

Cash usage by North American oil and gas producers

Analysis of free cash flow, capital spending, shareholder returns and debt repayments

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Q3 2021

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KEY USER BENEFITS

Analyse performance of entire peer groups on a normalised basis

Benchmark operating costs by resource type and region

How are North American oil and gas producers using their cash?

Analysis of debt repayments, capital expenditures, dividends and more

A sudden and then sustained increase in commodity prices in 2021 has boosted operating cash flow across the board for North America's oil and gas companies. Record levels of free cash flow are being generated across U.S. and Canadian upstream operations.

This report has been created using the Evaluate Energy database to show the extent to which free cash flow altered spending habits for a study group of 84 North American oil and gas producers in Q3 2021.

The companies in this report meet the following criteria:

- Produced over 5,000 boe/d in Q3 2021 (to the nearest 1,000 boe/d);
- Global production more than 75% weighted towards North American assets; and
- December 31 financial year-end.

Oil-focused and gas-focused companies behaved very differently in terms of spending habits in prior analyses. U.S. companies are also typically larger than Canadian companies within the group of 84. As a result, analysis is divided into sections:

- An aggregated industry overview of data for all 84 companies;
- A section focused on oil companies based in the U.S. (+50% production comprised of oil) and two further sections on Canadian oil and oilsands companies; and
- Equivalent sections based on gas-weighted companies in the U.S. and Canada (+50% production comprised of natural gas).

Spending is tracked for capital expenditures, debt repayments, share buybacks, corporate acquisitions and dividends.

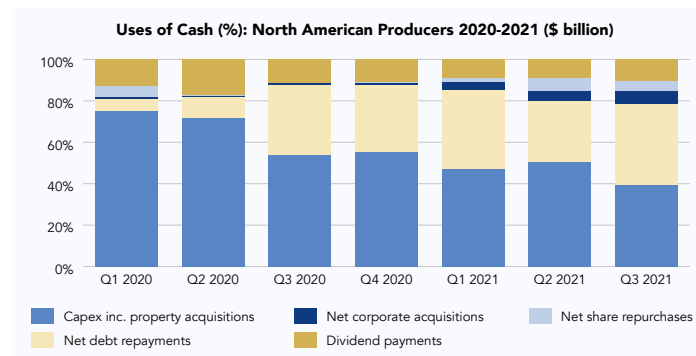
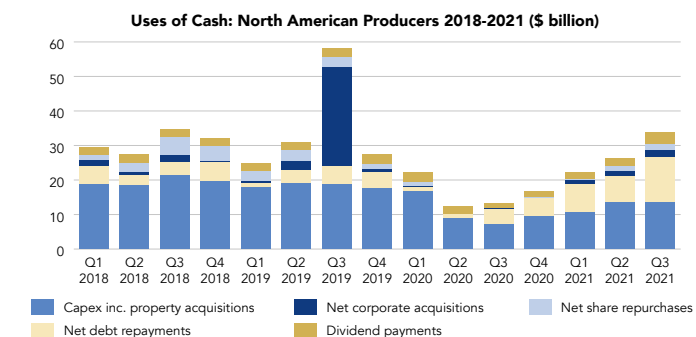
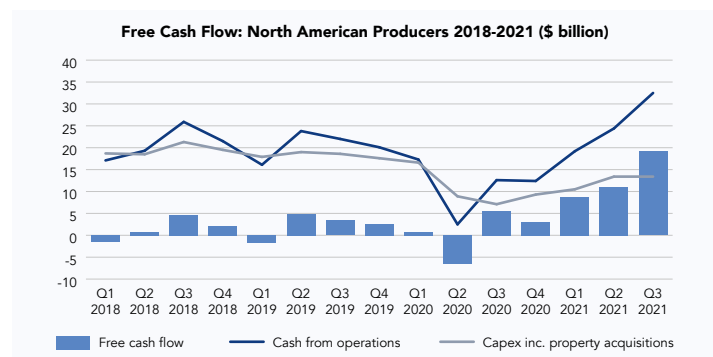
This report focuses solely on the uses of cash for each group and goes no further on the sources of cash for the companies aside from providing analysis on operating cash flow. Data on other sources of cash such as asset sales, share issuances or new debt is available in the [Evaluate Energy company performance database](#).

Key findings:

- Free cash flow continued its meteoric rise in Q3. The quarter ended with our 84 companies generating \$19.1 billion in free cash flow. That is more than \$8 billion higher than the previous record total from last quarter, and dwarfs the pre-pandemic average of \$1.7 billion between 2018 and Q1 2020.
- The majority of companies are completely focused on shareholder returns and balance sheet health:
 - The number of companies increasing quarterly dividends continued to grow, with an additional 13 producers across North America paying more per share in Q3 than in Q2. Special dividends were paid by a number of companies in Q3 as well.
 - The number of companies undertaking share repurchases increased in Q3 as it has every quarter since the height of the pandemic.
 - Debt repayment was especially high this quarter, with free cash flow far outpacing many companies' ability to return excess cash to shareholders.

Overview – All 84 companies and their uses of cash

Shareholder returns and debt increase on the back of record free cash flow



Free cash flow – the difference between operating cash flow and capex – reached a new record of a combined \$19.1 billion for our group of 84 producers in Q3 2021.

This is due to a continued rise in operating cash flow that reached \$32.5 billion in Q3. No quarter since the start of 2018 has seen a higher total.

Flat capex spending in Q3 was a major factor in the high levels of free cash flow. Having represented around 55% of operating cash flow in Q2, capex stayed flat at \$13.4 billion for the full group in Q3 and fell to just 41% of operating cash flow.

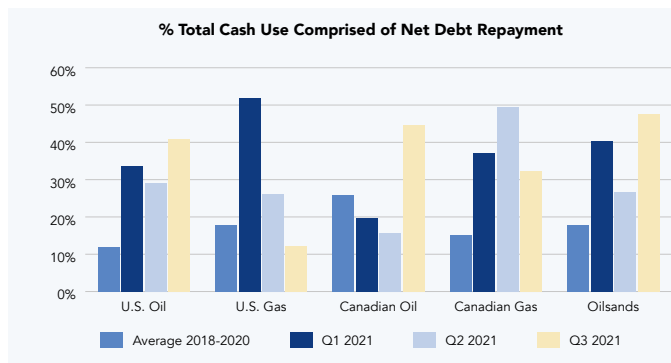
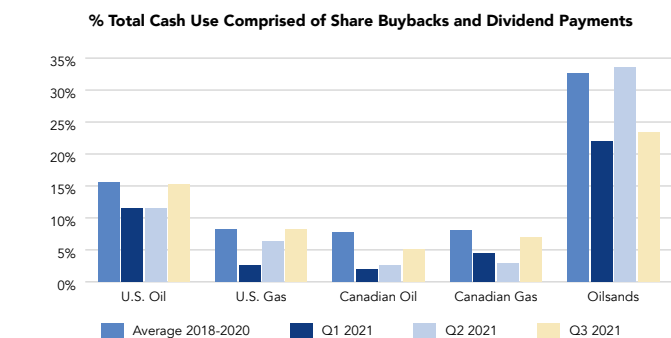
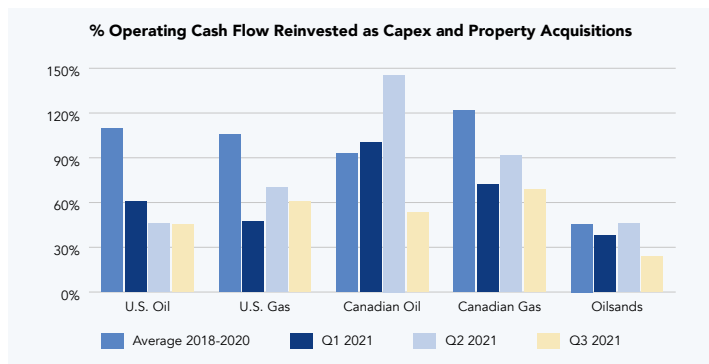
Producers have made clear their desire over the past few months to return as much free cash flow as possible to shareholders, either via increased dividends or share repurchases. Should cash flow outpace board- or regulatorily-approved plans, the vast majority of producers plan to direct excess cash towards strengthening balance sheets.

Q3's data shows to what extent the group has been able to act on that common strategy so far.

- Oil producers were the chief payers of dividends prior to the Covid-19 pandemic, at which point many cut back on dividends and some stopped them entirely. Latest data shows that many companies increased their dividends in the first three quarters of 2021.
- The number of companies spending on share buybacks has grown steadily in 2021 so far. With recent announcements across North America, this number looks set to rise further before year end.
- After debt repayments fell to 29% of all cash used in Q2, this metric increased significantly to a post-pandemic record of 39% in Q3. The \$13.1 billion repaid in Q3 was also a record for the time period that this report focuses on.

Overview - All 84 companies and their uses of cash

Shareholder returns and debt increase on the back of record free cash flow



When dividing the full group of 84 into five peer groups, it is evident each peer group is behaving slightly differently.

- On a geographic basis, creating peer groups is important because Canadian companies tend to be much smaller than U.S. operators. Conclusions drawn on a blanket “North American” basis would contain a U.S. bias.
- Analysing elements on a portfolio basis is also important. There is a clear difference in behaviour between oil-weighted producer groups and the gas-weighted producers, notably over debt repayments and other non-capex spending.
- The five oilsands producers in Canada have been placed into their own peer group as they are not comparable to other Canadian oil producers.

All groups recorded a drop in their capex to operating cash flow ratios between Q2 and Q3 this year, while all but the oilsands producer group saw an increase in shareholder returns relative to total cash used.

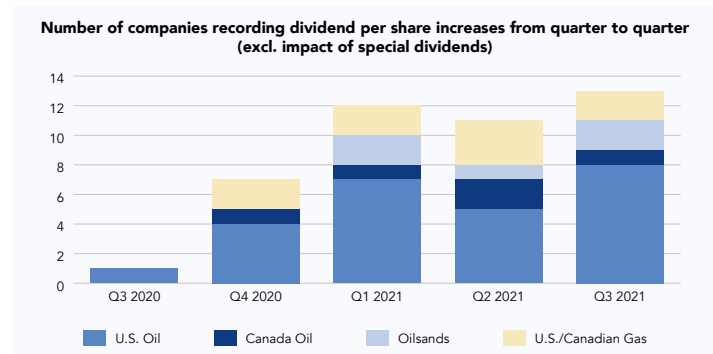
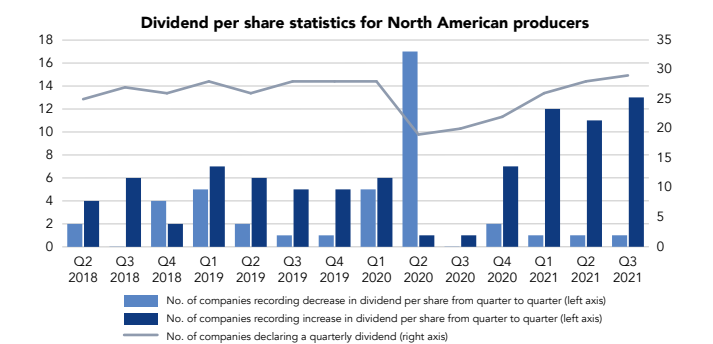
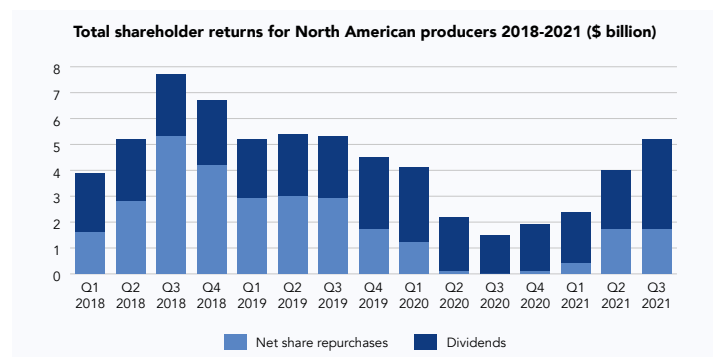
- Canada’s oil producers recorded a financing gap in Q2 2021, with capital expenditures significantly outweighing operating cash flow. In Q3, these companies dropped capital spending

sharply to just 53% of operating cash flow and recorded a post-pandemic record for the group of almost C\$800 million in free cash flow.

- Despite their own respective reductions in capital spending, both gas-producing peer groups again reinvested the vast majority of operating cash flow in capital spending. Canadian gas producers led all groups with a 69% of operating cash flow reinvested as capex.
- The Canadian oilsands group again invested the lowest portion of operating cash flow as capex, dropping below 25% in Q3 by this metric.
- The oilsands producers were the only group to commit over 15% of total cash outlay towards shareholder returns, even though all four of the other groups saw this percentage increase in Q3 compared to both Q1 and Q2.
- In terms of debt repayments, the U.S. gas producing group was alone in committing less than 30% of its cash outlay to debt repayments in Q3. All three oil-focused groups committed a greater percentage of their Q3 spending towards debt than in Q2.

Dividend per share overview

Dividends continue to rise



Shareholder returns became an even greater priority for producers in Q3 as free cash flow continued to rise. Total shareholder returns for the 84 companies continued its steady increase to over \$5 billion in Q3 2021.

Dividend per share increases are the main reason for the steady rise; often stock-exchange rules or board approvals will limit a company's ability to buy back enough shares to show up in any analysis next to the billions spent on dividends, capex and debt repayments in any given quarter.

As the Covid-19 pandemic took hold, the number of companies in our study group declaring a quarterly dividend fell sharply from 29 in Q1 2020 to just 20 in Q2 2020. Previously, 29 companies had declared a dividend in all but one of the previous five quarters. Alongside those nine companies that stopped paying dividends entirely, there were eight more that reduced their quarterly distributions as cash tightened.

Q1, Q2 and Q3 2021 have seen these figures recover. By the end of September, 29 of the group were paying dividends. Q3 saw a post-pandemic record of 13 companies increase their dividend from the previous quarter, after

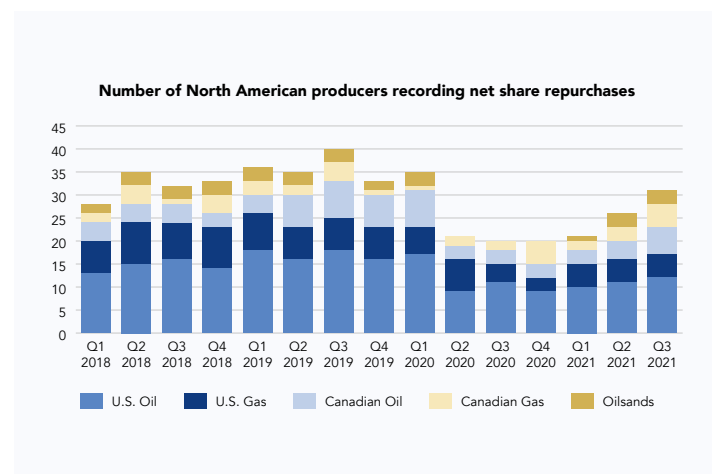
12 and 11 companies did the same in Q1 and Q2, respectively.

The quarter also saw a new trend of growing numbers of producers paying special dividends (one-off payments in times of large available cash) or variable dividends (more regular payments that change depending on available cash). Five U.S. oil companies have paid a special or variable dividend in 2021 so far, together with Tourmaline Oil in Canada.

These special dividends and the steady rise in regular quarterly dividends contributed to a total of \$3.5 billion spent on dividends by the 84 companies in Q3. This is the largest quarter for dividend-related spending since the start of 2018, and is \$1 billion greater than the pre-pandemic average between Q1 2018 and Q2 2020.

Share repurchases overview

More companies active with buybacks as 2021 progresses



While dividends have hit record figures, share repurchases maintain a steady course. The spend in Q3 fell by under \$100 million compared to Q2, but the underlying activity here has actually increased:

- Q2 had almost \$1 billion being spent by Imperial Oil. That figure reduced to around \$250 million in Q3, with the magnitude of the drop masking overall sector trends.
- The number of companies that ended Q3 with any kind of net share repurchase was 31. The last time this figure was over 30 in a quarter was Q1 2020.

Information provided in November's Q3 results announcements, plus the number of companies revealing board or stock exchange approvals for Normal Course Issuer Bids in Canada and share repurchases in the U.S., suggests this increase in buyback metrics should continue in Q4 and early 2022.

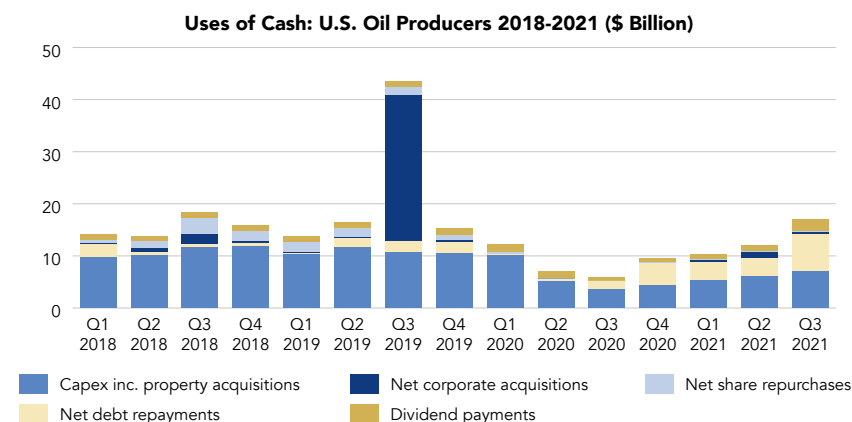
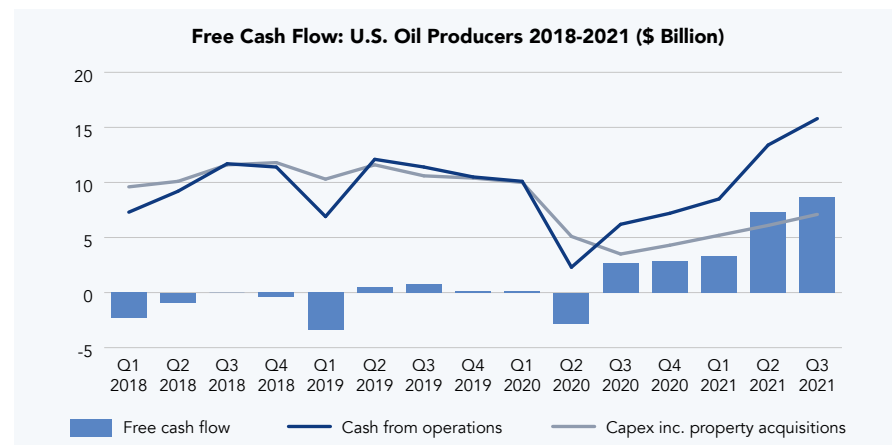
Top 10 companies by size of total 2021 net share repurchases between Jan. 1 – Sept. 30, 2021

(ranked on net share repurchases after all reported figures converted to US\$)

Company Name	Peer Group	Net share repurchases Q1 2021	Net share repurchases Q2 2021	Net share repurchases Q3 2021	Net share repurchases 9M 2021
Suncor Energy Inc.	Oilsands	C\$318 million	C\$640 million	C\$704 million	C\$1.66 billion (US\$1.33 billion)
Imperial Oil Ltd.	Oilsands	-	C\$1.17 billion	C\$313 million	C\$1.48 billion (US\$1.21 billion)
Canadian Natural Resources Ltd.	Oilsands	-	C\$22 million	C\$424 million	C\$446 million (US\$355 million)
Magnolia Oil & Gas Corp.	U.S. Oil	US\$71 million	US\$96 million	US\$75 million	US\$242 million
CNX Resources Corp.	U.S. Gas	US\$19 million	US\$23 million	US\$78 million	US\$119 million
PDC Energy Inc.	U.S. Oil	US\$23 million	US\$30 million	US\$60 million	US\$113 million
ARC Resources Ltd.	Canadian Gas	-	-	C\$110 million	C\$110 million (US\$88 million)
Diamondback Energy Inc.	U.S. Oil	US\$24 million	US\$12 million	US\$49 million	US\$85 million
California Resources Corp.	U.S. Oil	-	US\$45 million	US\$37 million	US\$82 million
Continental Resources Inc.	U.S. Gas	US\$9 million	US\$1 million	US\$66 million	US\$75 million

U.S. Oil Producers

Data Overview – 30 companies



Data Point

Free Cash Flow

Q2 was the fifth quarter in a row that this group recorded free cash flow after a long history of financing gaps. Q3's free cash flow was by far the highest recorded for the group (and \$1.4 billion higher than Q2).

Capex inc. property acquisitions

Much like last quarter, capex continues its steady rise for these producers but still lags behind the growth seen for operating cash flow. Q3's \$7.1 billion is the highest spend for the group post-pandemic to date. It remains around \$3 billion less than the lowest capital spend for the group recorded in the pre-pandemic quarters between 2018 and Q1 2020.

Dividend Payments and Net Share Repurchases

Dividends continued their own steady post-pandemic rise (see page 6). Net share repurchases amounted to around \$250 million and have gradually increased as U.S. oil companies buy back shares each quarter in 2021 so far (see page 7).

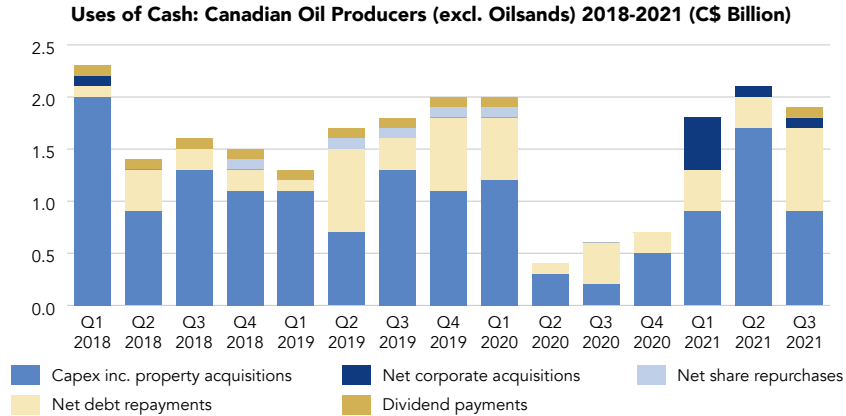
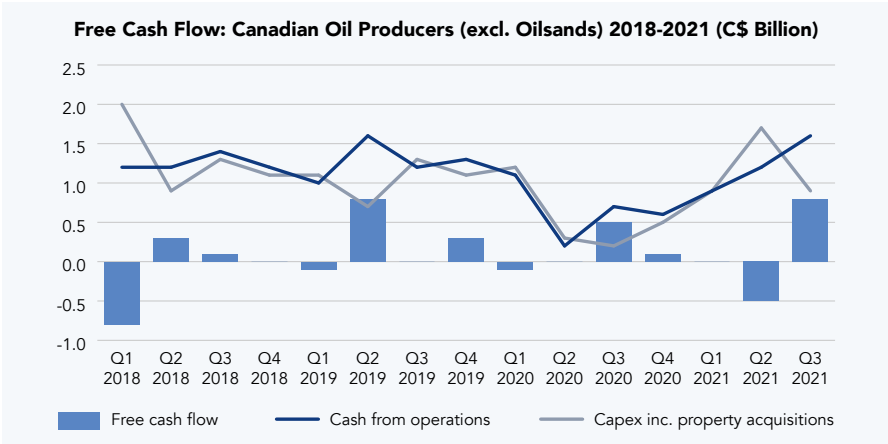
Net Debt Repayments

The group's net debt repayments doubled in Q3 compared to Q2, with over \$7 billion spent this quarter. After two consecutive quarters where this spend fell, Q3 saw the largest quarterly net debt repayment recorded by the U.S. oil producers since the start of 2018. Most of this increase, however, can be attributed to a debt reduction of over \$4 billion recorded by Occidental Petroleum. The next largest reduction was \$900 million by Marathon Oil.

Commentary

Canadian Oil Producers

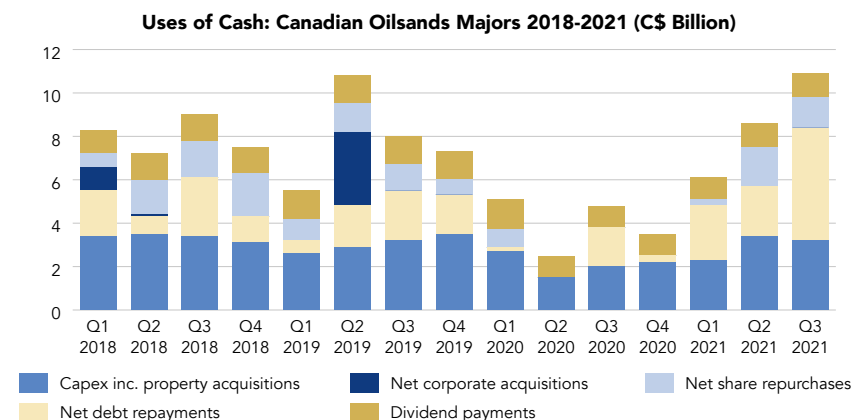
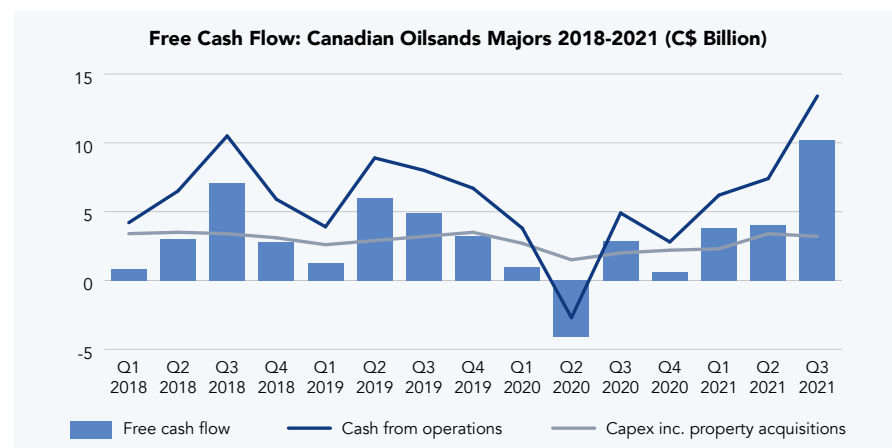
Data Overview - 15 companies



Data Point	Commentary
Free Cash Flow	After ending the second quarter as the only group to have recorded a financing gap, as capital spending far outweighed operating cash flow, it was all change again in Q3. This Canadian group recorded its second largest quarterly free cash flow since the start of 2018.
Capex inc. property acquisitions	Capital spending reduced in Q3 to below average pre-pandemic levels having risen above the average in Q2. Between 2018 and Q1 2020, the average quarterly capital spend for the group was C\$1.2 billion. Q3's spend of around C\$860 million is lower than all but one of the quarterly spends in that pre-pandemic timeframe.
Dividend Payments and Net Share Repurchases	This group has not really been involved in either activity since the pandemic took hold and recorded less than C\$100 million in cash outflow in Q3. The group was only previously involved in both on a similarly minor scale before the pandemic too.
Net Debt Repayments	Net debt repayment increased significantly to almost \$820 million in Q3, ending a recent run of four quarters where repayments had been reasonably flat between C\$200-C\$400 million.

Canadian Oilsands Majors

Data Overview – 5 Companies



Data Point

Commentary

Free Cash Flow

A record level of operating cash flow and capex remaining in the usual C\$2.5-C\$3.5 billion range for these five producers led to C\$10 billion in free cash flow in Q3.

Capex inc. property acquisitions

In 'normal times' the five companies never deviate far from spending C\$2.5-C\$3.5 billion each quarter. Q3 2021 was the second quarter in a row to reflect that prior trend after the group dipped below this level of spending during the worst quarters of the pandemic.

Dividend Payments and Net Share Repurchases

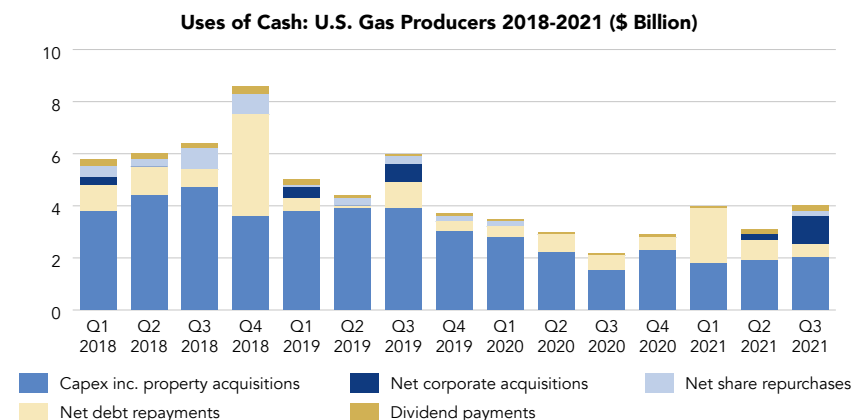
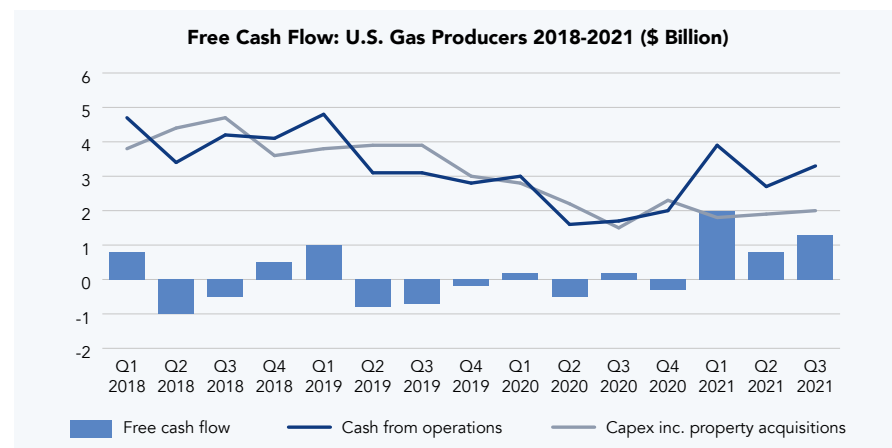
Dividends are still to reach the C\$1.3 billion pre-pandemic average. Suncor and Canadian Natural, however, were two of the companies to have increased dividends per share in Q3 (see page 6). Net share repurchases have exceeded C\$3.5 billion for the group in 2021 with Suncor, Imperial and Canadian Natural the top three companies across North America for share repurchase spending (page 7).

Net Debt Repayments

Having exceeded C\$2 billion for two quarters in a row to start the year, the extremely high levels of free cash flow recorded in Q3 enabled the group to pay off a much higher level of debt in Q3. C\$5.2 billion in net debt repayments is almost double the next largest quarterly net debt repayment the group made since the start of 2018.

U.S. Gas Producers

Data Overview – 16 companies



Data Point

Free Cash Flow

The group enjoyed a renewed spike in operating cash flow this quarter and did not adjust spending levels at all from Q2, resulting in a 61% increase in free cash flow to \$1.3 billion in Q3.

Capex inc. property acquisitions

Capital spending has hovered around \$2 billion for the past few quarters and lags the pre-pandemic average of \$3.8 billion between 2018 and Q1 2020.

Dividend Payments and Net Share Repurchases

This group has not really been involved in either activity since the pandemic took hold and recorded less than \$400 million in cash outflow in Q3. The group was only previously involved in both on a similarly minor scale before the pandemic too.

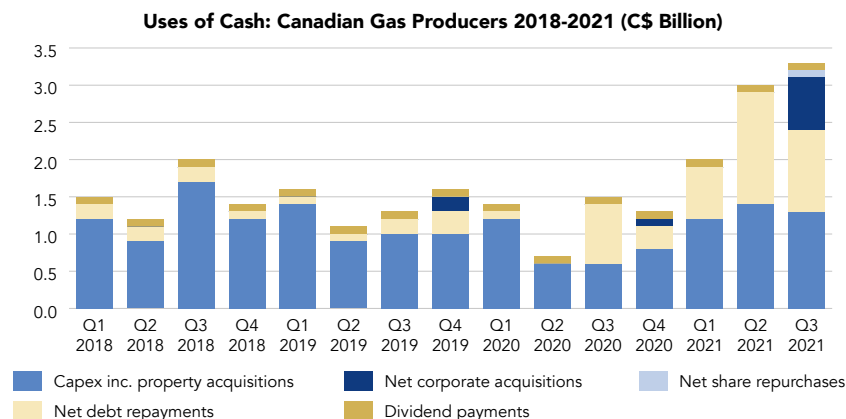
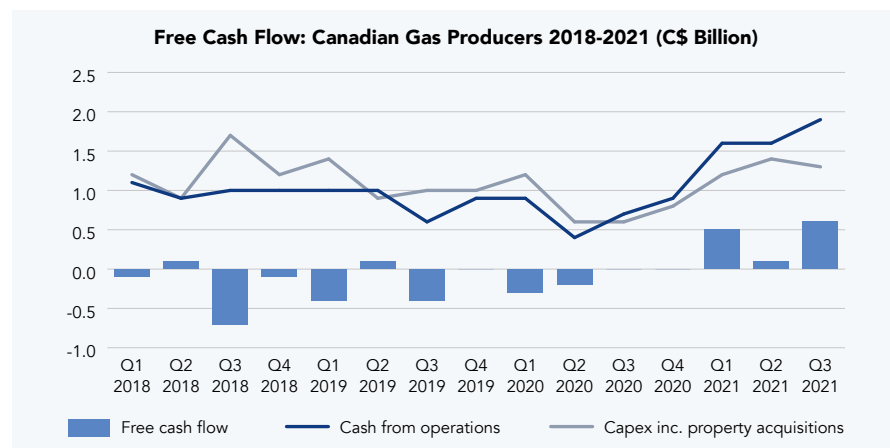
Net Debt Repayments

Debt repayment fell in Q3 to below \$500 million despite the sudden return to free cash flow growth.

Commentary

Canadian Gas Producers

Data Overview - 18 companies



Data Point

Free Cash Flow

In Q2, this group returned to its trend of recording very low free cash flow, if any, after a spike in Q1. In Q3, the group reversed course and recorded even higher free cash flow – over C\$500 million for the first time – than it did in Q1.

Capex inc. property acquisitions

While last quarter's dip in operating cash flow did not prevent the group from escalating capital spending, this reversed in Q3. Operating cash flow grew, but capital spending was reduced. ARC Resources and Tourmaline Oil heavily influence the data as they are much larger than the average producer within the study group. Both companies made multimillion-dollar cuts in capital spending in Q3. Cuts were not unique among the rest of the group, but it was hardly the prevailing theme.

Dividend Payments and Net Share Repurchases

This group has not really been involved in either activity since the pandemic took hold and recorded less than \$250 million in cash outflow in Q3. The group was only previously involved in both on a similarly minor scale before the pandemic.

Net Debt Repayments

Excluding ARC Resources and Tourmaline, the group saw debt repayments increase from C\$180 million in Q2 to C\$300 million in Q3. These figures are masked by ARC recording a C\$1.3 billion net repayment in Q2, and Tourmaline recording C\$594 million in debt reduction in Q3.

Commentary

Global Oil & Gas Company Performance Data

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 - Earnings, dividends and shareholder returns
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 - Price realisations, margins and netbacks
 - Costs per boe for production, F&D, FD&A
 - Refinery costs, throughputs, capacities and production
- Geographic and business segment breakdowns
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Appendix - Company Lists and Definitions

U.S.: 30 Oil-weighted producers

Name	Production (000 boe/d) Q3 2021	% Oil	Name	Production (000 boe/d) Q3 2021	% Oil
Abraxas Petroleum Corp.	6	71%	Ovintiv Inc.	535	51%
Amplify Energy Corp.	25	57%	PDC Energy Inc.	204	60%
Battalion Oil Corp.	18	74%	Pioneer Natural Resources Co.	676	81%
Berry Corp.	27	89%	Ranger Oil Corp.	25	91%
California Resources Corp.	102	74%	Ring Energy Inc.	8	87%
Callon Petroleum Co.	100	83%	SM Energy Co.	156	66%
Centennial Resource Development Inc.	65	69%	Talos Energy Inc.	57	78%
Civitas Resources Inc.	44	72%	Whiting Petroleum Corp.	92	79%
Contango Oil and Gas Co.	26	52%			
Devon Energy Corp.	608	74%			
Diamondback Energy Inc.	404	80%			
Earthstone Energy Inc.	26	71%			
EOG Resources Inc.	844	72%			
Hess Corp.	284	70%			
Laredo Petroleum Inc.	77	72%			
Magnolia Oil & Gas Corp.	67	69%			
Marathon Oil Corp.	342	69%			
Matador Resources Co.	90	56%			
Murphy Oil Corp.	163	60%			
Northern Oil & Gas Inc.	58	59%			
Oasis Petroleum Inc.	52	62%			
Occidental Petroleum Corp.	1,176	75%			

U.S.: 16 Gas-weighted producers

Name	Production (000 boe/d) Q3 2021	% Oil	Name	Production (000 boe/d) Q3 2021	% Oil
Antero Resources Corp.	541	31%	Goodrich Petroleum Corp.	28	1%
Chesapeake Energy Corp.	436	20%	Gulfport Energy Corp.	162	11%
CNX Resources Corp.	278	7%	Range Resources Corp.	356	30%
Comstock Resources Inc.	237	2%	SandRidge Energy Inc.	19	45%
Continental Resources Inc.	331	47%	SilverBow Resources Inc.	35	23%
Coterra Energy Inc.	394	0%	Southwestern Energy Co.	561	19%
Epsilon Energy Ltd.	5	6%	Unit Corp.	23	46%
EQT Corp.	897	6%	W & T Offshore Inc.	35	46%

Canada: 20 Oil-weighted producers (bold = the five oilsands majors that were used as a separate peer group)

Name	Production (000 boe/d) Q3 2021	% Oil	Name	Production (000 boe/d) Q3 2021	% Oil
Athabasca Oil Corp.	34	90%	Imperial Oil Ltd.	389	95%
Baytex Energy Corp.	80	81%	InPlay Oil Corp.	6	64%
Bonterra Energy Corp.	13	63%	International Petroleum Corp.	47	64%
Canadian Natural Resources Ltd.	1,107	76%	MEG Energy Corp.	92	100%
Cardinal Energy Ltd.	19	87%	Obsidian Energy Ltd.	24	63%
Cenovus Energy Inc.	805	81%	PetroShale Inc.	12	84%
Crescent Point Energy Corp.	132	84%	Suncor Energy Inc.	699	100%
Enerplus Corp.	123	64%	Surge Energy Inc.	18	84%
Gear Energy Ltd.	6	88%	Tamarack Valley Energy Ltd.	41	71%
Headwater Exploration Inc.	8	99%	Whitecap Resources Inc.	116	75%

Canada: 18 Gas-weighted producers

Name	Production (000 boe/d) Q3 2021	% Oil	Name	Production (000 boe/d) Q3 2021	% Oil
Advantage Energy Ltd.	50	9%	Petrus Resources Ltd.	6	33%
ARC Resources Ltd.	354	39%	Peyto Exploration & Development Corp.	90	12%
Birchcliff Energy Ltd.	85	19%	Pieridae Energy Ltd.	39	17%
Crew Energy Inc.	24	24%	Pine Cliff Energy Ltd.	18	9%
Journey Energy Inc.	8	47%	Pipestone Energy Corp.	25	44%
Kelt Exploration Ltd.	20	38%	Spartan Delta Corp.	46	32%
NuVista Energy Ltd.	51	40%	Storm Resources Ltd.	27	19%
Paramount Resources Ltd.	82	45%	Tourmaline Oil Corp.	456	22%
Perpetual Energy Inc.	5	26%	Yangarra Resources Ltd.	9	46%

Data definitions overview

All data included in this study was either extracted directly from the Evaluate Energy oil and gas financial and operating database, or calculated using data that was originally extracted directly from Evaluate Energy.

All cash-related data items used in this study have their basis in company quarterly cash flow statements.

Item	Definition
Capital Expenditures	Capital expenditures includes all capex reported including property acquisitions but excluding corporate acquisitions. Although this report focuses on majority-upstream focused companies, this figure may include some non-upstream related figures if a breakdown is not provided.
Operating Cash Flow	Operating cash flow, or cash flow from operating activities, includes the non-cash effect of changes in working capital.
Free Cash Flow	Free cash flow is the difference between operating cash flow and capex, when operating cash flow outweighs capex. If capex outweighs operating cash flow, this is referred to in the report as a financing gap.
Dividends	Dividends paid is a combination of dividends paid to common shareholders and minority interests.
Net Share Repurchases	Net repurchase of shares is a combination of share movement-related cash in-flows and out-flows. Where the value of new shares issued for cash outweighs cash paid to repurchase shares in a given quarter for any company, the value is excluded from the calculations so that only net outflows of cash are included.
Net Debt Repayments	Net increase/repayment of debt is a combination of all debt-related cash in-flows and out-flows. Where the value of new debt taken on outweighs debt repaid in a given quarter for any company, the value is excluded from the calculations so that only net outflows of cash are included.
Corporate Acquisitions	Net acquisitions/disposals of business units and assets is a combination of all cash in-flows and out-flows related to acquisitions or disposals of assets or businesses. Any share-based acquisitions have zero impact on this measure.

