan that we have to keep Eagle Ford flattish, we have ample locations that go for a long time in all of our areas of Eagle Ford and we're in an oil window. We're heavily oil-weighted with great differentials and netbacks in the Eagle Ford.

And when we look at M&A there, it's quite often heavily drilled or not really as good as the locations we have left in our portfolio. The slowing of the Eagle Ford has made our Eagle Ford very advantage to us. Incredible work on base production and production engineering. And when we go to look at something else, we have to stop what we're doing to do wells that are inferior, quite frankly. And it hasn't passed the muster, but offshore, where we're part of a field. We understand the field, it has upside. We like the operator. We like the work that's ongoing. It's just a totally different advantage with very low EBITDA multiples, incredibly high rates of return, and you have to be in that game and understand that game to make hay when the sun shines.

And we just don't see that in the onshore today, and that's why we're well positioned with a diverse portfolio that allows us to move in and out of things in the Gulf that we make a lot of money on, Paul.

And Tom is going to handle the hedging strategy for you, Paul.

Thomas J. Mireles - *Murphy Oil Corporation - Executive VP & CFO*

Okay. Yes, Paul, so the way we think about it is the best hedge is to have a strong balance sheet, coupled with a strategy that can pretty much work in a multitude of prices and operational environments. So this allows us to execute through these different commodity cycles. At current prices, our balance sheet is improving rapidly. So I think that's positioned us well to achieve our long-term debt target. Now historically, we've considered hedges to ensure that we get a certain return on an acquisition. So potentially under a future scenario, we might consider it to strategically had in that kind of scenario hedge.

Operator

There are no further questions from our phone lines. I would now like to turn the call back over to Roger Jenkins for any closing remarks.

Roger W. Jenkins - *Murphy Oil Corporation - CEO, President & Director*

Thanks, everyone, for calling in today. Real proud of our quarter and our team, and I appreciate everyone for dialing in and answering questions and contact Kelly and Megan, if you have any follow-ups. And I appreciate it, and we'll talk to you soon. Goodbye.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.
