Shareholder returns back in focus

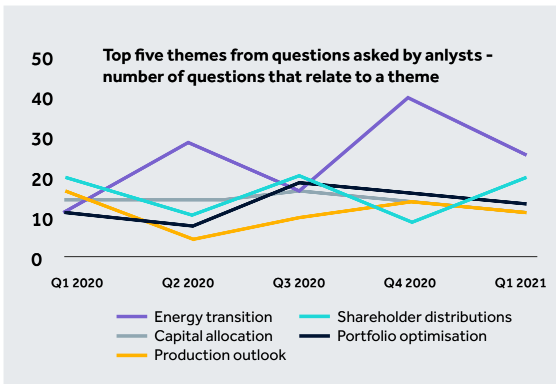
Themes from the oil majors' Q1 2021 earnings calls

The oil majors reported resilient results for the first quarter, which were generally well-received by the analyst community. Management teams expressed rising confidence in a vaccine-led recovery in demand. However, they cautioned that the recovery is uneven, with demand for aviation fuel likely to remain weak in the near-term and some large economies experiencing a new wave of COVID infections. Against this backdrop, companies reported significant progress in reducing debt during the quarter.

The rebalancing of the global oil market, and consequent higher oil prices, boosted cash generation across the peer group. This prompted requests for clarification on the companies' priorities for capital allocation. In particular, some 12% of all questions posed during the first quarter earnings calls focused on shareholder distributions. The oil majors fielded questions on how they see the previously suspended share buybacks being reinstated and which conditions need to be met before they can consider returning the dividend to pre-COVID levels.

None of the companies indicated that they would increase or accelerate capital spending despite the strong results. Analysts welcomed the sustained commitment to capital discipline. Several analysts expressed some concern that capital investment in upstream business divisions in the short-term is below the level required to offset the natural decline in production of oil and gas reservoirs. There were no concerns around an imminent supply crunch (by July, OPEC+ will still have close to 6 mb/d of effective spare production capacity, excluding some 1.5 mb/d of Iranian crude now shut in by sanctions). However, analysts showed less interest in the production outlook compared to previous quarters.

The energy transition was once again the dominant line of questioning by analysts, accounting for almost a quarter of all questions raised in the first quarter results calls.



One-third of questions on the energy transition related to low carbon generation, including renewable capacity growth targets and the financing options for individual power projects. 17% of the questions on the energy transition were focused on e-mobility strategies. Companies were questioned about the economics of their electric vehicle charging businesses and any points of differentiation. Specifically, analysts sought more detail on how the electrification of the transportation fleet enables the oil majors to grow their margin in the convenience offer.

A further 17% of energy transition questions centred on collaborations formed to advance oil companies' low carbon strategies. Analysts sought to understand the rationale behind recent partnerships the oil majors have announced with auto manufacturers, digital solutions providers and cleantech companies. The remainder of questions on this theme covered a broad spectrum of topics, ranging from capital structures for low carbon businesses to clarification on specific hydrogen or CCUS projects.

Analysts continue to press the oil majors for greater financial disclosure on their low-carbon businesses. A couple of companies did provide greater insight into their transition strategy this quarter, although the financial reporting on new energies is still evolving. Some companies also reported on the performance of newly formed business segments for the first time following the restructuring of their organisations. Analysts continue to look for further disclosures around trading profitability and whether trading is expected to be a consistent contributor to earnings within the low carbon energy mix.

The companies included in this review are BP plc, Chevron Corporation, Eni S.p.A., Equinor ASA, ExxonMobil Corporation, Royal Dutch Shell plc and Total S.A.

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