Integrated oil & gas companies slash capex, tap debt markets in dash for cash amid oil glut

Scope Ratings

Oil markets are in unprecedented territory with the collapse in crude prices despite output cuts by OPEC and Russia, leaving integrated oil and gas companies considering more drastic ways to conserve cash in the face of a possibly prolonged oil glut.

The disarray on oil markets, with US crude prices falling into negative territory this week, underscores the Scope's negative outlook on the sector. However, the integrated oil and gas companies (IOCs) have hardly been sitting on their hands since it became clear that the deep global recession triggered by the Covid-19 pandemic would dramatically reduce demand for oil and gas.

The IOCs are making a determined dash for cash. They have suspended share buybacks, reduced capital spending by a quarter on average, slashed operating costs, in addition to securing access to liquidity through new credit lines and bond placements. The biggest IOCs in Europe and the US have raised more than USD 40bn through bond issues in just the past two months.

The IOCs have other options to further stabilise their finances as the pressure on cash flow intensifies - from further asset sales to offering shareholders scrip rather than cash dividends if not eliminating dividends altogether this year.

Figure 1: Selected cash-conservation measures by leading IOCs

Company	Share buybacks	Capital expenditure (reductions)	Operating expenditure (reductions)	Increasing liquidity (recent bond issues)
ExxonMobil		from USD 33bn to USD 23bn	-15%	USD 18bn
Royal Dutch Shell	Suspended	from USD 25bn to USD 20bn or below	additional USD 3-4bn over the next 12 months	EUR 3bn and USD 3.75bn; additional revolving cash facility (RCF) of USD 12bn
Chevron	Suspended	from USD 20bn to USD 16bn	USD 1bn	
Total	Suspended	from USD 18bn to below USD 15bn	additional USD 0.5bn	EUR 3bn
BP		from USD 15-17bn to USD 12bn	USD 2.5bn	EUR 3.25bn and USD 3.25bn; additional RCF of USD 10bn
Eni	Suspended	from EUR 8bn to EUR 6bn	EUR 0.4bn	
Equinor	Suspended	from USD 10-11bn to USD 8.5bn	USD 0.7bn	USD 5bn
Repsol	Suspended extraordinary share buyback	from EUR 4bn to EUR 3bn	EUR 0.35bn	EUR 1.5bn
OMV		from EUR 2.4bn to below EUR 2bn	EUR 0.2bn	EUR 1.75bn

Source: Companies, Bloomberg, Scope

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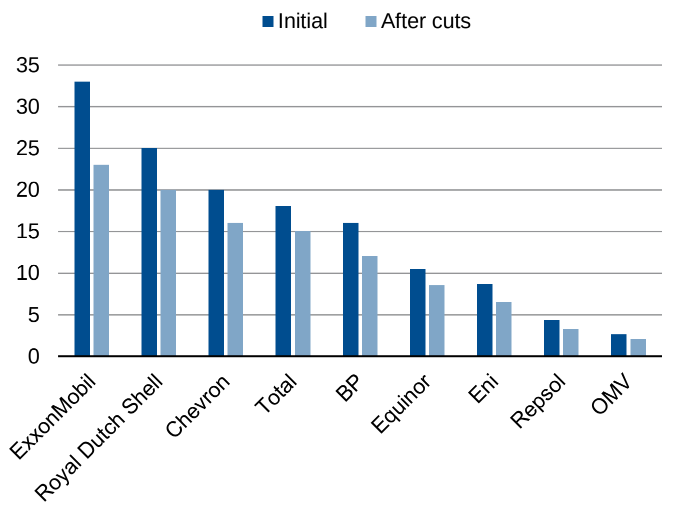
The fundamental problem the oil industry faces is the massive mismatch between supply and demand in the short term: the impact on demand from the health crisis and associated economic slump far outweighs the latest production cuts - the largest on record at almost ten million barrels a day - that OPEC and Russia have agreed on.

Global oil demand is expected to fall by a record 9.3 million barrels a day year-on-year in 2020, according to the International Energy Agency (IEA). Worldwide containment measures against the coronavirus pandemic have reduced transport to a minimum. The IEA reckons demand in April will be around 29 mb/d lower than a year ago, down to a level not seen since 1995.

In contrast, the latest output reductions promised by the world's leading oil exporters start only next month. Production commitments for and expectations of lower production outside the OPEC+ group are mainly based on so-called "natural decline" in production as investment falls and will take effect gradually over 2020 and beyond.

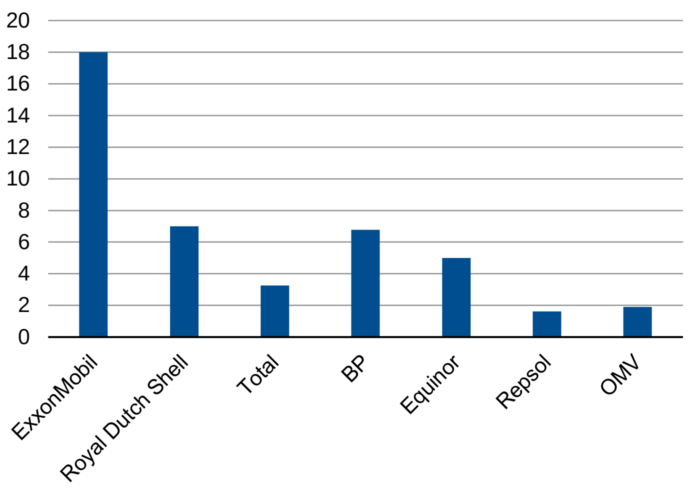
We believe the real impact of output reductions will be seen only in the second half of the year and depends on the pace of the global economic recovery, so for now the market is reacting to the huge oil surplus the world faces.

Figure 2: IOCs' 2020 capex plans (USD bn)



Source: Companies, Bloomberg, Scope

Figure 3: Recent bond issues (USD bn)



Source: Companies, Bloomberg, Scope

IOCs also will have to deepen their rethink of their long-term business models.

When the industry emerges from the current crisis, companies will still face the secular decline in oil demand in some sectors in addition to regulatory, investor and political pressure for a faster shift to low-carbon intensive energy production. CEOs are likely to favour retaining as much investment as they can in renewable energy as they consider how to reduce costs and reduce cash burn in the quarters ahead.

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