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Q2 2021 Occidental Petroleum Corp Earnings Call

EVENT DATE/TIME: AUGUST 04, 2021 / 5:00PM GMT

CORPORATE PARTICIPANTS

Jeff Alvarez *Occidental Petroleum Corporation - VP of IR*
Rob Peterson *Occidental Petroleum Corporation - Senior VP & CFO*
Vicki Hollub *Occidental Petroleum Corporation - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Doug Leggate *BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research*
Leo Mariani *KeyBanc Capital Markets Inc., Research Division - Analyst*
Neal Dingmann *Truist Securities, Inc., Research Division - MD*
Neil Mehta *Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst*
Paul Cheng *Scotiabank Global Banking and Markets, Research Division - Analyst*
Phil Gresh *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*
Roger Read *Wells Fargo Securities, LLC, Research Division - MD & Senior Equity Research Analyst*

PRESENTATION

Operator

Good afternoon, and welcome to the Occidental's Second Quarter 2021 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Jeff Alvarez, Vice President of Investor Relations. Please go ahead.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Thank you, Chad. Good afternoon, everyone, and thank you for participating in Occidental's Second Quarter 2021 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; and Robert Peterson, Senior Vice President and Chief Financial Officer.

This afternoon, we will refer to slides available on the Investors section of our website. The presentation includes a cautionary statement on Slide 2 regarding forward-looking statements that will be made on the call this afternoon. I'll now turn the call over to Vicki. Vicki, please go ahead.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Thank you, Jeff, and good afternoon, everyone. Our strong operational performance in the second quarter continued to drive robust financial performance as we marked our second consecutive quarter of generating the highest level of free cash flow in over a decade. As was the case last quarter, our cost structure and capital intensity leadership were catalysts for our strong results and continue to provide a solid foundation for free cash flow generation in the future.

We were especially pleased to have been in a position at the end of the second quarter to launch a tender process to retire over $3 billion of debt using excess cash generated from operations as well as proceeds from divestitures. While we made incremental progress in reducing debt throughout 2020 in the first half of 2021, the completion of this tender represents a sizable step forward in our deleveraging efforts.

This morning, I'll cover our second quarter operational performance and divestiture progress, and Rob will cover our financial results and balance sheet improvement as well as our updated guidance, which includes an improvement to our DD&A rate, an increase in guidance for our full year production and for midstream and OxyChem's 2021 earnings.

In the second quarter, our business -- all of our businesses outperformed. Our capital discipline and efficiency, combined with the supportive and improving commodity price environment, positions us to generate the highest level of free cash flow before and after working capital since the third quarter of 2008 when WTI hit $145 a barrel. We are proud of our teams for this accomplishment, and we appreciate that they are continuing to improve our capital execution and operating efficiencies to further expand our margins.

We exited the quarter with approximately $4.6 billion of unrestricted cash, which does not include cash received in July from the recently closed divestiture or the cash used for the debt tender which closed in July. Rob will touch on the tender in a little more detail, but I would like to reiterate how pleased we are to be once again making notable progress in reducing debt and strengthening our balance sheet.

Turning to our operational results. Our oil and gas business delivered second quarter production from continuing operations of over 1.2 million BOE per day, with total company-wide capital spending of almost $698 million. Our domestic oil and gas operating cost of $6 per BOE came in substantially below our full year guidance as our teams continued to demonstrate their innovative operations expertise by finding new ways to safely reduce costs in our field operations.

In the second quarter, OxyChem continued to benefit from robust PVC demand and pricing as well as gradual strengthening in the caustic soda market. We believe the fundamentals for these markets will remain supportive through the second half of 2021, and we are confident in increasing our full year guidance to a midpoint of $1.25 billion, representing an almost 60% increase over our original guidance for the year.

The ability of our oil and gas business to overcome challenges while increasing efficiencies has been transformational. Looking back over the first 6 months of this year, we overcame the impacts of a major weather event and divested a producing asset. We were able to make up the loss and divested production and have increased our full year production guidance for continuing operations to 1.15 million BOE per day.

We continue to be highly encouraged by well performance across our portfolio. For example, in the Texas Delaware, we recently brought online a new Silvertip development that is producing approximately 20% more oil compared to a prior development in this area. Additionally, in an area of roughly 10 miles southeast of Silvertip, we brought online a 5-well development with average 30-day peak rates of almost 5,000 BOE per day.

As I mentioned, operationally, our teams continue to set new efficiency records while constantly pursuing opportunities to improve. We set new quarterly records across our portfolio on feet drilled and hours pumped in a single day. In the Midland Basin, we set a new drilling record with over 9,500 feet drilled in 24 hours, contributing to a new Oxy Permian spud-to-rig-release record, drilling a 10,000-foot horizontal well in only 8 days.

In the DJ Basin, we set a new company-wide frac record of pumping over 23 hours in a single day. Utilizing Oxy Drilling Dynamics in the Gulf of Mexico, we have significantly lowered drilling cost and duration as the wells drilled in 2021 have cost 15% less than the average for 2019. As I mentioned on last quarter's call, we've had excellent results leveraging remote operations. Our innovative mindset and ability to leverage technological breakthroughs have allowed us to continue pushing the performance envelope, giving me confidence that our best-in-class capital efficiency will continue.

Our divestiture plan advanced in the second quarter with the recent closing of a non-core Permian acreage sale for approximately $510 million. Given our industry-leading inventory depth, we welcomed the opportunity to monetize these assets at an attractive price as it is unlikely that we would have developed this acreage in the near future. We expect to close at least $2 billion of divestitures post-Colombia. And as we've said previously, we'll always prioritize obtaining value for our shareholders over meeting a deadline.

I want to take a few minutes to talk about our Chemical business and how we plan to leverage its leadership and expertise into our Low Carbon Ventures business. OxyChem's success is demonstrated by its financial performance and track record of consistent free cash flow generation. OxyChem has been a consistent generator of free cash flow during the past downturns. And with the macro environment improving, OxyChem is on track to deliver record earnings this year, even surpassing 2018's results. The business may also continue to strengthen in future years as caustic soda, one of the key profit drivers for the business, has experienced only a moderate price recovery to date.

Last quarter, I spoke about how OxyChem's integration across multiple chlorine derivatives provides us with the ability to optimize our caustic soda production while opportunistically adjusting our production mix to maximize margins. There are many opportunities for us to apply the same approach to integration as we develop opportunities between OxyChem and our Low Carbon Ventures business. As a major producer of PVC and caustic potash, OxyChem has the engineering, R&D, and process technology expertise as well as the production capability necessary to build our Low Carbon business.

OxyChem is a world leader in the customization, handling, and usage of PVC, which will be a major component in the construction and ongoing operation of the direct air capture facility. We're also one of the world's largest leading producers of caustic potash, the key chemical utilized in the direct air capture process to separate carbon dioxide for sequestration or carbon-neutral enhanced oil recovery. Our vast knowledge of equipment design and our experience with operating and handling the caustic potash will be key to helping us quickly optimize our direct air capture facility.

In addition to being a market leader and consistent free cash flow generator, OxyChem is integral to our business of today and of tomorrow. It's also worth noting that OxyChem is a market leader in health, safety and environmental performance. OxyChem recently earned a remarkable 31 Responsible Care awards. These are from the American Chemistry Council and are the U.S. chemical manufacturing industry's leading performance awards. The awards recognize OxyChem's achievements in safety, waste reduction, and improving energy efficiency. Several of the award-winning initiatives focused on waste minimization, reuse, recycling, and energy efficiency, which will all contribute to our 2025 sustainability goals.

I will now hand the call over to Rob, who will walk you through our financial results for the second quarter and guidance for the remainder of the year.

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Thank you, Vicki. Our businesses continued to perform well in the second quarter as our free cash flow generation affirmed our confidence in Oxy's ability to generate cash in a healthy price environment. The strong performance contributed to a quarter end unrestricted cash balance of $4.6 billion.

On our last call, I mentioned the potential for a partial reversal of the working capital change incurred in the first quarter. As expected, we benefited from a positive working capital change this quarter of approximately $600 million, further contributing to our cash build during the quarter. As Vicki mentioned, we launched a tender late in the quarter enabling us to repay over $3 billion of debt in July. Subsequent to successful execution of a debt tender in July, we received proceeds from the non-strategic Permian acreage, partially refreshing our post-tender cash position early in the quarter.

In the second quarter, we announced an adjusted profit of $0.32 and a reported loss of $0.10 per diluted share. While we place a greater importance on cash flow generation, especially as we are focused on deleveraging, we are pleased to be generating income on an adjusted basis and view this is a positive indication that our financial position continues to improve. Our reported results were less than our adjusted results primarily due to the mark-to-market impact of derivatives.

We delivered outstanding production results year-to-date while having deployed less than half of our full year capital budget of $2.9 billion. We expect capital expenditure to remain within budget, demonstrating our commitment to capital discipline and our capital intensity leadership, even as capital spending has been higher in the second half than the first half of the year.

The positive working capital change realized in the quarter was driven by lower cash payments for items that are accrued throughout the year and lower crude inventory from fewer barrels on the water, partially offset by higher accounts receivable balance due to the increase in commodity prices. As the interest payments on our bonds are made semi-annually, our cash interest payments are going to be lower in the second and fourth quarters than they are in the first and third quarters.

During the downturn last year, we received approximately $1 billion of additional cash flow from our oil hedges. To obtain a costless structure, we sold a 2021 call position of 350,000 barrels a day with an average strike price of $74.16 Brent. As the commodity prices rose at the end of the second quarter, we made payments of $5.7 million under the sold call position and $1 million under our gas hedges in July. Cash settlements paid to date on the hedges have been minimal and are certainly worth the benefit we received last year.

We continue to maintain an opportunistic approach towards hedging, and the forward curve is supportive but have not added any hedges past the end of this year. We believe creating a manageable debt maturity profile and reducing debt is a more effective long-term solution to derisking the balance sheet while providing shareholders with exposure to commodity price gains.

We raised our full year production guidance following our strong second quarter results and have increased our earnings guidance for OxyChem and midstream for the second time this year, reflecting strong first half performance and improved market conditions.

We expect that 2021 will be a record year for OxyChem, even surpassing our earnings in 2018, when we benefitted from exceptionally strong caustic soda prices in the middle part of that year. Midstream is expected to benefit in the second half of the year from continued higher sulfur prices at Al Hosn as well as an uplift in the third quarter related to the timing of export sales.

We also lowered our DD&A guidance for 2021, reflecting the midyear reserves update. This update takes into account more supportive trailing 12-month commodity prices at mid-year compared to year-end 2020 as well as our activity plans and recent success in lowering operating costs. The combination of these factors have increased our proved reserves, which we expect to result in a lower DD&A rate going forward.

Our production in the second half of 2021 is expected to average 1.14 million BOE per day. Production in the second quarter benefited from time-to-market acceleration in the Rockies and Permian. Favorable weather conditions and optimization of planned maintenance schedules to better sequence shutdown activities resulted in lower-than-expected downtime in the Gulf of Mexico, contributing to higher-than-expected production.

Our expected third quarter production of 1.145 million BOE per day includes an allowance for seasonal weather and maintenance in the Gulf of Mexico, the divestiture of approximately 10,000 BOE per day in the Permian, the timing impact of our Rockies capital program, which was front-loaded in 2021, as well as PSC impacts due to price. Even as production in the second half of the year is expected to be lower than the impressive second quarter production result, we remain confident in our production trajectory leveling out as we enter 2022, where we anticipate a production pattern similar to 2021.

We have updated our activity slide to include two additional New Mexico rigs. The New Mexico activity change will be fully funded through the cost savings and optimization of our capital projects gained through efficiency improvements and will not increase our capital budget. Adding activity in one of our highest return to assets will place us in a strong position as we transition into 2022.

With the successful completion of our debt tender, we paid over $3 billion of 2022 through 2026 maturities and now have a clear runway over the next few years. As we generate cash from organic free cash flow, we continue to evaluate the options available for additional debt reduction, and we'll seek to further [level] (added by company after the call) our debt maturity profile so that we're not exposed to any significant amount of maturities in any single year. The options available to us for debt reduction include potentially calling the 2022 floating rate notes prior to maturity, executing additional tenders, exercising attractive make-whole provisions, pursuing open market debt repurchases, or we may choose, in some cases, to build a cash position which may be applied towards retiring maturities as they come due.

We also plan to retire $750 million of notional interest rate swaps in the third quarter for the fair value amount, which will improve cash flow by almost $50 million per annum at the current curve. We entered the second half of 2021 in a stronger position than at the beginning of the year, and as we look forward, we remain focused on maintaining a strong liquidity position, deleveraging to regain investment-grade metrics, and preserving financial policies and cash flow priorities that embed capital discipline.

I will now turn the call back over to Vicki.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Thank you, Rob. We are proud of the substantial progress in delivering our near-term cash flow priorities. We have significantly de-risked our balance sheet with the successful completion of our recent debt tender. And this marks the next stage of our deleveraging effort as we work to further reduce debt and to lower our breakeven. While we still have work to do before transitioning to the next stage of our cash flow priorities, including returning additional capital to shareholders, we're confident that the steps we have completed to date and the strong operational performance that we continue to deliver will accelerate our progress.

We'll now open the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question will be from Neil Mehta with Goldman Sachs.

Neil Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

Thanks so much and really strong results here on Chemicals, and that's where I want to start. Can you talk to your views on caustic soda and PVC pricing for the remainder of the year and next year and the sustainability of the margins that we see out there?

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes, Neil. We continue to see very strong conditions in both our vinyl business and steady improvements in the caustic soda business, as Vicki indicated. As you can see on Slide 7 of the deck, these 2 businesses are the major profit drivers for our Chemical business. And it's unusual, but we do have conditions when both businesses are seeing favorable market conditions, the earnings impact that you're seeing is significant. So on the PVC business, the business remains extremely strong due to a tight supply/demand balance.

On a year-to-date basis, we're seeing domestic demand as an industry about 16% higher compared to the same period in 2020. But more importantly, it's up 13% from where it was in 2019 in a non-COVID period. And so strong demand is also attributed to really low levels of inventory and supply chain, combined with the construction sector, which we're seeing in, obviously, in a lot of their construction materials.

And we expect demand to remain strong with a very favorable housing start outlook, mortgage rates remaining low, which tends to also drive historically the business and a lot of investment remodeling. And so we're -- those kind of factors are all pointing towards sustained improvement in the PVC business.

The other thing I would say is that when the export business is soft like it is now, where we're seeing year-to-date exports are down 33%, which tends to be the last location of PVC production, that's indicative of a strong market. And so when there's not enough product to go around, we should see margins remain favorable for us.

On the chlor-alkali side, the chlorine molecule itself is very tight, and so producers are seeking the highest-value outlets for chlorine molecules. And as Vicki mentioned, our very diverse portfolio of chlorine derivatives allows us to really maximize the bag of these chlorine molecules through our chain of opportunities. And so chlor-alkali production itself has been under pressure for the year simply because of a lot of both unplanned and planned outages. And if you look at chlor-alkali rates, they're actually lower in '21 than they were in '20 year-to-date, running about 75% year-to-date versus 80% over the same period last year, resulting in about 6% less caustic production available this year versus last year.

So caustic's been quite tight, which is helping to improve prices. And with planned outages scheduled in the third quarter, we would anticipate that -- further support for additional price increases in the caustic soda business. And then as you see, caustic for us tends to be something that moves with the global economy. And well, certainly, as economies open up and eventually travel restrictions close -- ease globally, we should see additional demand in underlying sectors. And so as far as the key demand sectors in the second half, we see better demand in the alumina sector, the pulp/paper sector, water treatment and certainly the bleaching sectors all improving in the third quarter.

So both sides of the ECU are looking strong headed into the second half of the year. And the underlying factors certainly are bullish for both of them as we move into 2022 and beyond.

Neil Mehta ***Goldman Sachs Group, Inc., Research Division - VP and Integrated Oil & Refining Analyst***

And the follow-up is one of the key takeaways from earnings season is the emphasis investors continue to place on cash returns. And at this point, Occidental is more focused on deleveraging the business, which makes a lot of sense. Can you just remind us what your absolute debt target is? And then at what point or what milestones should we be thinking about the company shifting from a deleveraging approach, to one of where you can reintroduce something like a dividend?

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes. So certainly a topic du jour. So we depicted on the 13th slide of the deck, which was newly included, that we're essentially on a journey when it comes to cash flow priorities. And after a lot of risk in 2020, to de-risk the company in what I call a post-COVID world, between the stabilization of production, the slashing of our costs, and refinance near-term maturities, now we're making headway, as Vicki detailed, on our deleveraging process. And we took a significant step forward with the upside tender in July, through both a combination of cash available, from strong production performance, the continued capital execution and diligent cost management and really the remarkable turnaround in Chemicals, all contributed to the success of that.

And so now we've retired about $12.7 billion of principal since the middle of '19 through that combination of our organic cash generation and investor program. And I think we'll continue to work towards the $2 billion to $3 billion post-Colombia divesture target that we've established. But as we look forward, it's anticipated that the majority of free cash flow from the business will be the source of future cash for debt retirement. And it's critical that as we take advantage of the elevated prices, to deleverage the balance sheet because we know any time there are going to be changes in the macro environment that could affect or alter commodity prices, that it would inhibit our ability to do that.

So when I look at the time it takes, our path does remain focused right now on the 2 top priorities being that we're focused on in our list. And how long we're on that path is certainly dependent upon future commodity prices because that certainly impacts the rate at which we're able to move down the path. But I do think that the steps we've taken since March of '20 are all part of a long-term strategy around increasing value to our shareholders. For example, if you look at last year, in the de-risking side, we could have saved a little interest in our refinance process by using more onerous indentures.

But we sit here today with a much less risky maturity profile and in the same simple capital structure we started with. And we do believe ultimately deleveraging the company is going to be the benefit of equity holders in the form of equity appreciation. And we also understand that, that leverage to oil price remains attractive and is a determinant of the pace of that process.

And our EBITDA does fluctuate obviously a lot with commodity prices. And while some agencies have modestly increased their models, their prices are still well below the current strip. So that's why we keep saying that to get to a more sustainable debt level in the mid-20 range is likely necessary to achieve those IG-like financial metrics.

In addition to debt ratio, we understand obviously financial policies matter in investment grade decisions. So use of cash or dividends, growth, et cetera, will also be viewed in the near-term unfavorably, so that's why we remain focused on the deleveraging process. And once we reach that more sustainable debt level, we will start resuming a greater amount of cash to shareholders.

Operator

And the next question will come from Doug Leggate with Bank of America.

Doug Leggate ***BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research***

It's amazing to me how folks continue to look for cash returns, Vicki, when you've got the potential of moving 40% of your market cap between debt and equity over the next year. And I guess it's -- that's really the rub of my question, these disposals and how you can accelerate that. But I would like to frame it like this. When you announced the $2 billion to $3 billion target post-Colombia, Brent was $42 for the $2 billion to $3 billion target. Obviously, it's not there today.

So can you just give us an update as to do you expect to do more than the [2.3] on a pari passu basis for the oil price? Or are you moving and are you targeting $2 billion to $3 billion albeit, I'm guessing, you can do that with fewer assets given where the oil price is? So I just wanted you to help me risk the $2 billion to $3 billion. It seems to me you can probably do a lot more in absolute terms given the oil prices are $30 higher.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

So at this point, we're not really prepared to change the goals that we've set out, although we feel very comfortable we will achieve the lower end of that goal. But Doug, you're exactly right. Given our portfolio, there could be other opportunities available to us to continue to optimize what we have today. And optimization to us is not just ensuring that you have the best quality assets in your portfolio, that you're putting your dollars where they generate the most value. It's also looking at the opportunities to do as we just did, and that is to monetize where you see that the monetization of that is going to be so far out into the future. It's not meaningful value for our shareholders today.

So we're constantly looking at and updating, optimizing our plans and looking at those opportunities, where could there be additional situations where we have the same thing that we just did with this Permian acreage, monetize it today and have the opportunity to create better value today than to keep it in the portfolio when we know we can't get to it.

So we're still looking at all those things, not prepared yet to change our guidance, but I can say that, opportunistically, we do want to create value sooner rather than later. So we'll continue to keep that in mind as we review the portfolio and optimize as we go along.

Doug Leggate ***BofA Securities, Research Division - MD and Head of US Oil & Gas Equity Research***

Vicki, I apologize for asking for clarification on this, but if you have the same number of assets, are you ahead of schedule then in terms of the absolute proceeds, again reflecting the fact that the oil price is higher?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

We are on schedule with what we need to do. But with that said, given where oil prices are today, we're quite comfortable looking at opportunities as they come in. And by that, I mean, we're still getting opportunities coming in the door for various parts of our portfolio. And we look at all of those very critically. And I think that there's going to be situations that come up over the next 12 to 18 months that would provide us more opportunity to raise additional funds. But I don't want to commit to that because where we are now, and with respect to our cash flow generation and our deleveraging progress, we're in a position to be, I would say, much more careful, and careful is not the right word, but much more, I guess, opportunistic, is the only word I can think of, to ensure that we get maximum prices for what we would sell.

Because we started out the divestiture program by cutting off the very tail end of what we felt like fit within our portfolio, that could fit with another's portfolio in a higher level. But for us, the things we've sold just could not compete and could not add the value that other things in our portfolio could. So now as we have divested of those assets, we're now getting to the assets where we expect to get more value from a divestiture than those that were at the lower end, I guess, is the best way to say it. So -- but we're open to looking at opportunities as we see them.

Operator

And the next question will come from Roger Read with Wells Fargo.

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

Thank you and congratulations on the quarter. It's nice to see everything clicking for the first time in a while. I guess what I would like to maybe address, some of the metrics you're using that underpin the decision to move away from any sort of a hedging strategy and maybe getting back to thinking about from a debt-to-EBITDA, debt-to-cap, maybe a long-term debt number you're more comfortable with, just maybe all the pieces that have gone into it that kind of speaks to where you are now versus where everything was 12 and 24 months ago.

Rob Peterson ***Occidental Petroleum Corporation - Senior VP & CFO***

Yes, fair question, Roger. So certainly, historically, the company has not been one with a hedging philosophy and felt like the combination of our exposure to commodities and exposure to the price of a long-haul would ultimately deliver the most value to our shareholders versus attempting to use hedges to try and create value. And that certainly changed in 2020 because we were in a position where our leverage was such that it was necessary for us to create some protection in the event we were in a negative price environment, like -- but it ultimately worked out that way.

And certainly, the $1 billion that we were able to create in value last year from the hedge was something that was critical to our success last year. And we'll continue to maintain the opportunistic approach. But as we evaluate hedges, we're considering a lot of factors. Number one is the cost to execute the hedge. Certainly, as the costless hedge that we did last year came with a call provision this year, which hasn't been very expensive, but they can be, and the implications that the hedge is going to have on the upside to leverage our oil price, such as a collar. And so a pure put hedge is pretty expensive. I think collars introduce an upside limitation that we would not like to put on our shareholders.

And so if you look at the -- we think that creating that manageable debt profile, as I discussed in the comments, particularly knocking down the taller towers beyond just the near-term stuff that we focused on, if you look at the recent tender, 80% of the bonds that we addressed were in that 2022 to 2024 time frame. And it's a more effective long-term solution by [certainly providing] that.

And so I do think that you can use a trailing -- if prices were to continue with the current strip values and use a trailing EBITDA by the end of the year, and we were able to continue on as we've been doing with debt retirement, we could be easily be below a 3x multiple. But certainly, as I discussed, that's not as necessarily with a strip value that's much higher than the -- what's being used by the rating agencies.

And so I do think it's important to us to maintain those ratios, but it's also why I mentioned in my comments it's important for us to really go after the maturities while we have the wind at our back in terms of commodity prices, which is exactly what we're doing. And so taking that out and continuing to move forward and then you can look at the way that we structured the tender and strategy approach on that, we left aside a significant amount of debt that's easily available to us, $2 billion worth, it's either going to be maturable before the end of the year, is callable before the end of the year, or we have attractive make-whole payments in addition to the floating interest rate notes.

And so that gives us access to very cheaply continue to retire debt moving forward over the balance of the year, which will go further and further towards that. And so we've just got work to do. We made a giant step forward with the debt tender in the last quarter. But we see still have a little more work to do. But I do feel like that the work we've done, particularly between the deleveraging and the cleaned out runway has given us a lot more selectivity around hedging strategies moving forward, not to say that we would never do them again, but it certainly is our preference to create the value for shareholders and give them the exposure to oil price, which is something that Oxy has to offer right now that many others don't.

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

I appreciate that. That's a good answer and it just sort of gets to the reduced risk profile overall. I appreciate that. Maybe just changing directions with my other question a little bit here. The comment about being able to add the two rigs in New Mexico, no impact on CapEx. I was just curious, so does -- is that a function or a reflection of improved efficiency and productivity, some of the other things mentioned like the uptime on the pumping jobs. Maybe, Vicki, just a question overall as you're seeing the evolution and continued productivity and efficiency gains out on the field.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Yes, it was a combination of the efficiencies of the current drilling program and also the utilization of existing facilities to ensure that we could shift our capital to two additional rigs without needing any incremental infrastructure expenditures. So this has created a really good opportunity, the fact that our teams are continuing to improve what they're doing.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

And Roger, on top of what Vicki just said, I think it's important to note, I mean, if you look at our activity profile, I mean, we were ramping down through the year. So it's not that we necessarily are ramping up activity. It's not the case. We're just not ramping down. We still went from 12 rigs down to 10. Today, we're at 11. So we're just kind of flattening out that activity profile while still keeping the capital budget exactly the same. So we're not adding to that, as you pointed out.

And the impact is really more about next year. If you look at that activity set, one rig started up, another will start up soon, it will add approximately 20,000 barrels a day to second quarter next year. So that will help our capital profile going into next year.

Operator

And the next question will be from Phil Gresh with JPMorgan.

Phil Gresh ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

Yes, Jeff, just to follow up on what you were talking about with the activity levels, as you look at the second half spending, you annualize that second half spending is around $3.2 billion or so. Any initial thoughts around the 2022 CapEx levels? Would you just be looking to kind of keep it where it is?

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

It's a good question. And as you know, Phil, it's a little early for us to forecast what 2022 looks like. We usually do that on our fourth quarter call. But to your point about cadence because I think that's relevant and you can kind of read some things into that, when you look at our capital profile, and that's $2.9 billion for the year, as you mentioned, we spent $1.3 billion in the first half. And there's a couple of things that drive that, and you can see it. Like for example, our Chems business, we forecasted about $300 million. They've spent a little over $100 million. So a lot of those activities are back-end-weighted.

On our Permian activity slide, you can see, of our $1.2 billion, we've only spent $500 million of that. And the reason for that is a lot of our Midland Basin wells were front-end-loaded, so much lower working interest with the carry. Now we're getting to some of our higher-working interest wells that go with that. So it's really more about where we're spending capital and how it is more than a cadence of an activity set drastically changing. So I wouldn't read into like a 800 quarter-type number being what we need for next year.

So as you look to 2022, I mean, obviously, we would give a lot more color on this going forward, but I think the same narrative we've talked about in previous calls, we continue to see great improvement from an operational standpoint. I think when you look at what our teams have done this year, it's exceeded all of our expectations from an efficiency standpoint. I mean we -- every time we look to put the slides together and we ask for new records that have been set, we're blown away by the new things that come up again and again and again that our teams are doing.

And so I don't think that's going to stop. I mean we -- even after we put the slides together for this, we got notice last night, where our Rockies team set a record for the month of July for pumping efficiency of like 630 hours pumped. So you start doing the math on that, and that's 10% better than our previous record and the best Western Hemisphere record for the service provider that did that in Halliburton.

So I think we're going to continue to see those improvements that are going to help with capital efficiency going forward. And we do know there's takes against that, that we'll need to build in, that we've talked about. GoM was especially low this year, and we know that probably takes a little more capital to run the type of business we want to run there. We've got other projects going on that could push that up, but those will be offset by some improvement.

So more to come on that in the future. But I do think, as we kind of roll that out, we will talk about some of the benefits and then some of the things that may cause us to spend a little more capital in the short term. But we definitely don't want to underestimate all the great things the teams are doing to get more efficient and get better results from the money that they spend. And I think that's what you saw in the first half of this year, is that rolling through and hence, why we could add activity compared to what we thought without increasing the capital budget.

Phil Gresh ***JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst***

That makes sense. My next question, I guess, would be for Vicki. As you think about the EOR business moving forward, where would you say you are in terms of the opportunity to process anthropogenic CO2? And how should we think about the timing of potential updates from the company as we look ahead, say, the next 6 to 12 months around CCUS?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

As you may remember, we have 2 billion barrels of resources yet to be developed in the Enhanced Oil Recovery business in the Permian and the conventional reservoirs. And so we're really excited about the fact that the Low Carbon business will provide us either a very low cost or net 0 cost CO2 for those projects.

But we see that the incremental for Enhanced Oil Recovery will probably come closer to the time of getting the first direct air capture facility online. We still have access to organic CO2, and we'll have minor increases as we continue to expand phases within the Permian EOR business. But significant improvement in escalation will come as a part of our low carbon strategy, and that will help to provide the low-decline assets and production that we've been used to having in the past, which will help to offset some of the Resources' decline.

So it's a key part of our low carbon strategy, and will be a key contributor and growth engine for us as we go forward beyond the implementation of the first few DACs.

Operator

And the next question will come from Paul Cheng with Scotiabank.

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

2 questions, please. First, Vicki, just curious, you guys are definitely one of the very efficient operators in Permian and you have done a good job. And in the past, that you have formed some joint ventures, you essentially are sort of like trying to pull the value forward and by having someone to fund you. But going forward, with your balance sheet starting getting in shape and cash flow getting better, have you looked at opportunities that if you talk to some of your peers, like Shell, to maybe pool the Permian asset together into a giant joint venture and you guys would [respond by] not going to extract cash upfront, but just drive really great efficiency gain going forward that leverages your technical expertise here.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I think that's -- what you said is a great idea. We always look at opportunities to do that. For us, it's not a matter of how you do it. We just look for ways to create value. And any way that we can create value for our shareholders, we're open to doing it. And so the JV with EcoPetrol in the Midland Basin has been very successful for us. We actually may look at additional JVs in the Delaware Basin to continue to accelerate what we're doing there. And partnering with others where we can join forces and find ways to obtain synergies and to utilize our team for the execution part of it and the evaluation part, I think is a really good idea because I'm so proud of our teams.

As Jeff said, I can't reiterate enough how they've blown us away with the work that they've done that is not just at steady-state today, it's continuing to improve. As Jeff mentioned, the subsurface work goes beyond what I ever expected to see in the shale play. And they're now really pushing the technology envelope on how to model, how to first evaluate, do the data analytics, and then model the surface production in the shale reservoirs and to know exactly where to land and how to frac and how to complete. You combine that with the fact that our drilling and completion guys are continuing to set records.

And I tell you, 3 years ago, we would not have predicted where we are today. And even last year, we wouldn't have predicted some of the things that are happening this year. That's why when we talk about capital in the future, it's really hard to say what our sustaining capital would be because we didn't expect it to be $2.9 billion this year back when we looked at it 18 months ago. So the progress made in pushing the envelope, being innovative and really developing the leading-edge part of the industry, with respect to this kind of technology, has been amazing. I'm so proud of the team. So I'll say again, I don't know of any other group that I've ever seen, that could do this kind of work and continue to progress it.

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

I'm just curious, Vicki, have you talked to any of your peers, the other CEOs? I mean because everyone seems to have a big ego and think their team is the best. But I mean, is that something that the industry is ready to do something like that. Because it could be great for you and great for everyone, actually for the whole industry, if someone was willing to say, put aside the ego and do something like that.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I don't want to mention names, but there has been some discussion around that. And I think that is something that the industry is opening up to because we as an industry, we want to create value, we want to do business differently than we've done in the past. We have to do that as an industry to attract investors back to the oil and gas industry. It's going to be important that we change our paradigm about how business should be done.

And I have had some conversations with other CEOs about exactly what you've said. And there are some open to it, some are not, but there are some open to that. And I think this sort of thing needs to happen and has to happen for us to maximize the value of the assets that we and others have today.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Hey, Paul, and if I can add, I think a lot of people forget, I mean, our Permian position was built on one of those JVs. Basically, we bought the joint venture between what was Amoco, Shell and then BP, and ARCO, which was exactly that. So a lot of the people in the company are very well-versed and the benefits that come from that and continually look for those opportunities. But that is the heart of our Permian operation.

Operator

And the next question comes from Neal Dingmann with Truist.

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

Vicki, one, just sort of following on what you said earlier, I want to make sure I'm clear on this. You mentioned, I think, in the prepared remarks you said there could be some coordination, you said, between OxyChem and your decarbonization business. I'm just wondering what -- how you're thinking about that or how quickly you could -- something like this could occur.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Well, OxyChem is already involved in the design of the direct air capture facility. So they will be a key part of the front-end engineering and design that's happening today. We're doing the FEED study. So OxyChem participants are a part of that. They're helping to drive that. And we really want to leverage their expertise around the use of caustic potash, and we need to use PVC products in the direct air capture facility that's going to be a key part of some of the components going into it.

So they will, not only in this, but in potential other kinds of processes in the future, with respect to how to use the product. So it's not just in the first direct air capture facility, we believe also they have an R&D mindset, and they have a group that's been very innovative in the past around developing new ways to do things. And Rob could speak more to that history if we had time. Maybe in the future, we will have them do that. But right now, they are a key part of the low carbon strategy and give us a strength that others don't have in this regard.

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

Got it. Got it. And then just my follow-up is just more on upstream activity. It appears, despite your kind of indication for stable U.S. activity going forward, it looks like you've slowed in the DJ from first to second half. I'm just wondering is this more of a function of slower permitting or shift of interest. I'm just wondering then as you see '22, would '22 be more like first half with more than 50 TILs or more like second half this year with less than 25 TILS.

Jeff Alvarez ***Occidental Petroleum Corporation - VP of IR***

Yes. I think what you're seeing there, when you look at wells online, that's heavily influenced by the amount of DUCs we brought on early in the year. So if you look at the activity set is relatively flat, we're basically running two rigs up there, one in the Powder, one in the DJ, and a frac core. That activity set is pretty consistent. But you're right, Neal, in that you point out, we think we brought on 70% of the wells, but that was heavily influenced. We brought on about 100 DUCs late last year into the early part of this year. So that's what's heavily influencing the wells online number. But the activity set is pretty constant, and the teams are continuing to build inventory so we can keep that activity set ongoing.

Operator

And the next question is from Leo Mariani with KeyBanc.

Leo Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***

I wanted to just jump in a little bit more on the kind of direct air capture side of things here. So correct me if I'm wrong, but it's my understanding you have like a pilot project coming on in the Permian sometime early next year. I was just hoping to get a little more information about that in terms of like what type of capacity, in terms of tons of CO_2 or whatever it might be able to kind of pull out of the air and maybe just a little bit more about what you're kind of hoping to achieve with that pilot.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

We're using the technology that was developed by Carbon Engineering of which we're an equity owner. And Carbon Engineering has a pilot facility already in operation in Canada. So the pilot is already working. And so we'll be designing the facility that we build on the basis of that pilot. And that's where OxyChem also comes into play because OxyChem has done this in the past. They've done pilots and then scaled up those pilots and they've done that very successfully. So they have experience doing this.

So the one that we're going to build will be the largest direct air capture facility in the world. Currently, there are a couple of other different technologies that can capture CO_2 from the air. Those other technologies, the largest one that's built today, captures about 4,000 tons per year. The facility that we intend to build in the Permian will capture 1 million tons per year. So it's on the basis of taking that pilot, upscaling it. And in the process, what we're also doing is we're working on the FEED study, is there's a separate group kind of working together to optimize the facility. So we're not wasting time to get it in operation and then see how it works. We're actually innovating as we build and as we look at the study for the engineering. As we're doing that, we're innovating, too. So we expect that when we get into operation, it's going to be, we think, certainly a better product than it would have been had we not involved both OxyChem in the innovation process simultaneous to the FEED study.

Leo Mariani ***KeyBanc Capital Markets Inc., Research Division - Analyst***

Okay. That's definitely helpful. And I guess, just can you remind us a little bit on the kind of rough timeline to get that first project in place? And then additionally, is there -- I think there was a plan to maybe fund that sort of off-balance sheet or maybe looking in kind of more creative financing. Can you maybe update us on where you are there?

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

Well, the FEED study should be done, and we should have final investment decisions in the early part of next year, and we hope to begin construction by the end of 2022 or beginning of 2023. So -- and it should be then online toward the end of 2023 or into 2024. So it will be up and running certainly by 2024. The process around what we're doing to ensure that we get the right funding for it is we have been talking with partners. And so we have multiple opportunities to bring in others who want to be a part of this.

United Airlines has announced that they will be a part of our direct air capture facility. So they will be not only contributing to the capital needed to build it, but they will be taking the fuel from the facility. So they are committing to an offtake of the low carbon fuel that will be provided by the CO_2 that's captured from the air.

So there are multiple ways to fund it. So one is to make an investment in the facility itself. Second is to commit to taking the CO_2 credits. Third is to commit to purchasing the oil that's generated from the CO_2 that goes into Enhanced Oil Recovery. So we have several ways of financing the facility. And so we haven't finalized how we'll do that. We're working through that now and talking to a lot of interested parties. We should have more information on how we're going to do that by early next year.

But there's definitely a lot of interest in making this happen. It's for the U.S. and for the world. Direct air capture needs to happen successfully and happen in a big way. And so that's generating the interest in the parties that want to be contributing to it and then get to participate in the results of it.

Operator

In the interest of time, this concludes our question-and-answer session. I would like to turn the conference back over to Vicki Hollub for any closing remarks.

Vicki Hollub ***Occidental Petroleum Corporation - President, CEO & Director***

I just want to thank you all for your questions and for joining our call today.

Operator

And thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.