

Quarterly analyst themes of oil and gas earnings

Q1 2021

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Overview

The first quarter of 2021 could be seen as the turning point back to “normal” for the world (and the oil markets). Oil demand still lags well below where it was pre-pandemic (95 million vs. 100 million barrels per day), but OPEC and other dominant producers have managed supplies, and countries are at various stages of vaccinating their people. The missing link is aviation demand. International travel is still severely restricted and likely will be until governments can be convinced it is safe. The recent coronavirus surge in India and the potential for further lockdowns and interruption in oil consumption in the world’s third largest oil consumer is a further cloud on the horizon.

Commodity markets have reacted to all of this in a predictable fashion. As the quarter closed, front month WTI futures were trading 26% higher than they were at the end of the year. Henry Hub natural gas was relatively flat (3% increase) but at the top of the range it has traded at since well before the pandemic. The spread between Henry Hub prices and LNG delivered into northern Asia, which had spiked at the end of last year, retreated to levels more typical of recent history, beginning a new rally at the end of Q1.

Company results reflected this. After five consecutive quarters of losses going back to the last quarter of 2019 totalling US\$118 billion, reflecting massive asset write-offs, the combined earnings of the 11 companies we follow were over US\$23 billion, roughly the same as they were in the first quarter of 2019.

Shareholders have been rewarded. Between the beginning and end of the first quarter, the stock prices of the companies in our sample increased by an average of 20%, while the broader markets were up by about 6%.

As the earning season unfolded, the breakdown of questions analysts asked in the broad categories of strategy, operations and finances was consistent with where it has been in previous quarters. Financial matters (attempts to glean more detail about this quarter’s results and predict future results) were the focus of over half of the questions analysts asked. Operational questions were 16% of the total, and strategic questions made up the rest at 31%.

Financial questions were focused intently on company performance, production cost and the ability of companies to generate cash. Those matters attracted heightened interest as the industry emerges from the COVID-19 downturn and begins to generate cash again. As usual, the center

of attention was corporate performance, with upstream projects following far behind. A surprisingly large number of questions were related to the performance of renewable energy businesses, and we should expect more frequent and pointed questions from equity analysts as they become a bigger part of company portfolios.

Ultimately, all financial questions led to companies’ choices about capital return vs. capital expenditure. The timing and triggering events for stock buyback were the subject of several queries, as was the possibility of restoring dividends that were cut to preserve cash as the crisis unfolded. The trade-off between capital spending and capital return was, as always, in focus.

Operational questions were mainly focused (more than half) on upstream projects. Typical queries included the impact of schedule delays on production, with a large percentage of those questions dealing with the effect of COVID-19 outbreaks.

The contrast between how analysts approached growing segments (such as renewables and LNG) vs. the questions they asked about upstream and downstream segments was revealing. When asking about upstream projects, 30 of the 49 questions were related to production, cost and operational performance. When it came to LNG, electricity and renewable energy projects, 27 out of 67 questions were on the subject of portfolio composition.

Strategy was dominated by analyst curiosity about companies’ intentions in renewables and other electricity investments. Expected growth in EV charging points and hydrogen projects were of particular interest.

Regarding alternative energy, analyst interest has soared, but the “tale of two hemispheres” continues. Nineteen percent of all the questions analysts asked and 37% of the questions in the category of strategy addressed companies’ plans regarding investment in electricity, renewables, hydrogen and other non-fossil energy sources. Analyst interest, in line with companies’ interest in these businesses, falls clearly along geographic lines. Over 20% of the questions to European majors fell into this category; US-based counterparts were asked those questions only 11% of the time. Solidified, analyst interest has shifted toward operational and financial results. While the portfolio theme was still at the top of the list (with 19 out of 46 questions), issues related to cost and performance (13 questions) were close behind.

Top 3 themes | Q1 2021

1

Cost/performance

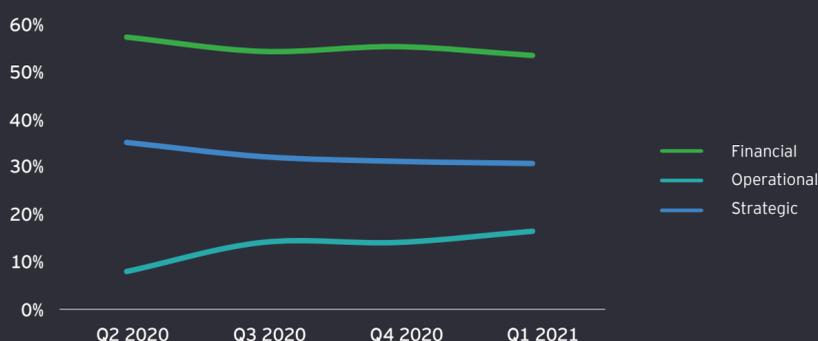
2

Portfolio

3

Balance sheet/cash flow

Percentage of analyst questions pertaining to financial, operational and strategic themes



The balance between financial, operational and strategic matters remains much as it has been over the last year. Now that oil and gas companies are earning profits and generating cash again, the disposition of that cash (reinvestment vs. distribution) is increasingly in focus, as is the performance of diversification initiatives.

Looking forward

By this time next quarter, most of the developed world’s population will be vaccinated against COVID-19, oil demand will be inching its way back to normal and the inventories built up in the early days of the crisis will have been drawn down. Absent of an interruption in that process, investor focus will continue to shift to companies’ investments in fossil fuel alternatives and the efficiency and competitiveness of legacy businesses.



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Scope, limitations and methodology

The purpose of this review is to examine the key themes arising from the questions asked by analysts during the Q1 2021 earnings reporting season among 11 global oil and gas companies. The identification of the top 3 themes is based solely on an examination of the transcripts of the earnings conference calls. For this analysis, the following companies were included:

BP plc	Eni SpA	Repsol SA	Suncor Energy Inc.
Chevron Corporation	Exxon Mobil Corporation	Royal Dutch Shell plc	TOTAL SA
ConocoPhillips	Woodside Petroleum Ltd	Equinor ASA	

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EYG no. 004512-21Gbl

BMC Agency
GA 1019289

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