Is ConocoPhillips Giving Up on Canada?

Description

With a portfolio of energy assets that span the globe, **ConocoPhillips** (NYSE:COP) has a lot of options at its disposal as it looks to drive growth during the current weak oil market. However, one place that is clearly taking a back seat is Canada; ConocoPhillips is really reducing its spending and presence in the country. That being said, despite the recent cuts, ConocoPhillips doesn't appear to be giving up on Canada anytime soon.

Pulling back…

Last week ConocoPhillips announced a major restricting of its global workforce. Overall, the company is cutting 10% of its headcount. One of the steepest cuts is to its Canadian workforce as the company reduces its headcount in the country by 15%. It was one of many steps back the company has taken over the past year.

This reduction follows a big capex reduction as the company has cut spending from roughly US$16 billion to $11 billion. One of the casualties of this reduction was spending on growth projects in Canada.

ConocoPhillips, along with joint venture partner **Cenovus Energy Inc.**, decided to defer spending on future phases of their Christina Lake and Foster Creek projects after their current phases are complete. In addition, the company also cut back on future exploration and appraisal drilling in Canadian unconventional shale plays like the Duvernay and Montney.

Finally, ConocoPhillips was reported to be looking for a buyer for roughly 20% of its production in western Canada. However, the assets it is said to have put up for sale aren't any of its oil sands assets; instead, the company is looking to sell some natural gas assets.

…but not pulling out

Despite the layoffs, spending cuts, and potential asset sales, ConocoPhillips isn't completely exiting Canada like a lot of its other U.S. peers have over the past few years. Instead, the company has a lot of growth planned both for the near term and long term.

The company will actually see its overall production in the country increase over the next two years due to oil sands growth projects that are starting to come online. In fact, just last week the company finally delivered its first barrels from its Surmont 2 project. The company expects the facility to hit full capacity of 118,000 barrels per day by 2017. In addition, it still has one phase at Christina Lake and Foster Creek that will come online by next year.

Further, despite cutting investments in Canadian unconventional shale plays, ConocoPhillips still expects to drive a lot of future growth out of its acreage. The company estimates that it has a 25-year drilling inventory that still offers competitive returns and a low cost of supply. It is also involved in exploration drilling offshore Nova Scotia, which could add a third long-term growth driver for the company in Canada.

Investor takeaway

While ConocoPhillips is clearly pulling back the reins in Canada over the short term, it isn't abandoning the country. Instead, the company is simply pressing pause on growth while oil prices remain weak, so it can hold on to its upside.

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