

# Magnolia Oil & Gas Likely to Become Cash Flow Positive By End of 2020

Companies: HAL, MGY

October 16, 2020

## Research Question:

**What are the positive and negative elements associated with Magnolia Oil & Gas' operations?**

## Highlights

According to an industry specialist, [Magnolia Oil & Gas Corp.](#) (MGY) is poised to become cash flow positive by the end of 2020. A conservative management team is controlling costs, selecting low-cost projects, and utilizing superior well completion techniques to help the company become profitable by year's end. Specifically, the company is focusing on the Austin Chalk play during the current low oil price environment for drilling and completion activity; the company's holdings in the Eagle Ford fairway play likely will be attractive when oil prices are higher. While the company has a modest amount of debt, the industry specialist believes it is not a looming issue.

### *On Near-Term Outlook for Magnolia ...*

#### **Magnolia Moving Toward Becoming Cash Flow Positive by Year's End**

Magnolia is operating prudently and is moving toward becoming cash flow positive by the end of 2020, even with the oil price hovering around \$40. The specialist attributed this comment to the company controlling costs, its low-cost project selection, and its excellent well completion techniques. "Magnolia is on the forefront of completion techniques," he said.

Concerning the state of the overall upstream industry in the United States, the specialist said there continues to be "too much oil with too little demand" for any meaningful recovery to occur this year, though drilling and completion activity could increase slightly during the fourth quarter as exploration and production (E&P) companies finish 2020 programs. Similar to findings in Blueshift Research's [Sept. 11 Oil patch report](#), the specialist said a stable \$50 oil price is needed for growth to occur in the sector.

### *On Magnolia's Management Style ...*

#### **New Conservative Management Team Makes Wise Project Selections**

Magnolia's top management team operates and manages its producing assets very conservatively. The company has made some wise choices in its project selection. The company holds acreage in two key plays in Texas, including the Eagle Ford fairway and the Austin Chalk play. Considering various facets of operating in both areas, the specialist said, "When oil prices are higher, their best play is the Eagle Ford shale, but the Austin Chalk is their best bet when oil prices are lower."

### *On Magnolia's Field Operations ...*

#### **Austin Chalk Activity at Forefront During Low Price Environment**

The industry specialist praised Magnolia's management decision to perform more work in the Austin Chalk, which is still in the production optimization stage, during the current low oil price environment. Specifically, the specialist is impressed with this decision for these reasons:

- In terms of operating costs, the Austin chalk play is a low-cost entry area that has proven production in place.
- Magnolia has had a technical breakthrough on completions in this highly fractured play. The specialist cited the use of geo-steering, such as provided by Halliburton Co.'s (HAL) [Sperry Drilling](#) division, as beneficial to completing wells effectively in the play.
- While the company has drilled single wells around the play, it is considering moving to more cost-efficient pad drilling.

### *Other Considerations about Magnolia ...*

- "They have a modest amount of debt, but it is not a looming issue."
- "They do not hedge, so they are subject to volatile oil prices."
- "I believe the company's chairman [Stephen] Chazen, who has been through previous downturns while working for a large operation, will be successful in a smaller operation."

# Updates from the Oil Patch

- “Magnolia is managing the downturn to become profitable by the end of the year. It is working on its balance sheet.”

## *Areas to Watch that Could Affect Magnolia in 2021 ...*

The industry specialist mentioned some macroeconomic areas to watch that could affect Magnolia in 2021, including:

- “While the global oil supply is being worked down, there will continue to be too much supply in the marketplace and demand is likely to continue to be low.”
- “I expect E&Ps next year will be operating within maintenance budgets only for most of the year.”
- “I don’t see any real increase in E&P capex spending until perhaps fourth quarter 2021 when it may show a small increase over fourth quarter 2020.”

## Background

Blueshift Research had the opportunity to interview a U.S.-based industry specialist, who is an expert on the U.S. upstream activities, including aspects of certain E&P companies, including Magnolia Oil & Gas. This interview took place in the second week of October.

## Next Steps

In its next Oil Patch Update, Blueshift Research will interview U.S. upstream field sources for their outlook on 2021 activity after the result from the presidential election is known.

## Report Coverage Areas and Companies

Blueshift Research has been reporting on the following oil patch areas since Jan. 27, 2015, including coverage of the following public companies:

- E&P (CLR, FANG, MGY, MRO, PE, PXD)
- Well Stimulation (FRAC, HAL, LBRT, NEX, PUMP, QES, RES, SLB, USWS)
- Well Services (BAS, BKR, KEG, RNGR)
- Onshore Drilling (HP, NBR, PDS, PESXQ, PTEN, UNT)
- Fracking Materials (CRR, FTK, HCLP, IR, NOV, SLCA, WEIGF)

To access these reports, please contact [your Blueshift Research sales representative](#).

---

The Author(s) of this research report certify that the information gathered and presented in this report was obtained in accordance with Blueshift Research’s compliance protocols as outlined in the company handbook. All Blueshift reporters identified themselves as reporters/researchers from Blueshift Research and articulated the purpose of the research. To the best of our knowledge and efforts, Blueshift confirmed that the underlying source(s) lawfully obtained the information shared with Blueshift and were entitled to provide such information to Blueshift without breaching a duty to another party. The data in this report has undergone review from Blueshift Research’s Compliance Officer and has been approved for distribution to Blueshift Research’s clients.

© 2020 Blueshift Research LLC. All rights reserved. This transmission was produced for the exclusive use of Blueshift Research LLC, and may not be reproduced or relied upon, in whole or in part, without Blueshift’s written consent. The information herein is not intended to be a complete analysis of every material fact in respect to any company or industry discussed. Blueshift Research is a trademark owned by Blueshift Research LLC.