



February 2019

How hedging will impact Q4 results in the U.S. upstream sector

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Daily Oil Bulletin

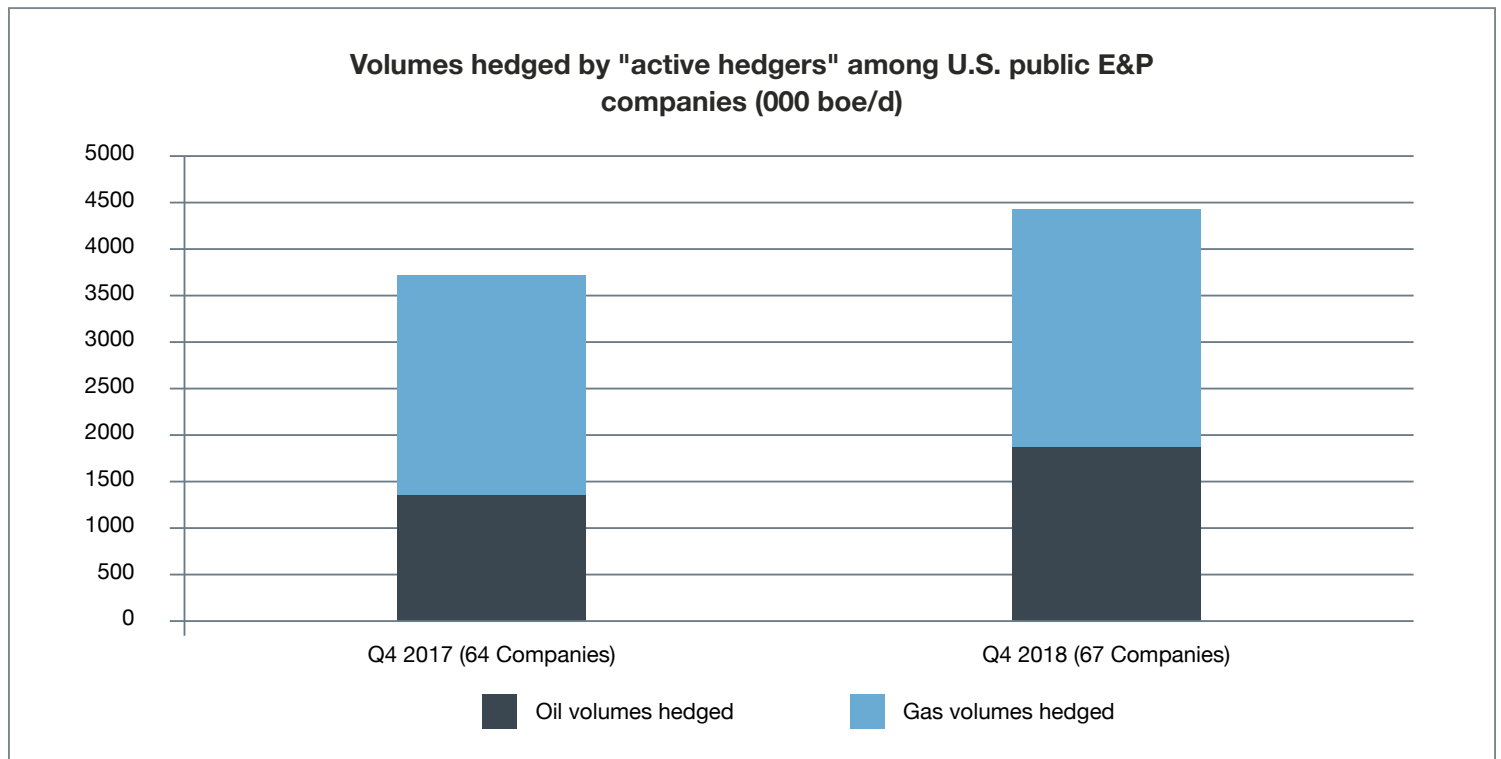
U.S. hedgers covered 43% of oil and gas production in Q4 2018

As we move into the annual reporting period across the U.S. E&P sector, new [hedging data from Evaluate Energy](#) shows how more than 4.4 million boe/d of oil and natural gas was covered by hedging contracts heading into the fourth quarter.

Hedging – by signing a contract to sell a specified volume of future oil or gas production at a pre-determined value – allows oil and gas companies to offset at least a portion of the risk associated with potential price fluctuations that could affect future cash flow. Oil and gas investors and industry analysts can better predict what to expect in the financial statements of upcoming reporting periods by using data on E&P companies’ hedged volumes, contract expiry dates and the prices involved. All of this is available on a contract-by-contract basis for every public North American E&P company via an Evaluate Energy subscription.

By isolating hedging contracts in Q3 result filings, Evaluate Energy identified a group of 67 “active hedgers” among U.S.-based E&P companies listed on the NYSE, NASDAQ or NYSE American exchanges. Evaluate Energy defines the group as companies heading into the next reporting period with more than 10% of their oil and natural gas production portfolios covered by swap, collar or three-way collar hedging contracts (see note 1).

On a combined barrel of oil equivalent basis, the group covered 43% of Q3 2018 production with swaps, collars and three-way collars in Q4 2018. This time last year, the U.S. had 64 publicly listed companies that fit the same “active hedger” criteria that covered 3.7 million boe/d (see note 2). While this is 700,000 boe/d lower than volumes covered by Q4 2018’s active hedgers, the group last year did cover a slightly greater percentage of their overall production at 45%.



Source: [Evaluate Energy – North American hedging database](#)

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“ Gas production is likely more heavily hedged in both periods because producers were already working at close to break-even points with pricing levels. ”

The active hedgers covered 1.9 million boe/d in fourth quarter oil production and 15.2 bcf/d in fourth quarter natural gas production. If these volumes had been covered in Q3, they would have represented 36% and 50% of third quarter oil and natural gas production, respectively.

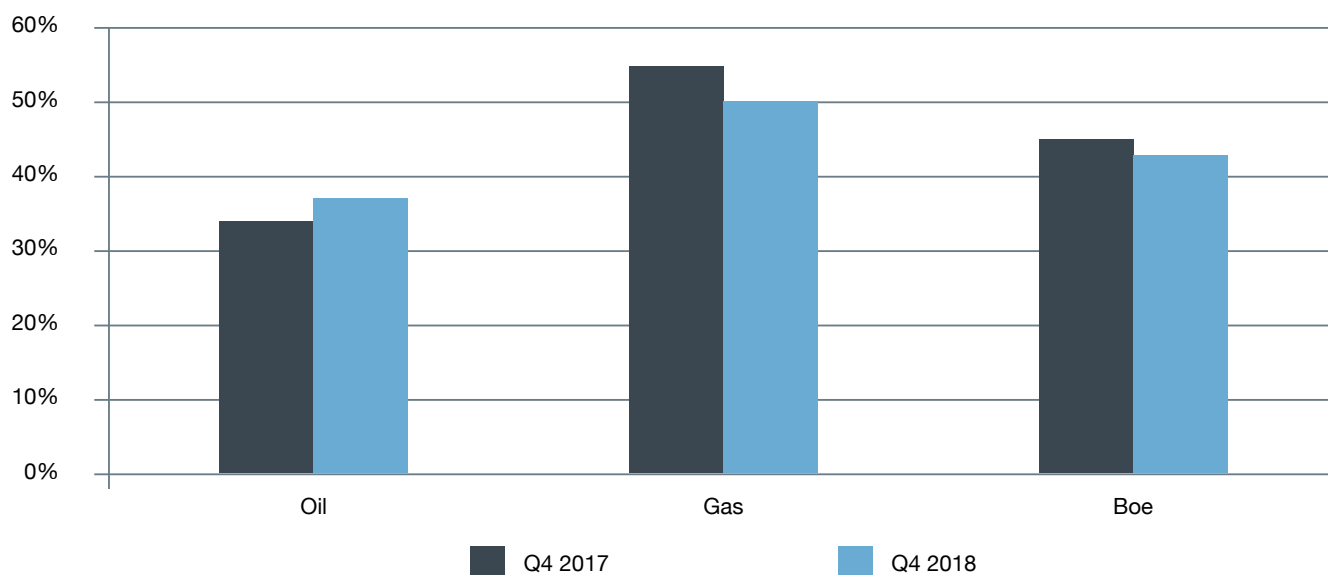
Gas production is likely more heavily hedged in both periods because gas producers were already working at close to break-even points with pricing levels at the time.

Locking in cash flow affords these gas producers a greater ability to focus on cost-saving initiatives or operational efficiencies and to keep on top of issues like debt management.

With oil production generating greater netbacks on a barrel of oil equivalent basis than gas production, the more oil-focused companies of the group were clearly happy to withstand a greater level of volatility in prices in both 2017 and 2018.

The Evaluate Energy North American hedging database enables contract-by-contract analysis of every hedging contract put in place by U.S. and Canadian listed upstream companies. Users can dissect the terms of every active hedging contract and review oil and gas hedging contracts – including the expiry date and sales price attached to each deal – years into the future. To find out more about the data available, [click here](#).

Portion of Q3 production covered by "active hedgers" among U.S. public E&P companies heading into Q4



Source: [Evaluate Energy – North American hedging database](#)

Overview – Largest oil hedgers in Q4 2018

Devon Energy Corp. covered the largest overall volume of oil among U.S. active hedgers heading into Q4 at 204,000 bbl/d.

A total of 46% of this volume was related to swap contracts, the weighted average price of which was \$58.95/bbl. The remaining 54% was covered in collars, with weighted average floor and ceiling prices of \$53.95/bbl and \$64.49/bbl, respectively.

Devon targets to hedge around 50% of its overall production several quarters in advance to protect against price risk, according to its latest Q3 filing, while also seeking shorter outlook hedges to supplement this strategy when market conditions are favourable. Its 204,000 bbl/d hedging portfolio suggests that Devon deemed the market favourable for oil heading into Q4, as this is 59% of its Q3 production level. The company's main sources of oil production in the U.S. are the Delaware basin, the Eagle Ford shale and the STACK formation in Oklahoma.

Among the 10 largest oil hedgers by volume, it was Permian-focused Concho Resources Inc. that had the largest portion of its Q3 2018 production covered at 84%.

The company had swaps, collars and three-way collars active during Q4 2018. In the last year, Concho has seen its oil production levels increase by 54% to 185,000 bbl/d after acquiring RSP Permian Inc. for \$9.6 billion but has not changed its strategy too much when it comes to protecting against pricing risk. Heading into Q4 2017 last year, the company had 93% of its Q3 2017 oil production covered by hedging contracts.

“ Devon targets to hedge around 50% of its overall production several quarters in advance to protect against price risk. ”

Top 10 oil hedgers among U.S. active hedgers by volume heading into Q4 2018

Rank	Company Name	Q4 2018 – Oil volumes hedged (000 bbl/d)	% of Q3 2018 oil and liquids production covered
1	Devon Energy Corp.	204.0	59%
2	Anadarko Petroleum Corp.	192.0	38%
3	Pioneer Natural Resources Co.	162.0	63%
4	Concho Resources Inc.	154.2	84%
5	EOG Resources Inc.	134.0	25%
6	Noble Energy Inc.	106.0	55%
7	Marathon Oil Corp.	95.0	35%
8	Chesapeake Energy Corp.	87.0	62%
9	Whiting Petroleum Corp.	60.3	57%
10	WPX Energy Inc.	57.5	59%

Source: [Evaluate Energy – North American hedging database](#)

Overview – Largest gas hedgers in Q4 2018

The top 10 gas hedgers among the U.S. company group cover an average of 75% of their Q3 natural gas production. This compares to an average of just 54% of Q3 oil production covered by the top 10 oil hedgers listed above.

Lower netbacks inherent with natural gas production and a competitive market create this greater level of caution, especially in larger natural gas producers. Locking in cash flow via hedging allows greater focus on efficiencies and cost-savings, among other things.

Unsurprisingly, the Appalachian basin, which holds the Marcellus and Utica shale formations, is the main area of activity for the leading natural gas hedgers heading into Q4 2018. The top six companies in the list by volumes hedged all have significant operations in the area and are all focused on protecting cash flow. The leading company by far in terms of volumes covered by swaps and collars was EQT Corp. with 2.9 bcf/d covered.

Continental Resources Inc. is one of three oil-focused producers based on Q3 results that made the top 10 gas hedgers, along with top oil-hedger Devon Energy Corp. and Anadarko Petroleum Corp. Continental is an interesting

case, in that despite being an oil-focused company (with only nine companies in the group of 67 producing more oil in Q3 2018) it does not have hedging contracts in place for oil production. Its cash flow protection strategy instead focuses on its growing levels of lower-netback gas production in the North Dakota Bakken and the STACK and SCOOP formations.

“ Lower netbacks inherent with natural gas production and a competitive market create a greater level of caution, especially in larger natural gas producers. ”

Top 10 gas hedgers among U.S. active hedgers by volume heading into Q4 2018

Rank	Company Name	Q4 2018 – Gas volumes hedged (mmcf/d)	% of Q3 2018 Gas production covered
1	EQT Corp.	2,924	77%
2	Antero Resources Corp.	1,942	100%
3	Chesapeake Energy Corp.	1,435	61%
4	Range Resources Corp.	1,157	75%
5	CNX Resources Corp.	1,036	88%
6	Gulfport Energy Corp.	1,028	81%
7	Ultra Petroleum Corp.	638	92%
8	Continental Resources Inc.	611	77%
9	Devon Energy Corp.	554	53%
10	Anadarko Petroleum Corp.	514	48%

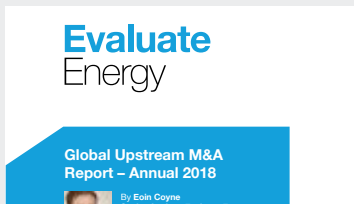
Source: [Evaluate Energy – North American hedging database](#)

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Notes

1. This report focuses on just oil and natural swaps, collars and three-way collars that are active in Q4 2018. Evaluate Energy's data also includes data for contracts that are active in periods after this, as well as other contract types not included in this swap and collar analysis such as basis differentials, puts or calls.
2. The group of active hedgers changes significantly between the periods for numerous reasons. Some companies have been acquired through corporate sales processes, some companies are now active hedgers but were not before, and some companies are simply brand new to the market.

Module Update

Essential hedging contract data released by all North American publicly traded E&P companies each quarter. Data includes hedged production, hedging prices per contract, contract types, contract dates and the benchmarking index.

Data Highlights

- Hedging Coverage - USA and Canada
- Aggregated Hedged Production Volume by Company
 - Oil and NGLs in daily average (bbl/d) and in per contract sum (bbl)
 - Natural Gas in daily average (mmcf/d) and in per contract sum (mmcf)
 - Total volume hedged (boe/d)
- Contract Commodities
 - Oil, NGL, Natural Gas, Condensate, Other
- Contract Coverage
 - Start and End Dates
- Contract Types
 - Swaps, Collar, Differentials, Call, Put
- Benchmarking Index
 - WTI, Brent, Henry Hub, WCS, CCG
- Hedged Volume as a % of Production Volume
- Hedging Performance
 - Realized Hedging Gain/Loss on Company Basis
 - Unrealized Hedging Gain/Loss on Company Basis

Intended Users

- E&P managers
- Oilfield service teams
- Analysts

Key User Benefits



Instantly review standardized, comparable hedging data, normalized by production type and trading currency



Review all publicly-traded North American companies reporting hedging contracts and the actual source data



Track active hedging updates and benchmark against earlier hedging decisions



Identify and compare the hedging performance of companies against peer groups



Reference hedging alongside comprehensive Financial & Operating metrics

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