November 2021

The case for integration and gas markets in the spotlight

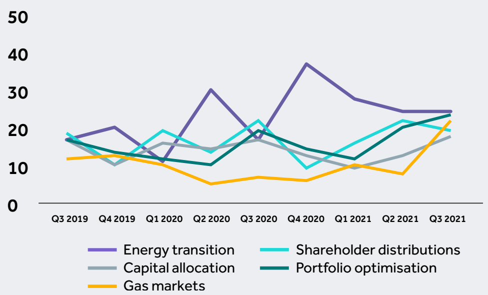
Themes from the oil majors' Q3 2021 earnings calls

The oil majors reported results for the third quarter that mostly beat expectations. The results benefitted from significantly higher energy prices as supplies tightened and demand increased from economies rebounding from the COVID-19 crisis. Strong cashflow generation and improved commodity outlook allowed the companies to increase shareholder distributions.

Shareholder distributions ranked fourth this quarter in terms of the number of questions asked by analysts during earnings calls. Companies that had announced new or increased share buyback programmes faced questions on the size and mechanics of the buybacks. Analysts sought guidance on forward expectations for the dividend. They also requested clarification on the priorities for excess cash, and specifically whether it would be utilized for more buybacks, balance sheet deleveraging or accelerated investments in low carbon energies.

For the fourth consecutive quarter the main line of questioning by analysts related to **energy transition** topics, accounting for almost a quarter of all questions posed.

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



Questions on **emissions reduction targets** was a key focus area, comprising 23% of the energy transition questions. Analysts queried if additional capital spending beyond previously communicated budgets would be required to achieve emissions reduction targets. Companies' views were sought on the extent to which targets may impact their ability to add capacity in certain segments of the oil and gas business. Analysts also asked how much of pledged emissions reductions would come from the disposal of oil and gas assets and how much could be delivered through internal decarbonization measures.

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Partnerships were also a key topic within the energy transition questions this quarter. Several companies have formed new partnerships combining different skills and technologies to build scale and presence in low carbon businesses. Additionally, companies faced questions on **capital allocation** and specifically the proportion of capital spending being dedicated to low carbon projects. The other notable line of questioning concerned future mobility solutions, including the volume of electric vehicle charging points companies plan to install.

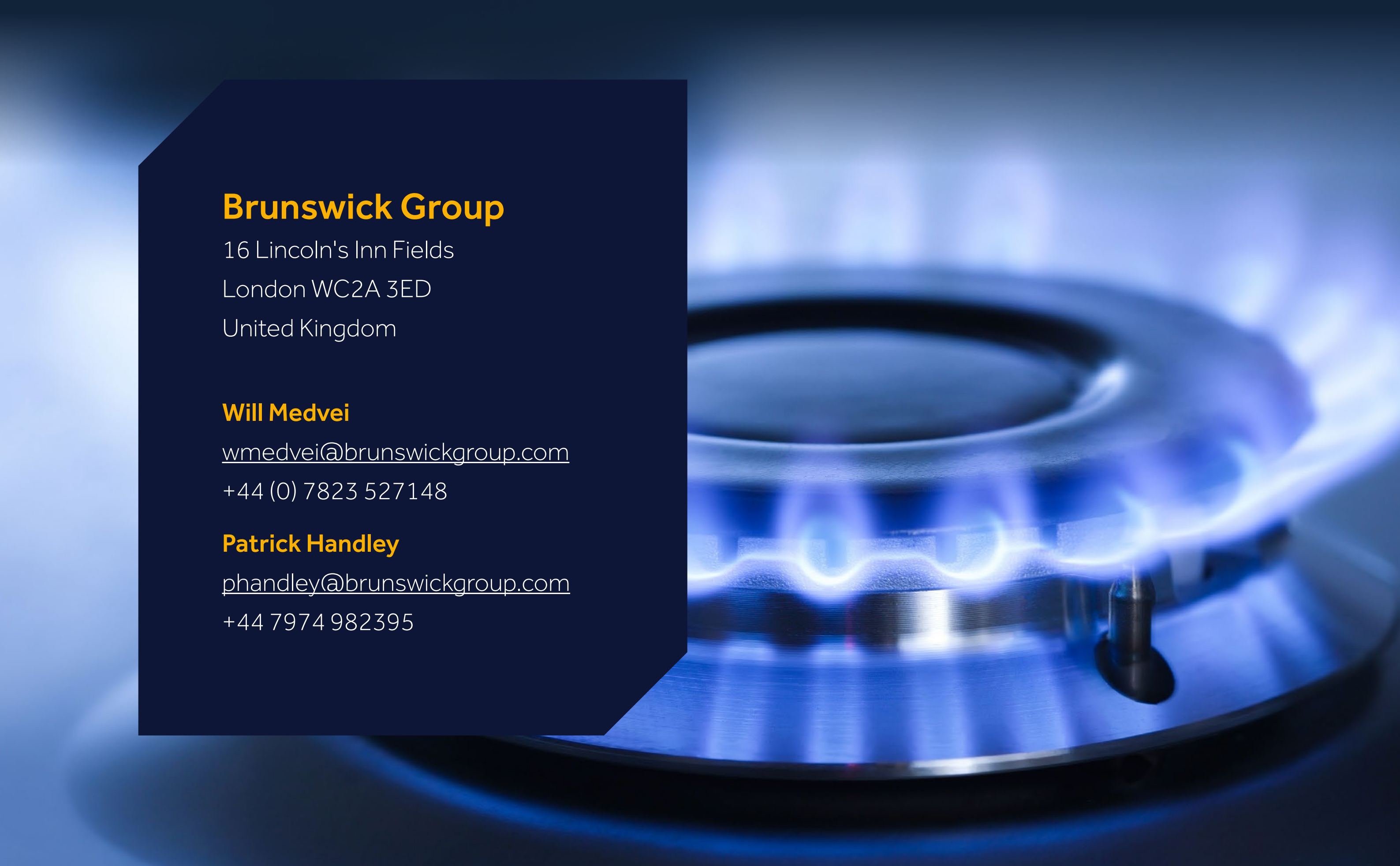
The remainder of the questions on the energy transition ranged from refining and CCS to government policy and customer acquisition strategies. Several analysts raised questions about estimated future renewable power production. In contrast, the number of questions on the oil and gas production outlook were the lowest in over two years.

Portfolio optimization moved up the agenda of the analysts this quarter, with 22% of all questions focused on this theme. All the companies faced questions on their corporate structure. In particular, analysts sought to understand whether companies would consider carving out parts of their business to raise the cash needed to fund the transition towards lower carbon energy sources. Companies pointed to the strong financial results as evidence of the value of the integrated model.

Against the backdrop of record natural gas prices, a fifth of all the questions posed by analysts were about developments in **gas markets**. Management teams indicated that they expect gas markets to remain tight through the peak demand winter months. Average gas prices in the fourth quarter are projected to be higher than the previous quarter. Analysts asked for guidance on the anticipated impact on earnings and cashflow of the higher price environment in the final quarter of the year.

They also asked if companies could detail the impact of higher gas and power input prices on operating costs in their refining assets. Companies were invited to comment on whether they are seeing more willingness from buyers to sign new long-term LNG contracts in the current environment. Further questions on LNG focused on whether companies would accelerate FID on specific LNG projects to capitalize on the stronger price environment. Management noted that they view the current price situation as cyclical rather than structural.

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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