March 2022

Debate on shareholder returns dominated on back of strong cashflow generation

Themes from the oil majors' Q4 2021 earnings calls

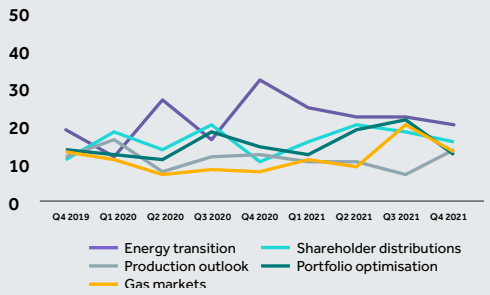
The oil majors reported Q4 and Full Year 2021 results that were the best in a decade and, in some cases, were the highest in the company's history. The companies reported a combined US$232bn in cashflow from operations in 2021. This compared to US$105bn in 2020 and US$183bn in 2019. Earnings benefited from significantly higher oil, gas, and power prices in the final quarter of the year. Management teams also emphasized delivery on efficiencies, capital discipline and strategic priorities.

The higher cashflow generation enabled the oil majors to improve returns to shareholders. Most of the companies announced they intended to raise the dividend and initiate share buyback programmes. In total, the oil majors announced US$32bn of planned share buybacks to be executed over the course of 2022. A fifth of the questions analysts posed on fourth quarter results were focused on **shareholder distributions.**

Management teams were asked what Boards see in the outlook that gives them the confidence to recommend raising payouts. Analysts also asked if they should assume that shareholder distribution would be equal to free cashflow in the next few quarters. Several analysts queried if the current dividend yield is sustainable as companies pivot to lower-carbon businesses. Companies planning to hold a Capital Markets Day in the first quarter of 2022 were asked if they plan to share details of adjustments in shareholder remuneration policies during the event.

Shareholder distributions was one of the five themes that accounted for almost 90% of all the questions raised by analysts during the fourth quarter earnings calls.

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



The main line of questioning was on **energy transition** topics, accounting for 27% of all questions. This was the top theme in terms of the number of questions it attracted throughout 2021. The questions in the fourth quarter focused on visibility on low-carbon business results, strengthened emissions reduction targets, policy changes, portfolio building and competitive dynamics in renewables.

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The oil majors have typically begun disclosing more financial information on the performance of their lower carbon business lines. However, analysts continue to request more granular data at the asset or regional level. A couple of companies announced **strengthened emissions reduction targets** with their earnings release or during the fourth quarter. Analysts sought clarification on whether the new targets meant any change in the definitions of scope and if previously announced interim targets remain applicable. The European oil majors fielded questions on the EU green taxonomy, specifically on whether they could give an indication of the percentage of their revenues and investment that is consistent with the taxonomy. Analysts noted that this is going to be important for the ESG strategies of many European investors.

Questions were also posed on whether companies would be tempted to utilise their strong balance sheets to accelerate their energy transition by acquiring a renewable energy company. Most companies indicated that they are more focused on executing on the existing pipeline of opportunities at an asset level rather than growth through sizable M&A. The oil majors confirmed they plan to invest over US$15bn in low carbon projects in 2022. For individual companies, this represents 5% to 35% of their total capex budgets.

Analysts enquired about the outlook for offshore wind projects that have yet to be sanctioned, considering the cost increases (from inflationary pressures) being seen in most parts of the supply chain. Views were also sought on the impact of the cost increases on overall project returns. They sought to understand both the strategic and financial logic of buy versus build decisions in the renewables sector.

The questions on portfolio optimization were not limited to low carbon. Companies faced broader questions on the environment for selective M&A, but also the opportunity to accelerate divestments in the current price environment. Some analysts questioned the logic of continuing ownership of certain assets as strategies evolve. Additional data points around recently announced deals were also requested.

The number of questions put to the oil majors on their oil and gas **production outlook** was at its highest since the first wave of Covid-19 in Q1 2020 when capex and upstream activity were severely cutback. In the fourth quarter of 2021, analysts asked for clarification on the moving parts in production guidance for 2022. A couple of companies are planning to accelerate activity in the Permian this year and analysts asked if these production increases would mostly be achieved through better efficiencies given the ongoing commitment to capital discipline. Additionally, they asked about inflationary pressures in the Permian with questions on whether higher project costs or capital availability was the main constraint on activity.

Global gas price volatility continued into the fourth quarter of 2021, prompting more questions from analysts on gas price realisations and price-mix exposure. Analysts requested breakdowns of companies' exposure to hub-based, oil-linked, and fixed international gas prices. Companies were asked if they have been tempted to sell more gas on a spot basis in the current high price environment. With Brent crude averaging US$79/bbl in the fourth quarter of 2021, analysts were keen to confirm if gas price realizations in the first half of 2022 could benefit from the time lag in some oil-linked gas contracts.

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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