ENERGY & RESOURCES

Portfolio optimization top of the agenda with focus on divestments

Themes from the oil and gas majors' Q2 2024 earnings calls

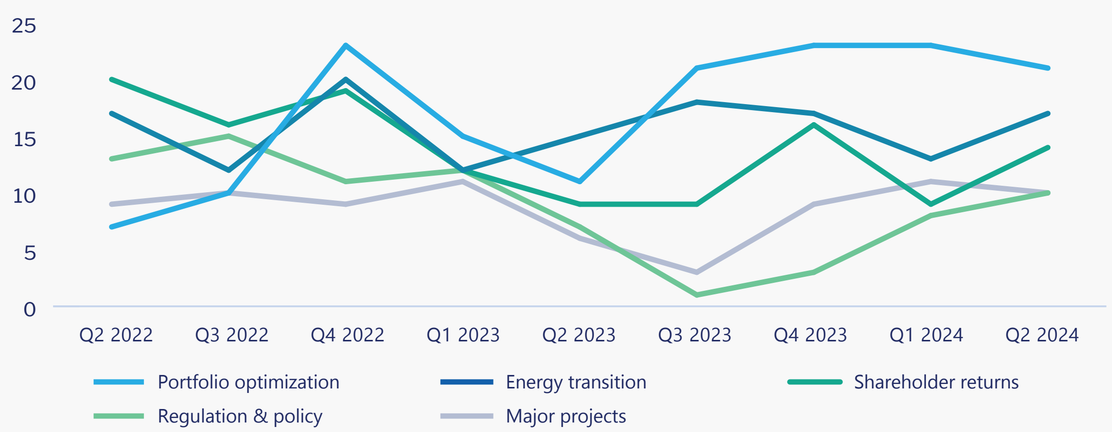
The oil and gas majors reported results for the second quarter that mostly beat expectations despite weaker refining margins and gas prices.

Management teams credited delivery on operational performance and strategy execution as the main drivers behind the results. They also highlighted examples of their strategy in action across their portfolios.

Portfolio optimization themes featured high on the agenda of analysts during second quarter earnings calls. This has been the primary focus of analysts' questions over the last year. This quarter, analysts were interested in the majors' plans for upstream asset divestments as companies reshape their portfolios following recent acquisitions. Analysts posed questions on targeted proceeds from asset sales and the potential for the target to be revised upwards. The impact of divestment programmes on future production levels and cashflow generation raised further questions.

Several analysts expressed interest in the range of options being explored by the majors to realize the value from parts of their business. Some of the majors have divested stakes in business units or have announced plans for an IPO of lower carbon or upstream business units when market conditions allow. Analysts sought to understand the rationale and benefits of such moves. They also requested comment on the capabilities that new partners may have beyond financing.

Analysts maintain focus on portfolio optimization
(Number of questions)



Energy transition-themed questions represented 11% of all those raised in second quarter earnings calls. Analysts focused on challenges for offshore wind projects, hydrogen market evolution and the allocation of capital to lower carbon businesses. Management teams were asked to comment on their experience of issues with offshore wind projects in the US and Europe. Construction delays, supply chain disruption and access to financing were all cited as key challenges. The potential impacts on renewables power generation capacity targets from project delays was also discussed.

The prospects for hydrogen projects and market evolution were also in the spotlight. Analysts raised questions about progress on specific projects and hydrogen market potential. Management teams cautioned that hydrogen projects are at an early stage of development. Several companies noted that they are still exploring the most appropriate business model for hydrogen. Some are focused on using hydrogen to decarbonize their own operations. Others have entered new partnerships to help develop the market for hydrogen.

Analysts requested clarification on when investments in lower carbon projects would begin generating returns. Some suggested that these businesses may not reach material scale for several years. They questioned whether the majors would consider shifting capital from transition segments to other parts of the business that can meet customers' near-term energy needs.

Questions on **shareholder distributions** arose from the discussion around priorities for capital allocation. This theme accounted for 8% of all questions. Analysts were primarily interested in the assumptions underpinning longer term guidance on the level of shareholder returns. The majors noted that they are aiming to provide a degree of certainty and predictability for shareholders with their guidance.

Questions on **regulation and policy** featured prominently in all the earnings calls. The majors are operating in countries where newly elected governments are setting out their priorities for energy, with further elections in major oil and gas producing countries scheduled by the end of the year. The analysts asked if the majors are concerned about proposed changes to fiscal regimes by new governments and the impact these rules may have on projects economics. The management teams declined to comment on the outcome of elections. Instead, they highlighted their long history in some countries and experience of working with different administrations.

The majors were invited to provide updates on their **refining** projects and the outlook for the sector. Most questions about the performance of the refining segment touched on biofuels. The questions prompted discussion of biofuels market dynamics. The majors addressed the current weaker margin environment for biofuels with new supplies entering the market faster than demand is ramping up. Analysts sought views on when the market may rebalance. Management teams stated their confidence in the favourable longer-term dynamics in biofuels markets, supported by national mandates and policy incentives.

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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