Analysts focus on capital spending as the energy transition drops out of the spotlight

Themes from the oil and gas majors' Q3 2024 earnings calls

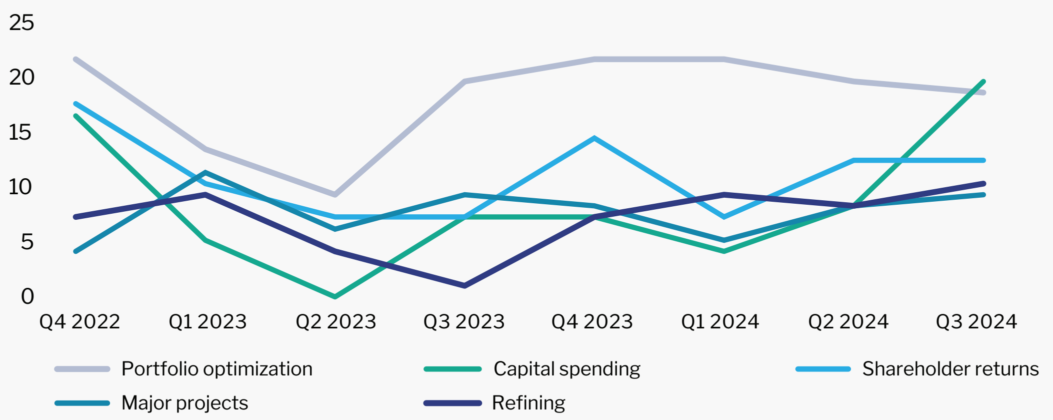
The oil and gas majors' results for the third quarter reflected the adverse impacts of lower oil prices compared to the prior year and weak refining margins.

Despite that the results mostly beat analysts' estimates. Management teams described their companies' operating and financial performance as 'strong' and 'resilient'. Several of the majors are currently engaged in transformation programmes to simplify their operations and portfolios and deliver structural cost reductions.

Analysts focused on the **capital spending** plans of the majors during third quarter earnings calls. Fourteen per cent of all questions raised by analysts on the calls related to this theme. Analysts were interested in the reasons for capital spending varying from earlier guidance. They requested details of any project deferrals factored into the new estimates. Some of the majors reported that capital spending for the year would likely be at the lower end of projected ranges. Analysts sought clarification on whether reductions in capital spending would be carried into next year and beyond. Some management teams referenced new projects coming online that would exit capital budgets. Analysts also sought views on the majors' flexibility, particularly in short-cycle projects, to curtail spending if market conditions deteriorate.

Analysts maintain focus on portfolio optimization

(Number of questions)



Portfolio optimization has been a major focus of analysts' questions over the last year. During third quarter earnings calls analysts asked if the majors were now finished with large-scale M&A deals. The companies that announced material acquisitions this year were asked if they are focusing on execution heading into 2025. More generally, management teams were asked to comment on current expectations on asset prices across different parts of the sector. The discussion also covered plans for divestments, and the parts of the business disposals would come from. The companies also faced questions on their targeted proceeds from asset sales and the priorities for use of the receipts. Several analysts suggested that the majors could utilize the proceeds to increase their returns to shareholders.

Questions on **shareholder returns** accounted for 9% of all questions posed in third quarter earnings calls. Analysts were primarily interested in the outlook for payouts to shareholders in 2025. Questions were raised by analysts on the sustainability of announced levels of shareholder returns in the current macro environment for the oil and gas industry. Some analysts were interested in the assumptions underpinning guidance on distributions. They sought clarification on whether there is a minimum level of buyback that the majors could commit to if the outlook for oil prices turns less favourable. Several respondents confirmed that rewarding shareholders would remain the first priority for the allocation of surplus cashflow.

Questions on the outlook for the **refining** industry featured prominently in all third quarter earnings calls. The twin headwinds of increased competition from new refining capacity coming online in Africa and Asia and pockets of weak demand put downward pressures on refining margins. The majors were asked to share their views on the market outlook and thoughts about potential rationalization or run cuts in the sector. Some of the majors are planning to establish industrial clusters by integrating their refining assets with hydrogen production and CCS.

The majors are also committing investment to convert their facilities into bio-refineries. Analysts asked management teams if they are confident that there will be sufficient demand in Europe and the US to absorb the additional supply over the next two to three years. Management teams noted that they expect mandates for lower-carbon, bio-based fuels will provide support to margins in the longer-term.

Project execution was also in the spotlight during the earnings calls. Questions focused on **major projects** represented 7% of all those raised in the calls. Analysts focused on the performance of large upstream and LNG projects under development against budget and schedules. Further questions delved into the details of individual projects and the key project milestones that will need to be met before they can be sanctioned.

The volume of questions on **energy transition** themes during earnings calls with analysts was the lowest since the first quarter of 2020. The majors' investment in low-carbon businesses is being directed to a more focused set of technologies and projects that meet returns criteria. The questions that did arise in the third quarter centred on the economics of wind power projects and strategies for CCS deployment.

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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