

Counting the cost: Themes from the Oil Majors' Q1 2020 earning calls



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Most companies are expecting a medium-term impact on demand growth



Oil companies announced that they were safeguarding planned investments in lower carbon energy products

During the Q1 2020 earnings calls, the Majors emphasized their commitment to protecting the health and safety of employees and customers through the COVID-19 pandemic. They told investors that protecting the health of their balance sheets was also an immediate priority to weather the simultaneous demand and supply shocks.

Shareholder distributions

Most companies had previously announced the suspension of share buybacks or the withdrawal of proposals for share buyback programmes. Two companies have since announced a reduction in dividend, but the majority confirmed their intention to pay dividends for the first quarter. Analysts asked **questions about dividend sustainability and the future structure of dividend policy**, especially given that the macro environment remains volatile. They also enquired if companies had temporarily relaxed their targets on the ceiling or range for net debt due to the pressure on finances.

Capex cuts

The announced **cuts in capital expenditure by oil and gas companies now stands at US\$100bn**.¹ Some companies have announced a second round of deeper cuts. Planned investment for

2020 is 29% lower than originally guided and companies have indicated that this capital discipline will extend into 2021. Analysts questioned whether the new level of capex is sufficient to sustain production and offset underlying decline rates. Most oil companies have pursued a strategy of value-over-volume since the 2014 oil price downturn. However, analysts raised multiple questions around the production outlook. They asked for guidance on the impact on production of capex reductions, restrictions in countries that were part of the OPEC+ agreement and shut-ins for economic reasons. Some executives expressed confidence that the supply will be able to return when the market needs it.

Macro outlook

There was consensus among management teams on the lack of visibility on how economies will recover as COVID-19 restrictions are gradually lifted. Some analysts asked if components of demand growth will be structurally changed. Most companies are expecting a medium-term impact on demand growth and composition but a few are more bullish on the path for demand recovery. Analysts also sought to understand if the recovery in China could be used as a model of the shape and pace of the recovery in Europe and the US.

¹ Based on an analysis of announcements by 58 companies between 10 March 2020 and 7 May 2020

Portfolio optimization

Prior periods of industry stress have often led to consolidation, and companies were asked whether the opportunity and appetite for strategic deal making post this downturn would be comparable to earlier periods of low oil prices. Analysts questioned if companies were concerned that deals they are currently negotiating would be restructured, with less cash up front. Companies stressed confidence in their ability to close pending deals and reach targets for disposal proceeds.

Energy transition

Oil companies announced that they were safeguarding planned investments in lower carbon energy products and solutions despite the exceptional market uncertainty. Analysts asked companies whether the risk/reward profile between fossil fuel investment going forward and renewables has changed as a result of the market disruption. Some analysts suggested that the scale of ambition of the climate targets adopted by oil companies implies a very significant shift in the allocation of capital across the business and the consequence may be lower market share in oil over the medium term.



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