

MARKETS

Occidental (OXY) to Sell Onshore Assets in Colombia for \$825M

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Occidental Petroleum Corporation **OXY** recently inked a deal to divest its onshore assets in Colombia to The Carlyle Group for \$825 million. Of the agreed price, \$700 million will be paid up front and the remainder will be subject to certain production and commodity price targets.

The transaction is likely to close in the fourth quarter of 2020. It includes operations and working interests in Llanos Norte, Middle Magdalena and Putumayo Basins.

The company in partnership with **Ecopetrol** S.A. **EC** expanded its presence in Colombia over the past 40 years. Following the deal closure, it will retain its footprint in the country via exploration blocks offshore Colombia.

Divestiture Targets

Occidental targets to divest non-core assets worth \$2 billion in 2020, which will help it fund growth projects and redeem debts. To this end, in August 2020, the company entered into an agreement to divest its Wyoming, CO and Utah Land Grant assets to Orion Mine Finance for \$1.33 billion. This deal is also likely to close in fourth-quarter 2020.

The latest deal in Colombia along with the aforementioned ones will help the company achieve its divestment target. Going ahead, Occidental plans to sell off another asset worth \$2-\$3 billion in first-half 2021, considering which we may expect more such divestiture deals from the company's stable in the near future.

Debt Burden

In order to complete the acquisition of Anadarko and beat Chevron Corporation **CVX** in the buyout race, Occidental had to borrow substantial funds. Therefore, to deleverage its balance sheet, the company started selling the less-profitable assets and those that are not in line with its long-term growth objectives along with utilizing the sale proceeds to repay its debt obligations. The latest divestiture deal with The Carlyle Group seems to have been driven by this strategy of Occidental.

Notably, the company has been efficiently lowering its debt load since the buyout of Anadarko. It exited the second quarter of 2020 with a long-term debt of \$36,774 million, down from \$39,391 million at 2019-end. Sale proceeds from the latest deal will enable the company to further reduce its debt levels.

In the 2021-2022 time period, Occidental will have to repay debt worth \$11.1 billion. However, the current weak commodity price scenario and a drop in demand for hydrocarbons due to the pandemic might make it difficult for Occidental to achieve the target on time.

Price Performance

Occidental's shares have lost 76.6% compared with the industry's decline of 52.3% in the past 12 months.



Zacks Rank & Key Pick

Currently, Occidental carries a Zacks Rank #3 (Hold). A better-ranked stock in the same industry is Cactus Inc. **WHD**, having a Zacks Rank #2 (Buy) at present. You can see [the complete list of today's Zacks #1 Rank \(Strong Buy\) stocks here](#).

Cactus delivered a surprise of 12.21%, on average, in the last four quarters. The Zacks Consensus Estimate for 2020 earnings has moved 28.9% north in the past 60 days to 49 cents per share.

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