Chevron guts spending as profit takes a dive

Joe Carroll, San Francisco Chronicle, 1-30-15

Chevron Corp. slashed its drilling budget by the most in 12 years and said it may delay some shale projects as energy producers around the world hoard cash and curtail ambitions in response to free-falling oil prices.

Chevron is planning to spend $35 billion on capital projects this year, down 13 percent from the $40.3 billion it spent in 2014, the San Ramon Company said Friday. It was the largest reduction in its annual spending plan since 2003, when expenditures plunged 26 percent and crude prices were half their current levels.

Other producers have cut more, with some oil companies announcing spending reductions of more than 50 percent in recent weeks.

“Chevron doesn’t have quite the flexibility of some other companies to cut spending in the near term, because they are still finishing some mega-projects,” said Brian Youngberg, an analyst at Edward Jones & Co. “Beyond 2015, their flexibility will improve.”

The retrenchment by the second-largest U.S. energy producer followed Chevron’s weakest quarterly profit performance since the global financial crisis half a decade ago.

Net income in the final three months of 2014 dropped to $3.47 billion ($1.85 per share) from $4.93 billion ($2.57) a year earlier, it said Friday. The result was 21 cents higher than analysts had expected.

Chevron shares fell 47 cents to close at $102.53. The stock price had declined 11 percent in the past year.

Chairman and Chief Executive Officer John Watson said last fall that he would look beyond price declines when assessing the profit potential of future energy projects.

Despite the steep fall in oil prices, “We believe long-term market fundamentals remain attractive,” Watson said in Friday’s earnings release. He said the company would seek to reduce its expenses “throughout our supply chain.”

The vast majority of Chevron’s spending this year will be to support production, including decades-old fields in California and Texas, and projects under construction, such as its Gorgon natural gas project in Australia. Chevron said that spending will account for $26 billion of the $35 billion budget, with $3 billion set aside for exploration.

All projects will be tested against market conditions, with Chevron “selecting only the most attractive opportunities to move forward,” Watson said.

Chevron has expanded investments in deep-sea oil fields as crude prices have fallen almost 60 percent since June.

Watson has said he wants to boost Chevron’s worldwide output by more than 20 percent by the end of 2017. The company has identified about $150 billion in new oil and gas installations both on land and at sea to meet that goal.

That goal could be harder to reach with spending constrained by the market crash.

“I’m assuming their production doesn’t grow this year,” Youngberg said. “The growth outlook will need to be scaled back.”

Brent crude, the benchmark for most of the world’s oil, fell 30 percent to an average of $77.07 per barrel during the final three months of 2014. A year earlier, it was $109.35.