

A focus on the fundamentals:

Oil Majors Q3 2020 reports (bp, Eni, Royal Dutch Shell, Chevron, Equinor, Total, ExxonMobil)

Themes from earnings calls

The oil majors reported adjusted earnings a little ahead of consensus in the third quarter. Measures taken earlier in the year to reset dividends, reduce capital expenditure and drive down operating costs, were reflected in their financial resilience.

The gradual recovery in oil demand since the spring, led by strengthening demand in Asia, was flagged. Stronger commodity prices relative to the second quarter also contributed to the improved results. However, concerns around rising cases of COVID-19 across North America, and new restrictions on movement in some European countries, are likely to place a brake on economic recovery in the months ahead.

Questions raised by analysts centred on shareholder distributions, portfolio optimisation, the energy transition, capital spending and the refining sector.

Shareholder distributions

Analysts sought to understand the strength of companies' commitment to the dividend if oil prices remain below their expectations for a sustained period. They questioned companies on the relevant balance sheet metrics the Board takes into consideration when deciding on shareholder distributions. Some companies fielded queries on whether their share price impacts decisions on cash distributions to shareholders, and when is the right time to restart share buyback programmes.

Portfolio optimisation

Greater visibility on planned disposals over the next 12 months was called for, with companies prompted for their views of the environment for asset sales. In particular there was interest in whether it was easier to deal with potential buyers now than at the height of the pandemic earlier in the year. Analysts also sought guidance on the proceeds companies expect to book before the end of the year from asset sales.

Energy transition

Oil companies faced continued questions about how dependent they are on M&A in developing the pipeline to support their low carbon targets. A couple of analysts said they had seen evidence of asset prices being bid higher due to oil companies all investing in renewables at the same time. Given this backdrop, clarification was sought around the level of rigor companies apply to investments in alternative energies.

Capital spending

Companies were invited to comment on concerns expressed by some analysts that current levels of capital spending in the sector may not be sufficient to prevent production declines or could constrain their ability to invest in the energy transition. Analysts also asked what are the catalysts that could induce companies to reduce their capital investment below current guidance.

Refining sector

This quarter analysts also posed a series of questions on the challenging outlook for the refining sector, with increasing pressure to rationalize capacity. The differences in demand recovery for different transport fuels has put significant pressure on refinery operations according to analysts, which has turned second quarter and third quarter refinery margins negative. Questions were also posed about how companies' strategies are adapting to combat the stress in the refining sector. In particular, they focused on refinery feedstock, conversion of plants to produce biofuels or operate as storage facilities or plans for asset sales or, as a last resort, plant retirements.



Summary of climate ambitions, as of 2nd November 2020 (data sourced from Reuters' Factbox):

Targets	Scope 1	Scope 2	Scope 3	Link to executive pay	Details
BP	yes	yes	yes	yes	Bring net GHG emissions from its equity barrels from well to petrol station to zero by 2050 Reduce GHG intensity of all products it sells by 50% by 2050
Chevron	yes	no	no	yes	Lower upstream oil net GHG emission intensity by 5-10%, upstream natural gas net GHG emission intensity by 2-5% by 2023 Methane intensity target
ConocoPhillips	yes	yes	no	n/a	Reduce GHG emissions intensity by up to 15% (CO ₂ e per boe) by 2030 per boe vs 2017 levels
Eni	yes	yes	yes	yes	Reduce absolute emissions by 80% and emissions intensity by 55% by 2050 Includes products purchased from third parties 2030 net zero carbon target in Scope 1 and 2 for upstream activities, overall group by 2040 Methane reduction target
Equinor	yes	yes	yes	yes	Reduce net GHG emissions to zero by 2050, including Scope 3 emissions from customers' use of Equinor's equity production volumes Reduce upstream CO ₂ per boe produced to below 8 kg by 2025 Achieve carbon neutral global operations by 2030 Reducing absolute greenhouse gas emissions from operated fields and onshore plants in Norway towards net zero by 2050 without offsets To ensure no routine flaring and near zero methane emissions by 2030 Reduce net carbon intensity to zero by 2050
Exxon	yes	no	no	no	Methane intensity target

Targets	Scope 1	Scope 2	Scope 3	Link to executive pay	Details
Repsol	yes	yes	yes	yes	<p>Reduce net carbon emissions to zero by 2050 (incl. Scope 3 from own barrels produced)</p> <p>Reduce carbon intensity vs 2016 by 10% by 2025 (per gigajoule), 20% by 2030, 40% by 2040</p> <p>Reduce absolute emissions by 3 mln tonnes by 2025 (incl. Scope 3)</p> <p>Reduce methane emissions by 25% by 2025</p>
Shell	yes	yes	yes	yes	<p>Ambition to be zero-emissions energy business by 2050 (Scope 1, 2, 3)</p> <p>Reduce net carbon footprint (an intensity-based measure of carbon emitted per energy unit) of all products sold by at least 3% vs 2016 by 2022 and by 65% by 2050 (Scope 3)</p> <p>Use of nature-based offsets and carbon capture technology</p>
Total	yes	yes	yes	yes	<p>Worldwide Scope 3 emissions lower in 2030 vs 2015</p> <p>Overall Scope 1, 2, 3 emissions intensity reduction by at least 60% by 2050</p> <p>Overall Scope 1, 2 emissions to net zero by 2050</p> <p>European Scope 1, 2, 3 emissions down 30% by 2030 in absolute terms, 100% by 2050</p> <p>Five mln tonnes/year of carbon sinks by 2030</p> <p>Methane intensity targets</p>

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