Rating_Action: Moody's upgrades Occidental Petroleum to Baa3; positive outlook

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New York, March 10, 2023 -- Moody's Investors Service ("Moody's") upgraded the senior unsecured ratings of Occidental Petroleum Corporation (OXY) to Baa3 from Ba1 and senior unsecured shelf rating to (P)Baa3 from (P)Ba1. The commercial paper program rating was upgraded to Prime-3 from Not Prime. Concurrently, Moody's withdrew OXY's Ba1 Corporate Family Rating (CFR), Ba1-PD Probability of Default Rating (PDR) and SGL-1 Speculative Grade Liquidity Rating. The rating outlook is positive.

"The upgrade to Baa3 reflects Occidental Petroleum's much improved credit metrics, management's financial policies supportive of the investment grade rating and the financial flexibility afforded it by its attractive asset portfolio and cash flow generation potential," stated James Wilkins, Moody's Vice President. "We believe OXY's governance risk, which was a material consideration in the ratings upgrade, has improved with the company's successful execution on its debt reduction objectives and balance of the interests of creditors and shareholders going forward."

The following summarizes the rating activity.

Upgrades:

..Issuer: Occidental Petroleum Corporation

....Commercial Paper, Upgraded to P-3 from NP

....Senior Unsecured Shelf, Upgraded to (P)Baa3 from (P)Ba1

....Senior Unsecured Medium-Term Note Program, Upgraded to (P)Baa3 from (P)Ba1

....Senior Unsecured Regular Bond/Debenture, Upgraded to Baa3 from Ba1 (LGD4)

..Issuer: Maryland Industrial Development Financ. Auth.

....Senior Unsecured Revenue Bonds, Upgraded to Baa3 from Ba1

....Senior Unsecured Revenue Bonds, Upgraded to VMIG 3 from S.G.

Withdrawals:

..Issuer: Occidental Petroleum Corporation

.... Corporate Family Rating, Withdrawn, previously rated Ba1

.... Probability of Default Rating, Withdrawn, previously rated Ba1-PD

.... Speculative Grade Liquidity Rating, Withdrawn, previously rated SGL-1

Outlook Actions:

..Issuer: Occidental Petroleum Corporation

....Outlook, Remains Positive

RATINGS RATIONALE

The upgrade of OXY's senior unsecured ratings reflects the strong business profile, robust cash flow generation of the company's operations, material improvements in its credit metrics and financial policies supportive of the investment grade rating. OXY's improved financial profile will bolster its resilience to withstand the negative credit impacts from carbon transition risks. While financial performance of OXY will continue to be influenced by industry cycles, compared to historical experience Moody's expects future profitability and cash flow in this sector to be less robust at the cyclical peaks and worse at cyclical troughs because global initiatives to limit adverse impacts of climate change will constrain the use of hydrocarbons and accelerate the shift to less environmentally damaging energy sources.

OXY's credit metrics have improved meaningfully in 2022 driven by management's steadfast focus on debt reduction, taking advantage of robust oil and gas prices leading to strong earnings and cash flow generation. OXY's balance sheet debt declined by more than $16 billion in 2021-2022 (repaid using free cash flow and asset sales proceeds) and was down 49% from year-end 2019, the year it acquired Anadarko in a largely debt-funded acquisition. As of year-end 2022, reported balance sheet debt was $19.7 billion with a face value of $17.9 billion and the company had $9.8 billion of preferred equity (to which Moody's assigns 50% equity credit). OXY's leverage metrics (including the impact of the preferred equity), as measured by retained cash flow to debt and debt on production, have improved materially following strong operating results from the E&P business as well as meaningful cash flow generated by the chemical and midstream businesses. OXY generated $11 billion of free cash flow in 2022, a record for the company. Cash flow generation also benefited from the reduced common dividend (which was almost eliminated in 2020 and has since increased to $0.18 per share in the first quarter 2023) and lower capital expenditures that remain below historical levels just prior to the 2019 Anadarko acquisition.

Following the rapid repayment of debt in 2021 - 2022, the company's cash flow priorities for 2023 include share repurchases, asset enhancements and the redemption of the preferred equity. The partial redemption of preferred shares, that is possible after shareholder returns for the last twelve months reach $4 per share, will reduce the cash required to service the preferred shares and OXY's adjusted debt, as calculated by Moody's. Both are supportive of the firm's credit profile. Moody's expects OXY to retire debt as maturities come due in 2024, leading to further improvement in the balance sheet, and to continue to opportunistically reduce debt.

OXY enjoys a strong business profile and resilient asset base that benefits from large reserves across multiple geographically diverse regions and meaningful production with average daily production of almost 1.2 million barrels per day. The Permian Basin, its largest asset, which accounts for over 45% of production volumes, is a relatively low cost, competitive asset. Overall, the resilient asset base and large production volumes have allowed OXY to generate robust cash flow in the current commodity price environment, that afford it the flexibility to reposition its balance sheet, increase shareholder remuneration, reinvestment in the assets, as well as invest in new business opportunities such as the development of low carbon ventures. The company is developing low carbon ventures and has ESG goals focused on its transition as the world moves to a lower carbon intensity energy supply. The company's chemical and midstream businesses provide additional diversification of earnings and its chemical business has less exposure to carbon transition risks than the E&P business.

The positive outlook reflects Moody's expectation that OXY will continue to generate positive free cash flow supported by the attractive oil and gas commodity price environment as it maintains or modestly grows its production volumes.

OXY has very good liquidity supported by positive free cash flow generation, unrestricted cash balances ($1.0 billion as of year-end 2022) and an undrawn $4 billion revolving credit facility due June 30, 2025. OXY also has a $600 million securitization facility due in December 2024, which is unused. The revolving credit facility has one financial covenant -- a maximum debt to total capitalization of 0.65:1.00. Moody's believes the company will maintain adequate headroom with respect to the covenant through 2024. OXY has repaid much of its near-term maturities and has no debt maturing in 2023 and less than $1.1 billion of debt maturing in 2024, which can be repaid with free cash flow or other liquidity sources. Its zero coupon notes can be put to OXY by the holders of the notes in October of each year. If put in whole in October 2023, the estimated total amount OXY could be required to pay on the notes is $344 million.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

OXY's ratings could be upgraded to Baa2 if the firm continues to focus on leverage reduction, RCF/debt remains above 50% and the leveraged full-cycle ratio exceeds 2x. Moody's expects the company to continue to reduce debt and maintain financial flexibility in various commodity price environments, even as it increases shareholder remuneration. An inability to maintain RCF/debt above 30% or a change to more aggressive financial policies could lead to a rating downgrade.

The principal methodology used in these ratings was Independent Exploration and Production published in December 2022 and available at https://ratings.moodys.com/api/rmc-documents/396736. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

Occidental Petroleum Corporation, headquartered in Houston, Texas, is a publicly traded independent exploration and production (E&P) company with major operations in the Permian Basin, the Rockies, the US Gulf of Mexico, the Middle East and Latin America. It also has significant midstream and chemical businesses.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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