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OXY - Q3 2018 Occidental Petroleum Corp Earnings Call

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OVERVIEW:

Co. reported 3Q18 reported EPS of $2.44 and core diluted EPS of $1.77.

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PRESENTATION

Operator

Good morning, and welcome to the Occidental Petroleum Corporation Third Quarter 2018 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, Andrea. Good morning, everyone, and thank you for participating in Occidental Petroleum's Third Quarter 2018 Conference Call. On the call with us today are Vicki Hollub, President and Chief Executive Officer; Cedric Burgher, Senior Vice President and Chief Financial Officer; Ken Dillon, President, International Oil and Gas Operations; and BJ Hebert, President of OxyChem. In just a moment, I will turn the call over to Vicki.

As a reminder, today's conference call contains certain projections and other forward-looking statements within the meaning of the federal securities laws. These statements are subject to risks and uncertainties that may cause actual results to differ materially from those expressed or implied in these statements as more fully described in our cautionary statement regarding forward-looking statements on Slide 2. Our earnings press release, the Investor Relations supplemental schedules and our non-GAAP to GAAP reconciliations and the conference call presentation slides can be downloaded off our website at www.oxy.com.

I'll now turn the call over to Vicki. Vicki, please go ahead.

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

Thank you, Jeff, and good morning, everyone. Today, I'd like to begin by highlighting the results we've achieved over the last 12 months, during which our focus on value growth and our high-quality assets delivered a cash return on capital employed by 26%. Combined with a double-digit return on capital employed over the same period, we have clearly demonstrated our ability to deliver industry-leading returns. We have aligned our executive compensation to this principle. Our integrated business model provides us with numerous opportunities in which to invest and grow free cash flow in a sustainable manner well into the future. We remain disciplined, and we'll continue to allocate capital to investments that generate the highest returns for our shareholders. This approach enabled us to deliver $3.3 billion of cash to shareholders over the last year through a combination of our dividend and share repurchases while also growing production by 14%.

This morning, Cedric will walk you through our financial results and updated guidance. Jeff will detail the sustainable and value-creating improvements we continue to create in the Permian. And prior to leading our Investor Relations, I just want to let you know that Jeff served as President and General Manager for 2 of our resources business units: Texas Delaware and Midland Basin. He also has significant prior experience in our enhanced oil recovery businesses. After Jeff, Ken will provide an update on operations and opportunities in our international businesses.

Before covering our third quarter highlights, I would like to mention an organizational update and congratulate Jeff Bennett and Barbara Bergersen. They have recently taken on heightened roles within our domestic oil and gas business. Jeff is leading our 3 Permian business units. Those are the Midland Basin, Texas Delaware and Southeastern Mexico. And Barb is leading our Permian Enhanced Oil Recovery business.

I'd also like to congratulate Richard Jackson in his new role, which includes leading our new Low Carbon Ventures team, along with our Permian competitor analysis, land and regulatory teams. The Low Carbon Ventures team will work across all of our businesses. These changes will enable us to focus more intentionally on the Permian and to develop unique corporate strategies that address the key challenges facing our industry.

As noted on Slide 5, we delivered an exceptional quarter, both financially and operationally. Our operating cash flow of $2.6 billion exceeded capital and dividends by $700 million. And during the third quarter, we returned $1.5 billion to our shareholders. Our earnings per share of $1.77 is the highest quarterly EPS we have achieved since the second quarter of 2014 when the average WTI oil price was over $100.

All of our business segments exceeded key performance targets through production growth in the most profitable areas, lower unit cost and better price realizations. In Permian Resources, we brought our best well to date online in the Greater Sand Dunes area. And in Barilla Draw, we brought online the best Texas Permian well to date for the industry. These achievements were made possible through the investments we've made in our people and the advances they have achieved in subsurface modeling and characterization. In Oman, we have 3 new blocks that will provide us long-term, short-cycle, lower decline gross opportunities. Ken will provide additional information on these later in the presentation. Our Chemical segment produced another record quarter of earnings as a result of our integrated business model, which allows us to take full advantage of favorable market conditions. Our midstream and marketing business continues to deliver higher realizations from our advantage Permian takeaway position. And as expected, we closed on a previously announced $2.6 billion midstream transactions.

Our priority continues to be the allocation of free cash flow towards investments that generate the highest returns, along with returning cash to shareholders through our dividend and share repurchases. This includes investing in high-return assets across our integrated businesses. With the additional 3 blocks in Oman and new opportunities in Colombia, we now have an even larger inventory of short-cycle, high-return, long-term growth options in our oil and gas business.

Oxy approaches each opportunity we consider with a disciplined focus on returns. Every project must create value for our shareholders, period. This is one of our core principles. Our priority now is to replace the cash flow from ISND, and we're confident we'll do so in 2020, both from our ongoing development program and reallocation of capital from the North Dome. We will invest in our highest-return projects with Permian Resources serving as the returns benchmark.

Slide 6 shows the depth of opportunities across our portfolio from which we grow our high-return cash flow. Our integrated business provides domestic and international, conventional and unconventional opportunities from which to grow value from our oil and gas production, and our Chemical segment also has opportunities to grow cash flow. As we communicated our plan for 2019, we'll provide further details of our capital allocation.

Looking past next year, we will continue to focus on our highest-return opportunities and expect to increase cash flow to between $9 billion and $9.5 billion by 2022, as shown on Slide 7. This level of cash flow is achievable through investments in short-cycle, high-return projects and is sustainable with an annual capital investment of $5 billion to $5.3 billion in a $60 price environment. We will deliver higher rates of production growth in 2018 and 2019 to replace the cash flow from ISND in 2020 and to return to a higher dividend growth, but our long-term production growth target remains at 5% to 8-plus percent.

Before I turn the call over to Cedric, I want to talk about what discipline means to Oxy. We have honored our commitment to shareholders by returning capital, and we'll continue to do so. We're one of only a few companies in our sector that did not cut our dividend in the downturn or dilute our shareholders. We continue to increase our dividend and plan to return to more meaningful growth in the future, which is one of the key reasons we're investing in our highest-return assets so that we can increase cash flow and return more cash flow to shareholders.

As shown on Slide 8, we've increased our dividend each year since 2002 and repurchased a significant number of shares in a higher oil price environment. Also since 2006, we have returned a total of $31 billion or over half of our current market cap to shareholders. Returning capital to shareholders via our dividend and share repurchases is not new to us and will continue to be a key part of the value we provide.

I'll now hand the call over to Cedric.

Cedric W. Burgher - *Occidental Petroleum Corporation - Senior VP & CFO*

Thanks, Vicki. As Vicki highlighted, we are pleased to have continued repurchasing shares, allowing us to return $1.5 billion of cash to shareholders during the quarter.

On Slide 10, I'd like to start with our earnings, which improved across all segments, with our third quarter reported earnings per share at $2.44 and core EPS at $1.77 per diluted share. The main difference between reported and core income is the gain on sale of our non-core domestic midstream assets, which resulted in an after-tax gain of approximately $700 million. Improvements in the oil and gas segment income were mainly attributed to higher Permian Resources production and Middle East oil sales volumes. Third quarter realized oil prices were approximately flat compared to the second quarter. Total reported production for the third quarter was 681,000 BOEs a day, coming in above the midpoint of our guidance. This was driven by strong execution and well productivity in Permian Resources, which came in at the top end of the guidance range at 225,000 BOEs per day, representing a year-over-year increase of over 60%. Total international production came in at 297,000 BOEs a day, which is at the midpoint of our guidance. The increase in international production from the second quarter reflected the first full quarter following the successful debottlenecking and expansion of capacity at Al Hosn.

The Chemical segment had another quarter of record earnings. Chemical pretax income for the third quarter was $321 million, which came in above guidance of $315 million. Compared to the second quarter of 2018 earnings of $317 million, third quarter earnings were relatively flat as vinyl margins came under pressure from higher ethylene costs, resulting in increased ethylene costs. Export caustic soda demand helped offset the decline in vinyl margins.

Midstream core earnings of $796 million reflected improved marketing margins due to an increase in the Midland-to-MEH differential from $7.86 to $16.67 quarter-over-quarter and exceeded the high end of our guidance due to the mark-to-market improvements, stronger gas processing results driven by higher NGL prices and one-off items from the midstream transaction that closed in the quarter. Third quarter revenue and cost of sales were both grossed up by $327 million due to the accounting related to certain midstream contracts where we've used our excess takeaway capacity by purchasing and reselling third-party barrels. The second quarter gross up amount was $85 million.

Operating cash flow before working capital improved to nearly $2.6 billion as all of our segments continued to outperform cash flow expectations, representing year-on-year growth of 136%. We spent $1.3 billion in capital during the quarter, and our total year capital budget remains at $5 billion. Starting in 2019, we will begin to redeploy approximately $200 million of capital per year that would have been invested in Qatar.

Slide 11 details our updated guidance, which we have narrowed for the full year. We expect total production for 2018 to be 655,000 to 659,000 BOEs per day and Permian Resources production to be 211,000 to 213,000 BOEs per day. The midpoint of this range equates to an exit-to-exit Permian Resources production growth rate of 54% from Q4 2017 to Q4 2018. We have also narrowed our international production guidance range to 286,000 BOEs to 287,000 BOEs and assuming a $75 per barrel Brent pricing for the remainder of the year. In midstream, we expect the fourth quarter to generate pretax income between $450 million and $550 million, assuming a Midland-to-MEH spread of $13 to $15. In our Chemical business, we anticipate fourth quarter pretax earnings of $220 million and are raising the full year guidance to $1.155 million -- billion based on the strong results delivered year-to-date.

To close, we are very pleased with our performance so far this year, including the continuation and expansion of our share repurchase program. As we have shown, our focus is on returns, and our Permian operations set a very high bar for our company, and frankly, for the industry. We have a pipeline of projects across our integrated business that meet our hurdle rates and that have long-term potential. We continue to have the discipline to hold of these principles and occasionally take tough decisions. We believe this is what it takes to lead with respect to capital stewardship. We have aligned compensation in this regard, and we continue to demonstrate our long-time commitment to returns-driven reinvestment, a robust dividend and share repurchases.

I'll now turn the call over to Jeff.

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

Thank you, Cedric. Our Permian teams have delivered another great quarter by continuing to find innovative ways to improve and increase the value of our assets, and I'm excited to share these results with you today. Production for the quarter was outstanding with Permian Resources exceeding the midpoint of production guidance by 5,000 BOEs per day, continued improvements in well results, along with the great execution of our operational plan, thus resulting in high-value production growth. Permian Resources production guidance has now increased by 10,000 BOEs per day from the initial guidance we provided at the beginning of the year. These high-margin barrels have generated additional cash and add significant value to the returns of the underlying assets.

Looking at our highlights on Slide 13, we continued investments in the appraisal program to delineate our acreage and optimize development plans. In Greater Barilla Draw, we integrated the results of our Hoban appraisal efforts into our field development plans and expect to be more active in this bench in 2019. We also drilled 2 Avalon appraisal wells in Greater Sand Dunes that each averaged approximately 2,700 BOEs per day over 30 days. Our appraisal program continues to provide us confidence that Permian Resources will generate returns and sustainable cash flow growth for many years to come.

As Vicki mentioned earlier, the third quarter was another record-breaking quarter for well results in both of our core development areas. We've brought online our best Permian Basin well ever. The Corral Fly 21H in Greater Sand Dunes peaked at over 8,900 BOEs per day with an average over 6,700 BOEs per day for 30 days. We also broke the industry record for the best well in the Texas Permian Basin with the Greater Barilla Draw well, the Peck 11H, which peaked at over 6,500 BOEs per day and averaged 4,900 BOEs per day over 30 days, a 30% increase over the prior record well for this area that we shared with you last quarter. These repeatable record-breaking results are a testament to our subsurface capability, value-based development approach and leading acreage position. While we are excited about these results and the associated returns, we believe there is still more to come as we continue to progress our subsurface characterization work and apply innovative technologies to our development plans.

In addition to the productivity improvements, we lowered our field operating cost in Permian Resources to an all-time low of $7.03 per BOE in the quarter and expect to exit the year at less than $6 per BOE. Returns in Permian EOR are also improving. We continued to demonstrate our unique ability to maximize recovery of the reservoir by capturing oil that would otherwise not be recoverable. As the largest EOR operator in the Permian, we continued to implement new CO2 expansions across our portfolio. We initiated an initial development of the residual oil zone at the Seminole-San Andres unit, which is providing encouraging results that will further enhance the returns from this asset. Our expertise and position in enhanced oil recovery differentiates Oxy. We plan to leverage this core capability to generate enhanced returns in many areas of our business.

I'll close on Slide 14 by summarizing our returns-focused investment approach and the resulting production growth. While the industry has been confronted with many challenges in the Permian this year, our Permian Resources business is delivering its best year ever due to our returns-focused approach. We have delivered 52% of the top Permian wells over the last 12 months while only drilling less than 5% of the total Permian wells over that time period. Our midstream business is providing flow assurance and exposure to the best pricing to our marketing arrangements, and we are protecting our development program from inflation and execution disruptions through our maintenance and logistics hub. Our inventory continues to improve as we advance and execute our development strategy, which provides us with sustainable, high-return investment options for the future. We expect Permian Resources to grow at over 35% next year, which is an outcome of our disciplined approach and the high-return investments that our assets provide.

I will now turn the call over to Ken to discuss international.

Ken Dillon - *Occidental Petroleum Corporation - President, International Oil and Gas Operations*

Thanks, Jeff, and good morning, everyone. Let me start by saying how honored we are today to be able to announce 3 new blocks in Oman, which I will discuss in more detail in a minute.

Overall, we had an excellent quarter from a financial and operational standpoint with world-class HES performance. Our international upstream business is on target to realize $1.4 billion of free cash flow for 2018. In the third quarter, we produced 297,000 BOE per day. We expect this high level of performance to continue as we deliver strong return projects for Oxy under our partners. The plan we outlined for 2018 is progressing well. Our innovative debottlenecking at Al Hosn has increased production by 11% to a peak rate of 83,000 BOE per day net. This is one example of how we create value and enhance returns for our existing assets as we executed the debottlenecking from the $10 million. The TECA Steamflood project was sanctioned this month with our partner, Ecopetrol. We'll begin ramping up production in 2020 and reach a growth rate of 30,000 BOE per day in 2025. We are starting to identify additional areas of high potential in the field which we can develop with attractive returns for both parties. With our disciplined approach to major projects, the TECA Steamflood exceeds our hurdle rate with a breakeven price under $40 WTI. This is just one example of how our assets in Colombia will continue to generate long-term cash flow growth.

Internationally, our step-out drilling programs are on track to add approximately 20 million barrels of resources this year at low funding costs. This is in addition to the 50 million barrels of resources added last year. Overall, since 2014, using Oxy drilling dynamics and working with our suppliers, we've improved our drilling performance by 17% and reduced costs by 30%.

Moving now to Oman. We as Cities Service drilled the very first exploration wells in Oman in 1955 and made the first discovery in 1957. In 2017, we produced our billionth barrel of oil in Oman with 2/3 of that production coming within the last 10 years. We're excited today to announce 3 new blocks in Oman, which will more than double our land position to approximately 6 million acres and fit perfectly with our expertise in generating returns from waterflood and EOR developments. As you can see from the maps on Slide 18 (sic) [Slide 17], in Northern Oman, our acreage will stretch over 225 contiguous miles, allowing us to leverage existing infrastructure as we explore, appraise and develop Block 65 and 51. Block 72 greatly expands our acreage position in Central Oman where we see opportunities to expand upon the success of our Mukhaizna development next door.

In our existing blocks, as shown on Slide 19 (sic) [Slide 18], with the use of Oxy subsurface reservoir characterization workflows, we helped redefine the stratigraphy. This has enabled us over a short period of time to move from 5 productive horizons to 17 producing and appraisal horizons. We will apply the same disciplined approach to the new blocks. We will shoot 3D seismic and invest in targeted appraisal programs. Capital for next year will be modest as we acquire data and optimize future development profiles. These blocks have significant potential, especially when combined with our excellent Oman staff, exceptional partners and inspirational leadership in the country. We expect our proven track record of value-based development and rapid time-to-market to continue.

In closing, I'd like to say that our regional subsurface experience is now being fully leveraged. We believe that in the long term, when combined with our approach to operational excellence and value creation, it will bring future potential opportunities.

I will now turn the call back to Vicki. Thank you.

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

Thank you, Ken. Before we move to the Q&A, I'd like to reiterate Oxy's sustainable value proposition through which we'll continue to deliver industry-leading returns. Our integrated business model enables us to take advantage of opportunities across the value chain and generate high returns in the Permian and internationally while benefiting from the stable cash flows generated from our midstream and Chemical segments. We will continue to invest in our human capital and empower our employees with a culture and facilities, innovation and excellence. This is what their exceptional performance has enabled us to accomplish over the last couple of years. We've more than exceeded our targets. In addition to delivering the best wells in the Permian, our experience in operating wells beyond the initial development and through their entire life cycle, including enhanced recovery, that's second to none. Our Low Carbon Ventures business is making advances towards capturing and sequestering anthropogenic CO2, which will reduce carbon emissions while enhancing the economic development of our returns. Oxy is uniquely positioned to realize cost efficiencies, not only in developing and operating wells, but also through our capability to deliver our products to market at maximized realized prices. We remain committed to developing our resources in a sustainable manner while spending within cash flow. Last quarter, we achieved our breakeven plan, meaning we will be cash flow neutral and pay our dividend at $40 WTI. And at $50 WTI, we can pay our dividend and grow production by 5% to 8-plus percent. This plan remains in place. Our relentless focus remains on allocating free cash flow to investments with the highest returns across our integrated business and returning capital to shareholders through our dividend and share repurchases. Since resuming our share repurchases program this year, we will have returned over $5 billion to shareholders through dividends and share repurchases by the end of 2019.

Lastly, across our businesses, we continue to focus on creating long-term value through industry-leading technical work, life cycle planning and operations focused on maximizing margins.

We'll now open it up for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from Doug Leggate of Bank of America.

Douglas Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

Guys, I've got 2 questions, if I may. My first one is actually on the Middle East. Obviously, I understand the comment about reallocating capital from Shah -- sorry, from Qatar. But my question is really around Shah Al Hosn. About a year or so ago, the government had talked about a project pre-FEED for something like a 50% expansion of that development. I understand you've done the bottlenecking project, but the second piece of that appears to have gone somewhat quiet. And I'm just wondering if you could give us an update as to where that stands, please.

Ken Dillon - *Occidental Petroleum Corporation - President, International Oil and Gas Operations*

Doug. It's Ken. We've successfully debottlenecked the plant. We continue to look for ways to tweak the plant overall. But at the moment, there are no full-scale debottlenecking plans in the near future. We'll continue to work all different aspects of the project. But at the moment, there's no commitment.

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

We're really happy for being able to expand it from 1 Bcf to 1.3 Bcf a day with only a $10 million investment. And so with that accomplishment, that sort of put the other project a bit on hold.

Douglas Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

Got it, understand. My follow-up is, if I could turn it back to the Permian, and I don't know who wants to take this one. But with Jeff moving to take over, I guess, the other regions, it begs the question what assumptions lie behind your 35% in fact longer-term growth profile. And to be clear, what I'm asking is Red Tank is obviously in a much, I guess, more overpressured area. The transition of some of the things you've done in Eddy and Lea going over to Midland and I guess Southern Reeves. Well, what does all of this mean for the assumptions that are embedded in your growth? Are you using 2018 productivity? Are you using data productivity? I'm just trying to understand what the well trajectory looks like that's embedded in your forecast, and I'll leave it there.

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

Yes, Doug. This is Jeff. I mean, I think when you look to next year, we've built in some of our recent performance, definitely the improvement performance we've seen in New Mexico, starting in '17 into '18. We've built that in. We've talked about before where we tend to be a little conservative is just additional improvements that are going to come in the future. We definitely expect to see additional improvements across our development areas. You can see that through, not just New Mexico, but what we've done in Greater Barilla Draw and beyond that. So the teams continue to work the subsurface methodology, which is the foundation of all the improvements we're making. So we expect those improvements to continue. But when you look at next year and the 35-plus percent growth that we've given out, we have built in many of those improvements that we're currently aware of. Where we are a little conservative is the things that we just haven't figured out but we expect to when we get to that point.

Douglas Leggate - *BofA Merrill Lynch, Research Division - MD and Head of US Oil and Gas Equity Research*

So just to be clear, is that trajectory on a flat rig count? Or is that a the rig count trajectory you can give us that goes along with that 2022 outlook?

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

It's a flat rig count.

Operator

Our next question comes from Brian Singer of Goldman Sachs.

Brian Singer - *Goldman Sachs Group Inc., Research Division - MD & Senior Equity Research Analyst*

Can you talk more to the specific drivers of getting Permian Resources operating cash cost down below $6 per BOE in the fourth quarter from slightly above $7 in the third quarter, especially as that would be an acceleration in cost reduction relative to what we saw in Q3 versus Q2?

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

Yes, Brian. This is Jeff. I appreciate the question, yes. So the big drivers of that, there's 2 components: obviously, cost per BOE. There's the cost side. And so if you look at the details, you can see things like our downhole maintenance, the things we're doing from an artificial lift standpoint to finding effective artificial lift systems for very high-rate horizontal wells, yes. We're seeing our downhole maintenance cost come down because we're getting much better at finding the right lift systems. And then when things do fail, which they do, from artificial lift, getting them fixed cheaper and faster. So that's one area. You look at what we're doing on the water recycling side, the Chemical side, getting trucks off the road, infrastructure in place, so all the things that we do from our initial developments to where we start planning how do we need to operate these fields start to translate into the cost side. The second part of that component is obviously the barrels. We're making a lot more barrels. We're making a lot more lower-cost barrels. So when you look at the cost per BOE of these new barrels we're bringing on, the high-rate unconventional barrels, they're much lower than the legacy barrels so that helps drive that cost down as well. And Vicki mentioned it, I mean, that's one area we're very excited about. As the unconventional business matures, that's one area where we think, based on what we've done in our EOR business and the core capabilities we've built, we'll be able to use that and further differentiate ourselves when it comes to getting margin by not just good development cost but excellent operating cost. And I think this is a testament to that.

Brian Singer - *Goldman Sachs Group Inc., Research Division - MD & Senior Equity Research Analyst*

Great, great. And then my follow-up is with regards to allocation of free cash flow. You highlighted the case for free cash flow well in excess of dividends out to 2022. And when you think about the needs for allocation, what is needed to advance the portfolio, either from new projects or via M&A, versus what you see as returnable to shareholders? And then tangentially, Cedric mentioned $280 million may -- would have been invested in Qatar is going to be redeployed. Can you just talk more to where that's going? Or maybe that was the point that you were making with regards to Colombia and Oman?

Cedric W. Burgher - *Occidental Petroleum Corporation - Senior VP & CFO*

Yes. Brian, this is Cedric. A whole lot there in the question, but it's a good question. There's -- it's at the heart of what we're trying to do, which is to allocate capital to the very, very best places. As you know, we have a long history of a fairly diverse approach, which we are continuing today between dividends, buybacks and reinvestment. M&A also is something that's certainly been a part of Oxy's DNA and continues, and we look at opportunities there. So our organic plan is very strong, and that's really what we've touched on here so far on the call. But we've got lots of opportunities. And Ken touched on it, Internationally. You see what we're doing with EOR and our Low Carbon Ventures, so -- and of course, the Permian is fantastic and even getting better each quarter. So that's -- but that's how we're going to approach it. It's consistent with what we've been doing, but we'll just continue to look for the very best places to put the money and make those decisions as we go each year. We do look forward to growing the dividend at a faster rate and buying more shares, but it will be opportunistic in those cases.

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

And I'll just add to that. We've shown before that up to $50 we can actually grow 5% to 8%. So when we -- from $50 to $60 that we have the opportunity to continue to either grow or use funds to buy back shares or to increase our dividend. And over time, the reason for the accelerated growth, what some considered accelerated growth early, is to try to put ourselves in a position with respect to cash flow that we can grow the dividend more meaningfully. But I will say that the international projects that we've just picked up in Oman are very good. The seismic analysis and interpretation is showing good prospects. That's why Ken showed the stratigraph of the horizons that we have to choose from. This is stacked pay, and it's quality stacked pay. So I'm really excited in that Oman provides us so many more opportunities now. And I feel a lot better today than I've ever felt about where we are with respect to the organic growth prospects and the ability to grow the cash flow. That's why we wanted to provide you the numbers for 2022. We're very confident in being able to achieve that with the assets that we have and hopefully continue to advance technology to improve upon that. But it's certain that we have -- I think we're in a better position today than we've ever been. I'm excited about it. It's certainly taken a lot of pressure really off of our ability to continue to fund and develop and even improve projects within our portfolio.

Operator

Our next question comes from Paul Sankey of Mizuho.

Paul Sankey - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Vicki, you've provided an illustration here of the company at $60 through 2022. It feels like you're planning at $50, and this is sort of an upside illustration of the kind of cash flows you'd generate. In that regard, I was wondering, the dividend growth, in the past you've talked about, in line with production growth, I think. Can you illustrate or indicate to us what kind of dividend growth you'd be aspiring to? Do I assume that you would grow the dividend assuming $50 and do the rest of this buyback?

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

Yes. What we -- the way we're trying to model this, and it's a little bit difficult to explain, but this $40 cash neutrality is really a point that we want to maintain into the future. What that means is as we continue to grow our cash flow, our cash flow neutrality price actually will go down. As it goes down, we intend to grow the dividend accordingly so that we maintain the $40 cash flow neutrality. So that's what we're trying to come back to. That's why our model really showed that above $60 that providing cash back to the shareholders through buybacks is an option that, for us, will continue to be a part of our proposition. We don't want to increase the dividend so significantly that we put ourselves way above that cash flow neutrality, so we're targeting to keep that in place over time. And growing the cash flow to what we've proposed in 2022 will enable us to grow the dividend more meaningfully than we've done in the past few years.

Paul Sankey - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Yes. So if we were to sort of triangulate that, would we be looking for something around a 5% dividend increase annually at a $50 assumption?

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

Potentially. But again, it depends on the cash flow. If you -- when you model that out and you see what your free cash flow is from that model, that free cash flow is something that we would sustain -- be able to sustain beyond 2022. So that would be what we would then allocate to dividend growth over that time period.

Paul Sankey - *Mizuho Securities USA LLC, Research Division - MD of Americas Research*

Got it. And can you just remind us the -- subject in my final question, on risks such as we saw with Qatar in the past quarter, which I understand you couldn't prewarn about. And so for us you, were still in negotiation. Can you just highlight anything else that is sort of in that realm of potential shift that could happen over the period through 2022 in terms of PSCs and other contracts?

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

No. We don't have anything that would be expiring in terms of PSCs. Everything else we have is long-term. The nearest term one that we would have would be ISSD, which is South Dome in Qatar. That expires in 2022, but that's very low production, and that's really not even material to us. But everything else, we're in good shape about. That's why I made the comment I really feel good about where we are. Qatar was ISND. We worked hard to get that and to extend that, but we're actually -- this has turned into a win-win for us and that we've been able now to pick up in Oman, those 3 projects, which are onshore, lower cost, and they are right next to their bolt-on. So they're right next to what we know we have in the blocks that we have today. And with the -- what we see on the seismic, we feel really good about that potential. So it's a -- we went from kind of a material asset and higher costs to lower cost, new field development but newer infrastructure. So we're in a really good situation today.

Operator

Our next question comes from Leo Mariani of National Alliance Securities.

Leo Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

Wanted to explore a little bit further on Oman here. Obviously, you guys had some interesting prepared remarks on it. You certainly talked about some enhanced recoveries and some EOR opportunities, but I'm just trying to get a high-level sense here. Is there already production on some of these blocks? Are there some maybe lower-producing mature fields? Or is this more of a rank exploration play in certain areas? Maybe you can just kind of try to bit of characterize this a little bit, just to get a sense of the risk profile and the opportunity here?

Ken Dillon - *Occidental Petroleum Corporation - President, International Oil and Gas Operations*

Leo, it's Ken. If you look at the blocks individually, Block 65 is very close to our Block 67, so we see that -- Block 27, so we see that as step-out wells for formations that we're used to dealing with. If you look at 72, it's beside Block 53 with the giant Mukhaizna field. We're also seeing recent discoveries with our step-out wells in Block 53 with a Buah trend running north. There are also blocks in the north, further north in 72 that have a Buah trend running south. The 2D seismic lines that we've seen over 72 look really, really appealing, and we've got the areas divided into clusters running north. So cluster 1, we plan on drilling a well late this year. And we'll start 3D seismic as quickly as possible, so we can get a crew next year. Low dollars in terms of capital, but we see really, really high potential in these blocks. And then if you look at the stratigraphy, we've done some recent seismic work in one of our existing blocks where it looked like we saw something, so we put some pails very cheaply on development wells, a few hundred thousand dollars. And we now get a 1,000 barrel a day well producing in a zone that's not being produced in Oman before. The question is, how do we calibrate that and does it run everywhere? And what we've got there is essentially a zone that's got 25 penetrations in an area the size of the Delaware Basin. So we see real opportunities with our step-out program, and we see real opportunities because of proximity to existing facilities, we can get stuff on really, really quickly. And great familiarity with our Omani staff there and our partners are really committed to these projects, too. So we see it holistically huge opportunities here for us.

Leo Mariani - *National Alliance Securities, LLC, Research Division - Research Analyst*

All right. That's very helpful color. Just switching gears a little bit to the Permian Basin, bit of a high-level characterization I was looking for here. But I guess you guys just continue to make better and better wells here in the Permian. It's just very impressive results again here this quarter, more record wells. I'm just trying to get a sense, I mean, you certainly mentioned that there could be further improvements down the road. I mean, where do you guys think you sit like if I was to use a baseball analogy? Is this the fourth or fifth inning? Are we more toward the later innings of improvements? Just trying to get a high-level perspective.

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

Leo, this is Jeff. I mean, that's a good question and one we continually ask ourselves, especially the leaders of these businesses because we always think, well, these great results, they've got to stop at some point. But the thing I'll take you back to, I mean, you almost have to go back. Vicki initiated this transformation probably 4 years ago. So if you look at where we've come over the last 4 years, it's truly amazing. Inside the company, we really saw us turn the corner a couple years ago. But then now, I think over the last couple of quarters, you're seeing that more externally. And the thing I'd tell you is, while the foundation is built and subsurface technical excellence, which was always the primary building block for what we're doing, there's many other elements that allow us to take subsurface technical excellence and turn that into economic value and sustainable returns. Things like the long-term development planning, what we've done with Aventine; things like data analytics, which we're finding new improvements every day; things like developing the culture and the human capital to really be successful in a business like this, we continue to see improvements in all those areas. So the ability to predict when do those improvements stop - is very difficult, but we definitely don't think that's anytime in the near future. And what makes us feel so strongly about that is all you have to do is go to the people actually doing this work and you see the improvements that they see, that they want to go capture that they haven't been able to capture yet, and those continue to happen at a very rapid pace. So I think the improvements may happen in different areas. I doubt we'll be talking about a record well in Sand Dunes every quarter. You'll start to see where that may plateau, and then improvements may be coming in a different area at New Mexico or a different area at Barilla Draw or Midland Basin, wherever that is, or it may come on well costs instead of productivity, but they'll all be returns and value driven. So I think when you look at from a returns and value creation standpoint, the improvements are going to happen for a very long period of time. And then Vicki mentioned after initial development, EOR, operating capability, all that, I think the improvements will shift to that, but they'll all be centered around how do we create more value, how do we get higher returns. And I don't think they're going to stop anytime in the near future.

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

I'd just like to add to that, that we -- during the downturn, another thing that we didn't do that others did is we didn't lay off employees. We took that opportunity to engage and empower our employees and let some of our team work on things that were longer term so that we could start to impact our cost structure, and with the subsurface, our characterization and dramatically change how we view our subsurface now. But the credit for this all goes to our employees. We've empowered them to do the things that they need to do, take risks, do things differently, try some things that we haven't tried before, but most importantly, too, when they felt the need to do what they needed to do from a technical expertise standpoint, to not only develop themselves and use the incredible mentors that we have internally, but also to go external and to get the data that we need. On top of all this, too, is our really aggressive data analytics team that by working directly with the business units, the business units guide them to the questions and the problems that they need to solve, and the analytics group gets with them and works on those issues. And so it's a combination of a lot of things. But most importantly, it's our -- the collaboration of our people to drive towards success, not just solving a problem that's not meaningful, but driving toward the things that really improve the value of our portfolio and the production and value that we can deliver.

Operator

Our next question comes from Pavel Molchanov of Raymond James.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Just one for me. One of the investor concerns about the story is the rising proportion of high decline rate production in your mix, 1/3 this past quarter, probably reaching 40% next year. Can you just address kind of how high that proportion can get in your mind and still keep the dividend be sustainable?

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

Well, we were managing both the growth of the dividend, but what we noted we can deliver -- I think we can deliver over time with the assets that we have, but that's what's the value, though, about our Colombia and our Oman and our Abu Dhabi assets is that they are essentially very low decline or when they are higher decline, there's the opportunity -- these are conventional mostly, so there's the opportunity for enhanced oil recovery. Some of it's just going to be waterflooding. Others will be maybe perhaps, either miscible gas or specifically CO2. But these opportunities -- and again, this gets back to what I'm saying, I'm so comfortable and happy with where we are today. This is the part that I was referring to when I said it's taken some of the stress off the business for the growth potential. These 3 blocks, along with what we have to develop on the existing blocks, based on what we see with the seismic, these will deliver the conventional component of our growth going forward that's critically important to help us manage our base decline.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Right. So. Yes, go ahead.

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

I just wanted to add to that, a part of what's going help the Permian Basin, too, with respect to the decline there is in our resources business. We have performed multiple tests and pilots on CO2 injection into the shale, and that is technically successful. We're working now on establishing what that would look like from a full field development. So we do believe that, along with gas injection, these are 2 opportunities for us to offset decline going forward in the resources business on a larger scale. Part of what will support that is our Low Carbon Ventures team, which is out looking for opportunities and actually have one in hand already, one that's -- where we're currently injecting anthropogenic CO2 but another that will come online. And this team will give us opportunity to take CO2 that's captured from industry, bring it to the Permian and use, not just in our conventional reservoirs, but in our shale play as well. So that will work. That's another way that we can continue to lower our decline.

Operator

Our next question comes from Phil Gresh of JPMorgan.

Philip Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

The first question is just around the guidance for 2022. How do you think about the amount of lost CFO between now and then from Qatar and from midstream and from chemicals?

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

Well, this is why we put the plan in place because, really, now, Qatar was a headwind, but we design our programs and our plans knowing that we're going to have cycles with respect to differentials in the Permian. We're going to have variations in caustic soda prices, variations and sulfur prices. So we plan around that, and we generally plan to be pretty conservative with those things that cycle up and down. So the program that we put forth for 2022, we feel that certainly we can achieve that at $60 and with conservative assumptions on pricing.

Philip Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. So I mean, I guess I was trying to run some numbers on this. I mean, Qatar, you said there's $200 million of CapEx and you said it's $300 million of free cash flow, so I'd assume that's about $500 million in CSO. And with your midstream sensitivities, it seemed like there's maybe $1.3 billion going from the 2018 differential down to the $3 differential on your assumptions. So I was calculating It might be approaching $2 million of CSO backfill between that and chemicals to kind of get you back to a normalized place and then the CSO growth on top of that?

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

Yes. We're assuming the differential will be $3 starting in 2020 to 2022. The differential for next year we assume to be essentially what it averaged this year. But with respect to the replacement of the cash flow, what's important for us is the cash flow, not only from operations, but the cash flow pre-capital and post-capital. The reality is that, had we proceeded with the ISND, the capital would have gone up. The take would have gone down. So in our models, we didn't have to replace that. So there was not going to be, for us, what we saw going forward as big a gap as you're calculating. So essentially, though, the replacement of that comes from the growth in Resources and the International growth. And again, conservative assumptions for marketing and also Midstream and Chemicals.

Philip Gresh - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. If I can just follow up on some of the prior questions. If you put it all together where the growth is coming from between now and 2022 embedded in your cash flow guidance, are you assuming basically all of the growth will come from the Permian? Or should we be thinking that there will be, with the blocks in Oman, et cetera, that there will be some international or other growth in the portfolio?

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

Yes. What we can say is that, for Resources, you could assume that, over the 4-year period, there would be about a 25% CAGR, plus or minus a couple of percent. So that would be what would come from Resources. And then assume that the rest of the production growth would come from a combination of enhanced oil recovery in the Permian plus Oman and Colombia opportunities.

Operator

Our next question comes from Bob Morris of Citi.

Robert S Morris - *Citigroup Inc, Research Division - MD and Senior U.S. Oil and Gas Exploration and Production Analyst*

A question for you, either, I guess, Vicki or Jeff. As you look at the Permian Basin, your growth forecast for next year assumes that the rig count being flat basically what it is currently and assumes about $60 WTI. This year, you start out the year with a $50 WTI assumption. But with a higher cash flow, we're able to land a few rigs versus what was the original plan to accelerate growth in 2019, and you're already looking at double-digit growth in 2019 now for the total company. But if oil prices end up being much higher than assumption of $60 per barrel WTI, would you again look to perhaps add rigs later in the year and accelerate into 2020? Or are you pretty dead set on keeping the rig count flat through 2019 and sort of dialing back to that 5% to 8% growth then in 2020?

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

We're going to be dead flat with respect to our rigs in '19 because we are going to stay within the $5 billion to $5.3 billion free cash flow. We're rolling -- putting together our capital plan now. We'll roll that out in the next quarter, so we'll provide you more information on it. But from what we're seeing right now, unless the Board directs something else, we would go with the same rig count into 2019 that we have today.

Robert S Morris - *Citigroup Inc, Research Division - MD and Senior U.S. Oil and Gas Exploration and Production Analyst*

Okay. So even with a lot higher oil prices, that incremental cash is definitely going to go to dividend increases or share buybacks and not to accelerating activity any more than in 2019?

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

Yes. In 2019, we -- our capital is set for $5 billion to $5.3 billion.

Operator

Our next question comes from Paul Cheng of Barclays.

Paul Cheng - *Barclays Bank PLC, Research Division - MD & Senior Analyst*

Vicki, on Oman, I know, is early, early days. Can you give us some idea? Did it work out as you expected. how big is the program that they can support?

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

I'll go ahead and let Ken take that. I think that Ken has modeled out some opportunities for growth, which really depends on what we find from the extension of our appraisal program. I think our capability is going to well exceed what will fit within our capital budget, but I'm sure Ken is going to lobby for more. Ken, you want to address that?

Ken Dillon - *Occidental Petroleum Corporation - President, International Oil and Gas Operations*

Yes. I think that's a fair assessment. As you can see from one of the slides, we showed a number of wells in the inventory that is fairly substantial. Drilling cluster 1 as soon as possible and Block 72 will open up that area very quickly. It's very close to our existing block. Same with Block 65, close to Block 27. So I think we have to compete with Permian Resources, and I feel we've got the inventory to do so. So as Vicki said that we'll be coming along knocking on our door trying to drive the performance there.

Paul Cheng - *Barclays Bank PLC, Research Division - MD & Senior Analyst*

And Ken, I think you guys mentioned that you're going to acquire more 3D seismic next year, so spending in the program would be pretty slow next year. So what kind of time line -- or is there any, maybe the benchmark that we can use or milestone we can use there, how that progress?

Ken Dillon - *Occidental Petroleum Corporation - President, International Oil and Gas Operations*

Yes. I think if you look at it that we have some existing 2D seismic over most of the areas which we'll quickly reprocess. We also have some overlapping 3D seismic that other operators have showed in the areas. We're able to access those, particularly around cluster 1. Frankly, next year is appraisal, reprocessing seismic obtaining new 3D seismic, moderate to low drilling next year, and then the following year being in a position where we can expand the drilling program, if we can obtain some capital, so a thoughtful disciplined approach. We want to add value, deliver returns, not only for us, but for our partners and for the government also.

Paul Cheng - *Barclays Bank PLC, Research Division - MD & Senior Analyst*

So you think that by the end of next year that you will have a much better idea on how big is the program that you could support from a resource standpoint and you can...

Ken Dillon - *Occidental Petroleum Corporation - President, International Oil and Gas Operations*

Absolutely, absolutely.

Paul Cheng - *Barclays Bank PLC, Research Division - MD & Senior Analyst*

And that in terms of the Permian now, Vicki or Jeff, have you guys ever provide, say, by 2025, if we're going to maintain the same rig program as it is today, what type of production that we may be talking about?

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

We know we have the capability to continue to grow the Resources business at pretty much the same CAGR we've achieved between now and 2022. Whether or not we do that really depends on the other international projects and opportunities. So I can tell you we have the capability, but whether that's what we're going to do would depend on what we see at that time.

Paul Cheng - *Barclays Bank PLC, Research Division - MD & Senior Analyst*

And will you be trying to maintain that, say, $5 billion to $5.5 billion over the next several years in terms of CapEx? Or that will also be subject to change?

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

Our CapEx between now and 2020 we expect to be between $5 billion and $5.3 billion.

Cedric W. Burgher - *Occidental Petroleum Corporation - Senior VP & CFO*

That, of course, assumes a $60 or better kind of environment or, call it, $60. As we've said many times, prices are very volatile. If we fall -- if it falls, we intend to keep our spending and our dividend within cash flow, and we can get -- take that all the way down to $40 oil. And if that happens, the growth will moderate, but we intend to be disciplined to spending within cash flow.

Paul Cheng - *Barclays Bank PLC, Research Division - MD & Senior Analyst*

Sure, I understand. But I guess a lot of people are just asking that if the price end up staying sustainable above the, say, $60 range, does that mean that you guys will also be looking the opportunity there to accelerate the growth? Or that -- Vicki already said that 2019 program is pretty dead set. So how about beyond 2019? If the commodity price environment is better, does that mean that you're going to spend more than the $5.3 billion or that you're still going to stick to that program?

Cedric W. Burgher - *Occidental Petroleum Corporation - Senior VP & CFO*

Well, we've given a broad outline of how we would see things in a $60 environment further out. I think it's too early to speculate on wildly different price environments. I would say, certainly like you've seen us already, in a price environment, above $60, and we weren't that far above it this last quarter, we would certainly look to complement our spending with much more substantial buyback program. But to go with a lot greater definition, I think, is just too early to do that today.

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 A. Hollub - *Occidental Petroleum Corporation - President, CEO & Director*

I just want to say thank you all for your questions today. We're excited about where we're headed, and we'll continue to increase our opportunities and get better. So thank you all. Have a great day. Bye.

Operator

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