ENERGY & RESOURCES

Portfolio optimization remains top of mind for analysts

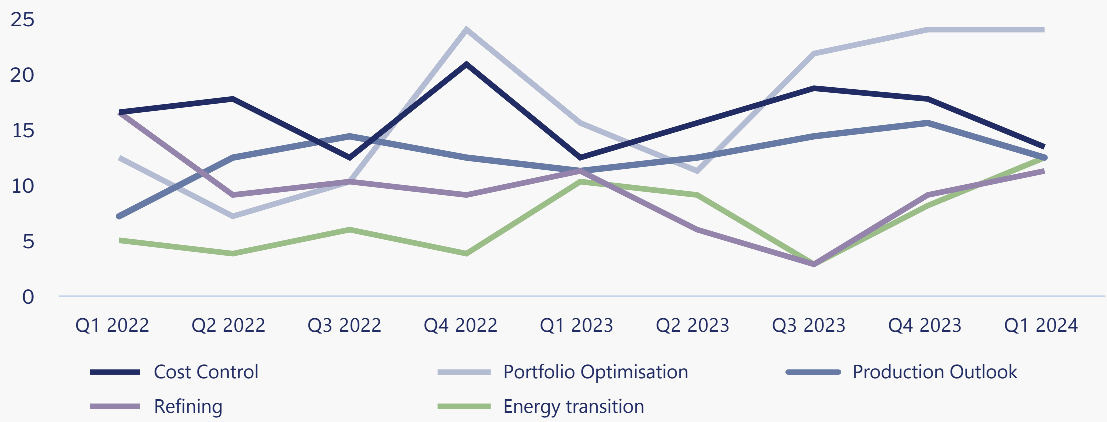
Themes from the oil and gas majors' Q1 2024 earnings calls

First quarter results reflected the impact of weaker gas prices and lower refining margins.

Typically the results were described as 'strong' or 'solid' by the companies, which also emphasized solid operational performance and cashflow generation alongside their commitment to shareholder returns. Most of the companies delivered results that met or exceeded analysts' consensus estimates.

For a third consecutive quarter the theme of **portfolio optimization** was top of analysts' agenda. This theme accounted for 15% of all questions raised during first quarter earnings calls.

Analysts maintain their focus on portfolio optimization
(Number of questions)



The consolidation trend in the oil and gas industry has slowed in recent months. The majors that joined the consolidation wave in the US onshore in 2023 are now focused on completing and integrating recent acquisitions and delivering on efficiencies. The other majors are pursuing inorganic growth opportunities to fill gaps in their portfolios or add scale in higher margin regions or segments. All the companies stressed they will remain disciplined in M&A and are prepared to be patient and act counter-cyclically.

The majors were asked by analysts to expand on the rationale behind recent acquisitions. A couple of analysts noted that the pace of the energy transition has slowed. This prompted questions about the majors' appetite for acquiring more oil production. However, the divestment plans of the majors were the primary focus for analysts this quarter. Management teams were invited to provide more detail on the areas of the business that will contribute to disposal targets. Analysts were also interested in the confidence that companies have in achieving targeted proceeds from divestments.

Questions focused on **energy transition** themes represented 12% of all those raised. Analysts requested comment on current market trends in renewables and the impact they may have on the allocation of capital to wind or solar projects. Analysts sought to understand if commercial, technical or regulatory factors underpinned the companies' confidence in future renewables projects. Some analysts referenced examples of US offshore wind projects being cancelled due to high costs and regulatory barriers. The majors signalled a positive outlook for electricity demand in the US, driven by the energy needs of data centers.

The **production outlook** was also in the spotlight during first quarter earnings calls. The drivers behind improved production performance in US onshore wells are a regular topic of discussion during the majors' earnings calls. Analysts are interested in the reasons for production deviating from previous guidance and historical trends. The impacts of a longer energy transition on the timing of any peak in hydrocarbon production were also discussed. Additional questions explored the impact of recent upstream acquisitions on production levels.

Questions on **cost control** featured prominently in all the majors' calls. This theme accounted for 8% of all questions. Analysts welcomed the companies' renewed focus on cost control but raised questions around their cost reduction targets. They wanted to know if the targets are based on assumptions of easing inflationary pressures rather than improvements in the underlying cost base. The analysts also requested specific examples of cost reduction initiatives and the savings they could generate. Some analysts questioned whether programs to simplify organization structures and business processes have costs associated with them. Further questions delved into efforts by companies to mitigate cost inflation.

The majors noted that inflation is pervasive in certain categories of spend. Labor markets in specific regions remain tight. A couple of analysts raised concerns that the cost cutting drive could stifle longer-term growth.

The **refining** segment was another focus for analysts. The majors' first quarter earnings were negatively impacted by weaker refining margins. The refining sector accounted for 7% of all questions raised during first quarter earnings calls. Management teams noted that margins in the refining sector have been volatile. Analysts invited the companies to comment on the outlook for refining margins in the US and Europe over the remainder of the year. Some analysts requested broader perspectives on gasoline and diesel and the longer-term implications of a tougher regulatory environment for traditional refiners. Half of the questions that analysts raised on the refining sector covered biorefining and biofuels. These questions ranged from feedstock availability to lessons learned from earlier projects, the regulatory environment, and the forecast contribution to earnings.

Recent media reports have highlighted the debate over the transatlantic valuation gap between the US and European majors. These reports suggest some European majors may be exploring a potential relisting in the US. During first quarter earnings calls with the majors, analysts sought insights from the European players on some of the benefits, but also some of the hurdles in considering such a move. The management teams of these companies acknowledged the valuation gap. However, they emphasized that their immediate focus is to enhance shareholder value by executing on their strategy and driving efficiencies and simplification through their organizations.

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.