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Murphy Oil Corporation

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Arun Jayaram: Good morning. This is Arun Jayaram from J.P. Morgan's E&P research team. Welcome to day two of our conference. We're delighted to have Murphy Oil as our next presenter and also delighted to have Roger Jenkins, who's the CEO of Murphy, longtime CEO, since 2013. He's on the board of directors. He's also a big LSU Tiger fan, so it started off as a good year.

Roger, we have some difficult challenges with the sector. He's going to discuss some of those. As a reminder, Murphy is a diversified E&P with key operations in the US Gulf of Mexico, the Eagle Ford in Canada, as well as an intriguing exploration portfolio that I'm sure Roger will talk about that. With that, I'll turn it over to Roger.

Roger Jenkins: Thank you, Arun. Yes, it seems like a long time ago from that national title game which we dominated and were 15-.

Arun: [laughs]

Roger: One of the best teams in the history of college football. It's been a while. To my presentation today, thank you everyone for dialing in to the meeting with J.P. Morgan today, virtually here. Naturally, I'll be making forward-looking statements on slide two. It's typical to a format like this. For further information on that, you can check our corporate website.

Today, I'll be talking about an overview of the company and what we've done in this current environment. We've made a lot of significant changes in our cost structure to continue to be well-positioned financially.

A brief update of our onshore and offshore portfolios and, as Arun mentioned, a look at our exploration business, which we have some major drilling to happen over the next year and which we're very excited about.

On slide three, naturally, Murphy has a long corporate history. We've been in business a very long time. On June 1st of this month was our 70th year anniversary being incorporated. We've seen our shares of ups and downs in this business, something we're used to. This is, of course, a very significant one but one we've adapted before.

We feel our oil-weighted price-advantaged assets with our margins help us in these times when the prices are difficult. We do have adequate liquidity in our company. We do have low costs, big exploration potential in our company.

Something I'm quite proud of on the safety and efficiency side is we were a leading company in handling COVID offshore. We were the first company to buy over 4,000 test kits in February to start testing offshore workers to ensure that COVID did not infest our operations. We had zero impact from offshore operations or onshore operations covered COVID.

We also had a very successful run at working from home, and now phasing back into work in our in our Houston office. I'm very, very proud of our crisis management team in handling that. We've enjoyed during this period some of the best safety and environment performance we've had in our company in several years.

If we look at page four, these are reserves at the end of the year. In our 10-K, we 800 million barrels of proven, 57 percent liquids waited. We made 186,000 a day in the first quarter. A good bit of that being liquid weighted at 66 percent. On the map on the right, if you've been following Murphy for a long time, there's significant changes in this map since 2013.

When we spun out our retail business became a standalone E&P company, we will now have one office in eastern Texas. Here in just a few days, we have a very small office in Vietnam with only nine personnel.

We're operating primarily in the Western Hemisphere. Now, a significant change from our major presence in Southeast Asia, and also much less areas in which we explore, so much tighter, focused company. If you look back at 2013 with all significant changes, we still today have about the same oil reserves as we had back then with all these changes in our portfolio.

In the current environment slide on page six, this is more high level, how we adapt to this energy landscape. Fortunately, we did some major changes in our portfolio in the last seven years of being an independent E&P, of which we position ourselves out of a more gassier weighted long-term business in Malaysia.

We sold out in Malaysia twice at the top of the market, and then positioned ourselves with lower tax structure and higher EBITDA/BOE in the Gulf of Mexico. That has helped us a lot during this period of time where prices have collapsed. We are contained to support our long-term projects in the Gulf because they have low breakevens.

We're going to be a big supplier of EBITDA for our company. We made significant changes in costs. We do have strong liquidity, and over $1.8 billion over $400 million of cash at the end of quarter, at December to today.

No debt maturities. I'll talk about that in a few minutes. Really our portfolio diversification, where we sell crude in various markets and various differentials, provides us a lot of advantage when dealing with collapses like this.

Page seven is a real nuts-and-bolts of what we've been doing lately. Starting off with production, we announced on our quarterly call, I guess, in early May that we were looking to shut in 40,000 barrels in May. May was a very poor month for pricing. We made some decisions to shut that in primarily in the Gulf.

All this production is back on. We are now producing about 180,000 barrels a day, post to recovery from a tropical storm that came through the Gulf last weekend or two weeks ago. We're well-positioned there.

We're cutting CAPEX further. We announced today that we now have a CAPEX of 700 million, down an additional 40 or 50 percent CAPEX cuts. We now can cover our dividend -- a reduced dividend -- and our capital with prices anywhere close to where they are right now, and delayed some projects in order to do that.

Big focus in our company on costs and reducing G&A. We're now forecasting G&A between 130 and 140 million, 40 percent year on year reduction and a 50 percent reduction. Back in 2013, when we first spun out, G&A was 379 million in Murphy, so this is significant.

It also shows that Murphy will do what it takes in these difficult times, with the closure of a historic office in El Dorado. But these office closures are not easy, and one that requires a lot of change in how we're going to operate and work in one office going forward.

Also we focused a lot on operating expenses, and lower that, and maintain our $8 to $9 OPEX, which is quite good for a company with our portfolio, even with reduced production that we had due to the May shut ins.

On page eight, we have a balance sheet that has resilience. We started off the year...If you go back to some early slides at another conference in February, we highlighted our strength of our debt leverage multiple as to EBITDA. We're very, very well-positioned in groups compared to ourselves and our similar bond rating.

Again, we have unsecured credit facility. We do not have semiannual borrowing redeterminations or RBL. We do not have that in our company and we have no near-term liquidities -- rather maturities. In 2022, we do have a little over $500 million of two bonds that would need to be repaid or refinanced. One is in June and one in December, so a long runway to that, and a nice maturity profile with our revolver, heading into this go-forward price situation.

In our onshore business, we do have a price advantage at Eagle Ford asset, very close to Three Rivers refinery. In Phillips and Corpus, long term relationships there. This field was not shut in, as some onshore was in North America, but very price-advantaged area.

Very nice long-term position in Tupper Montney, and there have actually been some nice prices there of late, as less and less production in that region is taking place by peers. We can, of course, move a lot of capital in and out of this business.

In a very de-risked business, we've delineated fully the Kaybob and Montney and Eagle Ford, and have over 1,400 producing wells, so it's quite a de-risked, large piece of business for us.

In our Eagle Ford Shale, quite proud of the lower right, where we've increased EUR every year, the median of EUR, which I think is important, which is not always the case. We've seen some publications. Many, many locations left to go here, left to drill.

We've always viewed ourself as conservative on our inter-well spacing and type curves and the way we do business. We've actually been performing very, very well in the Eagle Ford of late from that prior drilling.

In our Canada onshore business in slide 12, Kaybob Duvernay is actually performing incredibly well. It's supposed to be the backup of the poor locations long-term in our Eagle Ford business, and still can easily fulfill that. 170,000 acres, 700 locations again, and in our full deck that we shared, many conservative spacings again, which is real key to how Murphy runs our business.

All of our land is retained. Our prior carry obligation from our partners is fulfilled and over, and we now have a big asset sitting here with some very, very successful wells.

Tupper Montney again. Large BCF per well here. Large total resource in the company. Over 1,400 locations to go and continuing to perform well there, even though we are in and out on the operations there on occasion. We continue to perform very well in executing that business when we're executing.

In our offshore business, we're quite proud of the changes we made in our portfolio. Now the fifth largest operator in the Gulf, operating four significant facilities in the Gulf. A lot of exploration acreage there. This is a high-margin, high-EBITDA business, and a long runway of work to do here in the Gulf of Mexico.

As we look at slide 15, our revised budget is now $285. We've deferred an Ourse and a Son of Bluto project into a further time. We're still trying to analyze when we bring those back. We're still supporting our very successful long-term Khaleesi/Mormont/Samurai field. These projects are progressing well.

There'll be a good bit of spending here over the next couple years involving that, low breakeven projects. In the bottom right is what all these projects, including St. Malo, produce.

When I see this slide, I see a near 20,000-barrel-a-day business for a decade there, and typically running at some mid-cycle prices of around $24, $25 a barrel of EBITDA here, so a significant EBITDA business coming as we come off the production we have and then replace that with these projects in the near future.

King's Quay fabrication going very well. We were very proud of the actions we took around COVID response in Korea. We never stopped construction there. Able to monitor the construction remotely and had a very nice system to monitor and execute that. We're still negotiating that agreement to sell down 50 percent. I consider it to be progressing well.

I do not see that in the ditch where we can't get it done, but it's a lot of complicated agreements. It's been hurt, quite frankly. If there is an impact of COVID in our business, it's the inability to get everyone in a single room and resolve this. We are working toward doing that starting today in our Houston office. We now feel like we're going to be progressing that to closure.

In our exploration business, we're quite proud of our exploration business. On slide 17 is where we're focusing on. The Gulf of Mexico on the US side, the Gulf of Mexico in Mexico itself, the basins of Brazil, and also a very low-cost, big-running room exploration portfolio with Vietnam.

We want to be in proven oil areas with an appropriate working relationship and a working interest with partners. We're very happy with the acreage that we built here very, very inexpensively, and targeting $12 full-cycle F&D here in these businesses in which we're able to do so.

In Block 5, Mexico, be drilling there next year. That was put out into next year with the capital constraints of the COVID/OPEC price cuts that we've seen. We're 40 percent here. I'm very happy with all the pay and success we're seeing around our area here.

It's the same-age rocks and same depositional setting as our Cholula and our Block 5. We're looking to appraise Cholula this year, and then we have a sub-salt prospect that's a very nice looking prospect, similar to anything we've seen in the Gulf and a very, very nice prospect.

34 leads and prospects here of various age rock, and many of the ones that have been discovered from that middle Miocene area as well, so very, very happy about what's happening in Mexico around us, with a lot of drilling going on.

In Brazil, this is the biggest thing we have in our business from an exploration perspective. We're 20 percent. We're quite happy to work with ExxonMobil there, and we have some expertise in our shop that allowed us to get an early footing into Brazil, which many super-majors are in now.

Very large acreage position, off-shooting very large discovered fields that have data rooms, which we've misted. We have a lot of information around this and able to tie it to our seismic. We now see the drilling schedule here tightening to drill this well next year. There'll be two wells drilled in two different prospects, and we're very, very excited about that. These are very large prospects.

We also have established a new acreage position in the Potiguar Basin of Brazil. It's seen on Murphy [indecipherable] up in the upper right. We're at 30 percent with Wintershall. You see a lot of successful players around us. This is, again, in a proven basin not a ranked basin.

We've established another very large acreage position with the right working interests, with the right partners, at the right cost structure to be very, very successful here. I'm very pleased with the early days of the seismic that we see from this area.

Looking ahead at Murphy, we're really focusing on, we made a lot of changes in our company around G&A and going to a single office, a flatter, different organization, especially in operations.

A lot of focus on that, focusing on lowering our operating expenses further as we get our company reorganized again with this flatter structure.

We're going to be modeling and looking at what would a flatter profile do for Murphy that would allow cash flow in a recovery to lower debt in our company. Something we're working on modeling now, won't have that for a few months, but that's what our current focus is.

We continue to look at exploration, very inexpensive to build exploration portfolio today. The drilling is incredible execution at an all-time low in cost there.

Of course, we'll be looking to continue on our long history here of protecting our employees and the environment. We've had a very, very good run, knock on wood, around our COVID response. We continue to work that. I'm quite proud of how that's been working at protecting our employees, their families, and our environment.

That's all I have today from our list here, Arun. Be glad to take your questions or that of others.

Arun: Roger, let's start off with today's update. Let's start with the CAPEX. I believe you reduced your CAPEX by an incremental $40 million. I think it was in the Gulf of Mexico. We'll start there.

Roger: We had a rig, a front-runner. We had an option to drill another well. That's one of them. We had some non-oc work with a partner in the Gulf. They put their work off, which we agreed. Those are primarily in the pushing out of the drilling in Mexico next year would be the primary factors there, Arun.

Arun: In terms of shut-ins, you're back in June. You're at 180 today. That's behind you, right? You're back producing full-out.

Roger: Yes, we've been doing very well in production in the company. Had a tropical storm run through the Gulf a couple weeks ago. That's always an issue. Of course, we don't ever, rarely, have the whole Gulf shut in because we have a dispersion of where our platforms are, our facilities. That's behind us, and we've been doing very well lately.

Arun: Lastly, the other update was the negotiations on King's Quay continue. Any updates on timing, or is this progressing and it's just tough to negotiate a transaction given the...

[crosstalk]

Roger: It's been tougher than I anticipated due to the remote. I've been involved personally in a lot of these kind of deals. We've done a lot of these. The problems may be we're very experienced in what we're doing. I've always had to get in one hotel room to close it and make a lot of progress with the right decision-makers.

We're just getting to that point now, and it's been an issue. You can only do Kings' calls so much, Arun, as you know.

Arun: I got it. I wanted to shift gears and maybe talk about you went through in the slide the major project profile with a lot of potential. Can you give us a little bit of update on how the development projects should progress, Khaleesi, Mormont, etc.?

Roger: Khaleesi/Mormont's set to flow in June of 2022, first half of the year it has there, toward that time period. We are very proud to maintain. I think we'd probably be one of the only major offshore projects in the world to hold their schedule during COVID, which is no small task from my excellent team that I have in executing that. We're running that execution in Korea.

We have pushed out some of the drilling here in a prior capital reduction. We'll be having a drill ship there. We're about ready to sign the contract to do that, and we'll be completing and drilling these wells.

One thing to know about Khaleesi/Mormont is that it was one of the key items we purchased in the LLOG acquisition. These are wells that are previously drilled, logged, and cased. A lot of the work is to complete previously drilled wells, so it doesn't have a to-come drilling risk.

There's third-party reserve audits by us and two other partners in this field that lay on top of each other. This is a pretty low-risk new offshore project. We, of course, operate and drilled Samurai and drilled and side-tracked wells there. This is a really nice opportunity for us.

St. Malo is a long-term project at one of the most successful fields in the Gulf. St. Malo is one of the lowest operating costs and highest margins in the business. We're fortunate to be 20 percent there with Chevron. It's one of the keys to Chevron's portfolio. These are some very nice projects that are going to produce at a lower decline rate for a long time.

Arun: That's great. The next thing I want to ask you about is call it the short-cycle shale opportunities you have in the portfolio. Obviously, you watch the rig count. We've gotten to the point where oil prices went below the marginal cost. In every US basin, we saw a collapse in activity.

We've seen a little bit of a bounce in oil prices. What can we look forward to Murphy, in '21? Oil osculates at $40. What do you do at $40 next year in your short-cycle business versus $45 versus $50 next year?

Roger: The forward curve is around $40 and has not really gone below $38 in quite a while. It's sort of stabilized, if the forward curve is worth much, I suppose. That's where we are. That, we'd be looking in some maintenance-type capital numbers that we've disclosed and talked about before, in the high two-hundreds or something in that region.

Really still working the flatness of what we want to do in that world. We hope to model and work on a flatter profile. We've got to decide where we want to tie that flatness to, if you will, Arun. Then we would have additional prices to try to help us build liquidity and lower debt in lieu of running back up with that at this time.

A lot of modeling work has to be done. We do not have that fully model now. It's not even July 4th weekend yet. That's a little early to have 2021 laid out especially yet with going through with three significant catching capital, 30 percent of the people no longer with us, unfortunately and two major office closures.

We have a lot of things we're executing on, but we're back at doing our remodeling work, what's best for us, what's best for our financial stability. Also looking at business development. Again, we got our team refocus on some things.

It's been a tough three- to four-month period here. Now, we have what we have on the capital like in the fact that we have free cash flow this year with the dividend which I think is unique especially even with this reduced dividend, still quite significant.

I'm proud that and proud of what we've done, and that's kind of re-calibrate what we want to do in the future.

Arun: Its sounds like...and this is consistent from what I've heard from your peers, many of your peers from the conferences that debt reduction is going to be a priority for a lot of E&Ps as we start going into a period in the next year. It sounds like it will be the same for Murphy.

Roger: Yeah, that's true. What's really change is now we have two major pullbacks in prices. Of course, you look back at '16 which we thought was a disaster. It never really got below $35 [indecipherable] year. This year, of course, very, very poor pricing and incredible pandemic and in global recession, whatever you want to call that.

There's two collapses in four years get you thinking if we're going to live in this volatility like this, what debt level would we like to have. That's a different view than a few months ago and a different view for others.

I don't think Murphy stands alone in that. I think it's good business.

Arun: Yeah. How about in the Gulf of Mexico? You talk about some of the bigger projects, but how do you think about...call it work over projects or things, returns on those types of projects to sustain production.

[crosstalk]

Roger: I'm sure you have a couple...We still have a couple in the books. We've done our best once they're all very economic, but they are expensive to operate in expense. We have those behind us. They've flown nicely. We'll see a lower operating expense on a quarterly basis going forward because that's behind us.

We do not have a couple of list to those things. Probably one or two more of deepwater wells we could work on and then probably one well in a platform that we decided to pull back. We are what we are with capital right now.

Arun: OK. Roger, you spend some time talking about some of the shots on goal that you have on the exploration program. I wonder if maybe you can elaborate. I think you had an interest in Mount Ouray in the Gulf of Mexico. You talked about Mexico and Brazil. Maybe talk to us about which of these opportunities are you the most excited about.

Roger: Ouray we'll announce in our quarterly call. We're trying not to get into the inter-quarter well. That was a $7 million well for Murphy. It's not an incredible size, nor cost.

The Mexico is getting a lot better because of a lot of success on seismic. We can see the seismic of the success of ENI wells, and tied to very, very similar-looking seismic that we have on ours. We're starting to see similar-age rocks and tying seismic to their success as to what we have.

We know we had oil at Cholula and a good bit of pay there, but it was very, very thin-bed pay. We know that we have oil out on that basin. We've done a lot of work on depositional modeling as to where sand will be thicker. We think we have a solution around that.

We can put together over a 200-million-barrel type field among three to four of these tie-back type repeat of Gulf of Mexico, Mississippi Canyon work in Mexico. Seeing that success is helpful at that age rock that we're drilling. Then seeing more and more work on our seismic of the larger sub-salt prospects. We have two of them matured, and very, very happy about that.

Of course, Brazil just gets better each time we look at it. Very, very happy with how we're working with Exxon and the sharing of the work there. Different things that Murphy's doing, they're doing, and the close partnership we have with them working in Houston with them. Very, very excited about that. Now it's starting to firm up in their schedule, so big, big prospects here.

Arun: Let me end with thoughts on the broader portfolio. Under your tenure, you really narrowed the focus to the Western Hemisphere. In a world where oil prices are lower and could be lower for longer, what are your thoughts on the overall portfolio?

Roger: We're happy with our portfolio. We haven't done any work since we did the big move out of Malaysia and into the Gulf. We are reengaged again. I would think we would be more interested in offshore than onshore. We have a lot to say grace over in our onshore business, very successful, long-term runways of conservative spaced programs in our onshore business.

Offshore makes immediate EBITDA, and we are a keen operator there, a very, very experienced operator for a company of our size. Quite rare to have our balance sheet at our size and our ability. We also have a very successful onshore execution ability as well.

We think we're uniquely positioned to review offshore in both exploration and in A&D, and looking at that again as we get into this price time, as you mentioned.

Arun: I do have maybe a minute or two left. You've talked about the reductions in capital. You've also made some improvements in your overall cost structure. As we think about modeling '21, you gave us some real color on G&A, but what are some other things on a year over year basis where you think that your cost structure could improve as you go into next year?

Roger: Well, G&A is a big deal. We're probably 40 percent less than last year. Of course, this is going to be a mid-year going-forward type savings in G&A that does not include our restructuring costs. [indecipherable] Of course, we have some other things that we're selling around these businesses to help recoup that.

I would say next year that the big factor there is G&A being around 100 million, which is significantly lower than in the past, and that's right to the bottom line. Then our operating expenses that we have this year for a total of $30 million is nothing to sneeze at and I anticipate that to get better.

One of the things with our reorganization, we have a much flatter model now in operations. We used to run an offshore and an onshore business and run them differently, if you will. But there are certain costs focused and some groups did some things differently than others that now merge together, and changing of some personnel, we can see the best of both, maybe for the first time.

I was against doing that for a long time, but due to cost reductions, I've made those calls. I think we're going to continue to improve our operating expenses and we'll have more about that as we work through our plan for next year. I'm very excited about our new cost structure.

I'm also excited about the efficiency of being in one building. It's very significant to close Calgary. We've been in business there for 60 years and here in El Dorado for 70. These are terrible things that we had to do, but this is a big efficiency gain for us going forward and had to be done with prices that we've seen.

Arun: Yep, and Roger, time for one last question. Murphy has been one of the companies in my coverage whose return is among the most cash to shareholders, to dividend. You had a buyback program, etc.

You had to make a difficult decision as well on the dividend. Can you talk about your confidence in being able to sustain the lower dividend rate as you move through, call it the nadir of the cycle?

Roger: Well, we know today that we can pay for that. Of course, it's like any company. It's going to be reviewed by our board. It's going to be a critical thing each time. We've reduced our dividend significantly. We have it modeled to pay it, and have it in there to be maintained. Of course, you have to go quarter to quarter on that with boards today.

These are difficult times. But times are better. Our cost structure is lower. All that wasn't fully modeled and known at that time. I see us being able to cover that, and unless we change significantly our portfolio or do different things, that's not really on my watch list right now. I feel OK about that. I feel fine about that.

Arun: Great. Well, Roger, on behalf of the J.P. Morgan team, firstly, it's great to see you. It's great to see your health. You're back, and great to see you again. Thanks again for participating and supporting our conference. It's great to see you again.

Roger: No problem, and thanks for those words, Arun, and our team will be standing by to answer people's questions further. I appreciate you guys having us, and thanks, everyone, for dialing in this morning. I appreciate it.

Arun: All right, thanks again.

Roger: All right. Bye-bye.

[music]
