

The transition to new energies prompts new questions

Themes from the oil majors' Q4 2020 earnings calls

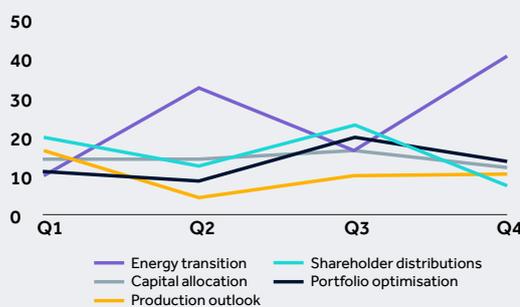
The oil majors reflected on a challenging quarter at the end of a difficult year during earnings calls held in February. **Marketing** was the unexpected bright spot for most companies. Fuel sales volumes were lower, but this was offset by higher margins realised on convenience offerings. The companies are feeling slightly more optimistic about the coming months due to: (i) actions taken to preserve balance sheet strength; (ii) signs of tightening in oil markets; and (iii) the rollout of vaccines.

There has been a divergence between the position on the energy transition and the **low carbon strategies** of the US oil majors and their European peers for some time. This divergence continues to widen. However, we are now beginning to see some clear differentiation in the low-carbon strategies being adopted by the European majors themselves. Some plan to become broad energy companies, while others intend to invest in utility-scale renewables or leverage their trading capabilities to deliver bundled "energy-as-a-service" solutions. Most of the majors have undergone, or are undertaking, internal reorganizations intended to introduce greater accountability and agility as they navigate the transition.

All the European companies have targets to reach net **zero by 2050**, albeit based on different measures. The companies welcomed the Biden administration's re-entry into the Paris agreement and commitment to achieving net-zero emissions by 2050. However, analysts sought to understand the implications for oil companies of the temporary suspension of oil and gas permitting on federal lands and waters in the US. Most companies noted that production from federal lands accounted for a small proportion of their total US output.

Analysts questioned companies' commitment to their **upstream portfolios** given the investment being channelled into cleaner energies.

Top five themes from questions asked by analysts in 2020 Number of questions that align to a theme



Questions related the **energy transition** theme dominated most of the calls. This continues a trend of this topic moving up the agenda for analysts over the last year.

Companies were asked if they could more rapidly transition away from hydrocarbons or would consider carving-out their upstream assets into a separate listed business. All the companies reiterated that upstream is an essential cash engine, in the short-term to support shareholder distributions, and in the longer term to help finance the transition into new energies.

There were fewer questions on **shareholder distribution** in the fourth quarter compared with prior periods. Earlier in the pandemic, most of the majors suspended share buyback programs or withdrew proposals to begin buybacks. This quarter, analysts queried whether companies' oil price assumptions are too cautious. Most companies have assumed that Brent will be \$5-10 lower than where it is currently trading. Analysts sought insight into whether this might suggest that companies would have the headroom within their capital allocation frameworks to raise dividends or reinstate share buybacks over the next two quarters.

The oil majors have been emphasizing their pursuit of value over volume since the oil price downturn in 2014. However, analysts continue to ask questions about the **outlook for oil and gas production**. This data is an important input to their financial forecasting models. At the same time, analysts are pressing companies for greater financial disclosure on their low-carbon businesses so that they can more accurately model them. While some companies have provided additional disclosures, most have indicated that they will not begin reporting on these businesses until they become material.

A new theme emerged in the fourth quarter earnings calls. There were a couple of questions put to management teams on **diversity and inclusion** for the first time, including the 'inclusive transition.' Companies were asked to highlight progress against targets and discuss any focus areas. Only a couple of companies addressed diversity and inclusion in their prepared comments.

The companies included in this review are BP plc, Chevron Corporation, Equinor ASA, ExxonMobil Corporation, Royal Dutch Shell plc and Total S.A.

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