March 2020

Responding to the Oil Price fall – how the Majors and IOCs are adapting

Oil companies plan to reduce capital expenditure by $34bn in 2020

Companies reiterated their commitment to climate-related emissions reductions targets

Oil companies reassess business plans due to market volatility

It is a little over a month since oil and gas companies announced FY19 results and made commitments to protect shareholder returns. Since then, COVID-19 has been declared a global pandemic, OPEC+ failed to agree new output restrictions, Russia and Saudi Arabia opened the taps, and oil prices fell by 50%. Companies are having to revisit their prior plans and guidance.

In response, **oil companies plan to reduce capital expenditure by $34bn in 2020** to improve balance sheet resilience. The oil majors account for almost a half of the planned reductions, with $17bn of cuts announced so far, representing a 20% decline compared to previous guidance. Collectively, 20 North American independents intend to lower capital spending by $15.5bn this year. However, while some of these companies are making modest cuts of 10%, **most are proposing cuts of 30%** or more. European and Australian independents are also responding to the lower oil price environment and plan to reduce capital investment by $1.8bn.

Strategies being adopted to reduce capital commitments include reducing short-cycle activity, deferring project sanctions, reducing the number of active rigs, focusing development activity in the lowest cost basins and additional asset sales. Most companies signaled that they have the capacity to make deeper cuts if necessary.

Reductions in operating costs are also being targeted to lower cashflow breakevens. A small number of companies are taking the difficult decisions to reduce headcount. The **oil majors have pledged to lower operating costs by a combined $6.8bn**. Some of the majors are in the process of reviewing business plans and therefore the scale of both operating cost and capital expenditure reductions will likely increase. Several companies indicated that they would provide further detail of the actions they are taking to drive down costs when they present their results for the first quarter of 2020.

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Due to actions taken during the previous oil price downturn in 2014, many companies have stated they are now more resilient to lower oil prices. They have stronger balance sheets and lower debt levels. While noting the seriousness of the current situation, several CEOs asserted that their organizations had survived previous downturns and said that they would take the necessary measures to ensure they weathered the current challenging conditions. Importantly **several companies reiterated their commitment to climate-related emissions reductions targets despite the tough macro environment.**

> **The majority of European, Canadian and Australian players directly addressed COVID-19 concerns in their action plans**

The third lever companies are using to curtail costs is **revisiting commitments to short-term shareholder distributions** that were made at higher oil prices. The oil majors that have made announcements about their response to the tougher market conditions have all said they are suspending previously communicated share buyback programs or withdrawing proposals for share buyback schemes. Several North American independents have also announced that share buybacks or dividends will be suspended or reduced. **Shareholders could miss out on returns totaling $7.6bn** if market conditions do not improve over the course of 2020.

The majority of European, Canadian and Australian players directly addressed COVID-19 concerns in their action plans, compared to only a single US independent. The health and well-being of their employees and customers were at the forefront of statements about actions they were taking to navigate through this period of heightened volatility. They also reiterated that safety remained an over-riding priority. Some outlined how they were adapting work practices to maintain oil and gas production in regions where social distancing restrictions are in force.

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Announced actions in response to low oil price environment

	Capex reduction	Opex reduction	Share buyback suspension	Dividend reduction	Dividend suspension
IOCs					
BP plc					
Chevron Corporation	✓	✓	✓		
Eni S.p.A.	✓	✓	✓		
Equinor ASA	✓	✓	✓		
ExxonMobil Corporation					
Repsol S.A.	✓	✓	✓		
Royal Dutch Shell plc	✓	✓	✓		
Total S.A.	✓	✓	✓		
North American Independents					
Apache Corporation	✓			✓	
Canadian Natural Resources Ltd.	✓		✓		
Chesapeake Energy Corporation	✓				
Concho Resources Inc.	✓				
ConocoPhillips	✓				
Continental Resources Inc.	✓				
Devon Energy Corporation	✓				
EOG Resources Inc.	✓				
Hess Corporation	✓				
Husky Energy	✓	✓			
Marathon Oil Corporation	✓				
Murphy Oil Corporation	✓				
Noble Energy Inc.	✓	✓			
Occidental Petroleum Corporation	✓			✓	
Ovintiv Inc. (formerly EnCana)	✓	✓			
Pioneer Natural Resources	✓				
QEP Resources Inc.	✓				
Whiting Petroleum Corporation	✓				
WPX Energy Inc.	✓				

Source: Company statements