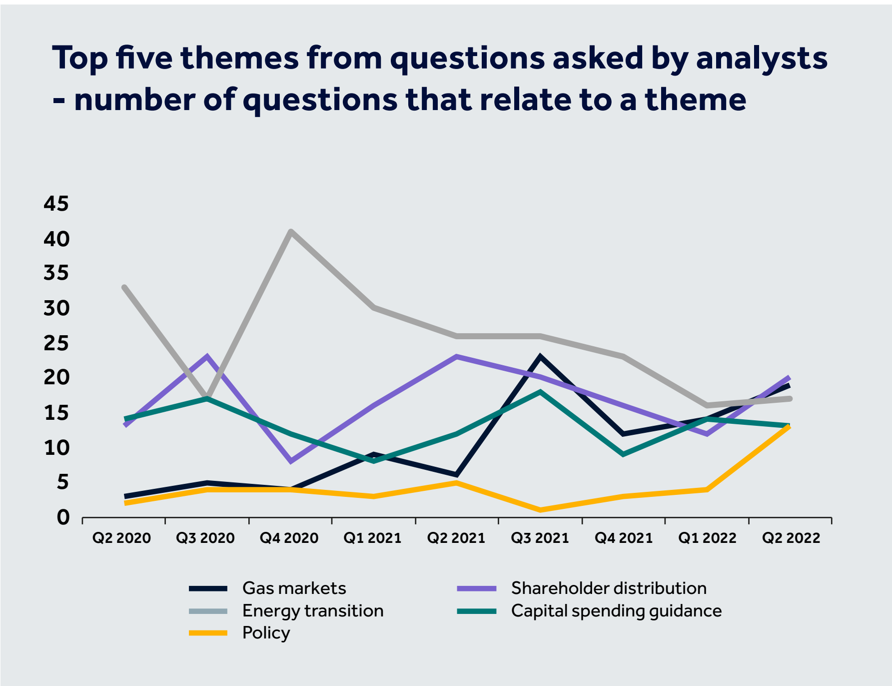
Shareholder returns top the agenda for energy analysts in the second quarter

Themes from the oil and gas majors' Q2 2022 earnings calls

Oil and gas company earnings for the second quarter reflected the full impact of tighter energy supplies and higher prices. Across the board, the majors reported strong results delivered against the backdrop of what management teams described as 'complex' market dynamics. While views differed on the recessionary risks posed by high inflation and the energy crisis in Europe, all of the majors expect markets to remain tight in the second half of the year as supply lags demand recovery across most business segments. One major noted that a fully reopened Chinese market would bring further pressure on supply.

Higher cashflows provided the majors with the flexibility to increase returns to shareholders within their existing financial frameworks. The oil majors announced an additional US$19.7bn in share buybacks that they plan to execute before the end of the year. Thirteen per cent of the questions raised by analysts on second quarter earnings calls related to **shareholder distributions** and it was the highest ranked theme this quarter. Analysts pressed companies on the sustainability of current dividend levels and both the pace and scale of buybacks. They also requested more details on companies' financial frames and the rationale for returning cash to shareholders through buybacks rather than via dividend growth.



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Questions relating to **gas markets** ranked among the top five themes for a fourth consecutive quarter. Half of the questions on gas markets focused on opportunities in the LNG industry. The oil companies fielded questions on the scope within their businesses to increase LNG production at specific sites through debottlenecking actions, the connection of new feed sources or the installation of additional trains. The analysts also asked if companies have seen any evidence from European governments that they are willing to commit to 15-20 year gas supply contracts. The remaining questions on gas markets explored the extent to which the energy crisis in Europe could delay plans by the majors to transition away from fossil fuel production.

The analyst community may have temporarily parked some of their questions on the longer-term energy transition to focus on more immediate energy security issues. For the first time since the third quarter of 2020, **energy transition topics** did not account for the majority of the questions raised by analysts during earnings calls. The questions that the analysts did pose on the energy transition covered a diverse set of low carbon technologies. These included the impact of higher gas prices on the economics of blue hydrogen and the pathway to commercialising CCUS. Additional questions ranged from the returns expected from EV charging infrastructure to perspectives on carbon offset markets.

The questions analysts raised on **capital allocation** centered around two key topics: inflationary pressures in the supply chain; and the appetite from companies to accelerate investment plans. In response to questions about potential revisions to capital spending, the companies signaled that they are taking a balanced approach to investment because energy prices are cyclical. Most of the majors reiterated their commitment to previous guidance on capital expenditure budgets. Some of the majors are making incremental investments in short-cycle assets that meet their breakeven criteria.

The analysts requested more detail from the majors on the actions they are taking to mitigate cost pressures. Several companies indicated that they have locked-in prices under long-term contracts negotiated with supply chain partners. Some cost pressures on specific global commodities, such as steel, were highlighted. The majors also addressed the question of whether inflation and the cost of living crisis are leading to demand 'destruction' in retail fuel sales. The companies reported that they have not yet seen signs of inflation significantly altering fuel purchasing behavior. Some companies linked investment in energy security and the pressures being faced by consumers.

The analysts also sought the views of the majors on the impact of recent energy **policy developments** in the EU and the US on their future investment plans. The volume of questions put to management teams on energy policy topics in the second quarter was the highest in the three years that Brunswick has been monitoring the themes from the oil majors' earnings calls.

The main EU policies of interest to the analysts this quarter were the REPowerEU Plan and the agreement by EU member states to reduce their gas demand by 15%. Analysts asked the majors about the operational implications of reducing gas use in Europe. Some companies suggested that the policymakers in Europe that favor reducing oil and gas production were not acting to curb consumer demand. Further questions initiated discussion on the REPowerEU Plan and the Inflation Reduction Act in the US. In particular, the analysts queried whether either policy would directly lead to the majors devoting a greater proportion of total investment to lower-carbon energy projects.

The other main European policy areas that analysts reserved questions for included retail fuel discounts, energy price caps and 'windfall taxes.' Half of the questions on taxation in the second quarter focused on the windfall taxes levied on energy producers by some European countries. Analysts asked about the oil majors' views on these levies and the estimated financial impact.

The companies included in this review are BP plc, Chevron Corporation, Eni S.p.A., Equinor ASA, ExxonMobil Corporation, Repsol S.A., Shell plc and TotalEnergies SE.

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