August 2021

Optimism returns as the oil majors post stronger results

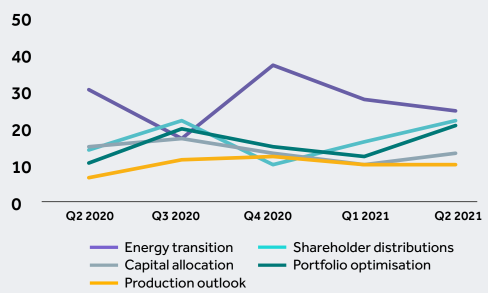
Themes from the oil majors' Q2 2021 earnings calls

The oil majors reported results for the second quarter that were typically ahead of expectations. Compared to the prior quarter, management teams were more optimistic on the near-term outlook despite some uncertainty created by the spread of the Delta variant. Companies expressed confidence in both the continuing market recovery and their underlying business performance.

Stronger results were widely anticipated on the back of a more supportive macro environment. However, the scale of the increase in **shareholder distributions** proposed by most companies was above the level expected by some analysts. Consequently, a significant number of questions were posed around commitments by the oil majors to return some of their excess cash generation to shareholders. Analysts sought more detail on the metrics and oil price assumptions used by the companies to arrive at their dividend figure. Some companies also signalled an intention to commence share buyback programmes. These companies fielded questions on the split between dividends and buybacks going forward and any upside distribution potential if oil prices trend above assumed levels.

For a third consecutive quarter the **energy transition** was the main line of questioning by analysts, accounting for almost a fifth of all questions raised in the second quarter results calls. This remained the case despite the US-based companies being asked fewer questions on the theme this period.

Top five themes from questions asked by anlysts - number of questions that relate to a theme



Policy frameworks were the main theme explored by analysts, accounting for 44% of all questions on the energy transition. Around half of these questions focused on the European Commission's **'fit for 55'** package of proposals aimed at reducing its greenhouse gas emissions by 55% by 2030. Companies were asked for their thoughts on how the proposals may impact their traditional business activities and whether additional investment will be needed in existing or new business segments to meet the goals. A couple of analysts specifically asked about the outlook for **sustainable aviation fuels** and the role they may play in helping the EU meet its decarbonization targets. The other area of policy where companies were asked to comment is the uneven pace of the energy transition across regions and the different level of policy support and ambition offered by governments.

Analysts continue to press the oil majors for greater **financial disclosure** on their low-carbon businesses. Some framed these questions in the context of the companies highlighting the potential in these segments at investor events. The companies have been consistent in their response to these requests. They indicate that they will be looking to disclose more as the businesses scale-up and mature.

Companies were also questioned on their broader energy transition plans. Analysts asked if higher oil price expectations would prompt companies to redirect investment from new energies to new oil and gas projects.

Portfolio optimisation more broadly was higher on the agenda for analysts this quarter. Questions on targets for asset sales and progress on specific deals were raised along with questions on more strategic issues. Some companies were asked how they consider inorganic upstream opportunities that would improve the quality of the existing asset base when the longer-term aim is to reduce exposure to that segment. Companies were also invited to comment on the impact of recent asset sales on their reported scope 1 and 2 emissions.

The **production outlook** for the oil majors has been a consistent line of questioning over the last year. Analysts were curious if stronger cashflow would support a spring-back of activity in the US onshore. The management teams all stressed their continued commitment to capital discipline through the cycle.

Analysts queried if lower liquids output projections were a product of reduced investment in the upstream segment since the onset of the Covid-19 pandemic. Additionally, analysts sought to understand the impact of asset sales on production. Longer term, the main question from analysts is when oil and gas production is likely to peak if companies are to remain on track to meet net zero targets.

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

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