Energy Intelligence

Energy Intelligence Premium Weekly

Thursday, August 11, 2022

Corporate Strategy: Majors' Strategies Rise to the Occasion

The diversified energy transition strategies of the Western majors appear well placed to support the world's evolving energy priorities. Energy security concerns and inflation are slowing the offramp from oil and gas, even if climate goals require eventual acceleration. Questions over long-term strategic viability remain, but majors' ability to simultaneously invest in oil, gas and low carbon offers a competitive advantage for now.

- **Robust oil and gas prices mean more cash for reinvestment.** Record cash flows allow majors to swiftly repay debt, fund bumper shareholder returns and significantly increase capex. Majors have not broken capital discipline promises, but spending will materially increase from Covid-19 lows. Group capex will rise $15 billion-$23 billion this year versus 2021, reflecting guidance ranges at Shell ($23 billion-$27 billion), Exxon Mobil ($21 billion-$24 billion) and BP ($14 billion-$15 billion). All majors emphasize their ability to fund the top end of medium-term capex ranges for years should oil and gas prices remain elevated. Critically, this would not require $100+ oil and record gas prices to persist. Chevron's "upside" case assumes $75 Brent. Shell raised its oil price assumptions to $80 next year (vs. $60 previously) and $70 for 2024-25 (vs. $60). Total assumes current prices are "top of the cycle."

- **Majors are spending more upstream without breaking budgets – or transition pledges.** Majors have assured upstream spending hikes remain within stated caps (e.g. BP <$10bn upstream; Total's capex ~50% oil, 25% LNG and gas, 25% low-carbon), but are funding incremental opportunities. Additions include Angola short-cycle oil (Total), North Sea gas (Total, Shell), US Haynesville and Gulf of Mexico (BP, Chevron), upper-end US Permian growth (Chevron, Exxon) and LNG backfill (BP, Chevron). Exxon is debottlenecking places like Guyana and PNG LNG to maximize output. Exxon and Total note acquisition opportunities.

- **Low-carbon investments have become mainstream for all majors and are accelerating.** Illustrating the shift from high-level strategy development to concrete execution, majors' low-carbon updates now mirror those for oil and gas. Quarterly operational updates detail low-carbon initiatives across the full development pipeline (evaluation, engineering, sanction and construction), augmented by a steady stream of acquisitions. Majors' first-half announcements carried a collective investment value of over $44.5 billion, per our Low-Carbon Investment Tracker. YTD announcements reveal emerging strategic differences: BP leaning toward electric vehicle charging, hydrogen and solar and wind in Europe and Asia; Total and Shell favoring wind in the US, Europe and India, with Shell taking a major European hydrogen FID; Exxon favoring CCS, including for its hydrogen ventures; Chevron clamoring for renewable fuels and CCS. Progress on sustainable aviation fuel initiatives was also common.

- **Europe's gas crisis has galvanized majors' LNG ambitions.** Europe's urgent need for non-Russian gas has buoyed demand for LNG and cemented LNG's role within transition plans. China, India and emerging economies remain the key drivers of longer-term demand, but Europe's gas crisis is underpinning fresh appetite for incremental flexible supply and expansion opportunities. Exxon, Total and Chevron have penned new US offtake agreements; BP firmed prospects for a 2023 FID of Tortue Phase 2 (Senegal/Mauritania); Exxon supports partner Eni's evaluation of a "fast" expansion at Coral (Mozambique); Chevron's East Med gas development options, including FLNG, have brightened. Qatar's North Field expansion (partnered by Exxon, Total and Shell) is well-timed.

- **Evolving energy realities play to majors' strategic strengths.** The reemergence of energy security has quieted calls for the immediate halt of oil and gas investment, giving the majors space to reassert their role in the global energy landscape. At minimum, the majors have been afforded a longer grace period to demonstrate the efficacy of their strategies, in our view. Demands for bolder, more disruptive action remain a risk. But the majors' advantages strike a stronger chord against the current backdrop: (1) Optimized upstream portfolios offer numerous short-cycle opportunities and the ability to reprioritize investments to capture shifting energy flows; (2) policy support is solidifying across low-carbon solutions, lending credence to group efforts in CCS, hydrogen and biofuels/biogas, not just solar and wind; (3) wide capex ranges support acceleration within conventional and low-carbon energy without compromising capital discipline; (4) steady divestment proceeds augment the scope for measured acquisitions; and (5) geographic diversification supports the ability to pivot to different jurisdictions to adapt to a chaotic, uneven energy transition.

Energy Intelligence REPORTS

Record Profits Support Majors' 'All of the Above' View
The majors don't see tight oil and gas markets reversing the energy transition, but oil and gas is perhaps not anathema just yet... ***click for full report***

Majors Plow Cash Into Buybacks and Tie-Backs
Majors appear well placed to lift capex from recent multiyear lows to take advantage of the tight energy market. ... ***click for full report***

Low-Carbon Investment Tracker: No Slowdown in Spending Plans
Announced low-carbon spending in H1'22 hit almost $60 billion, nearly equaling the whole of 2021... ***click for full report***

Majors Running With 'Advantaged' Project Plans
Majors are bringing forward a new phase of modern, high-margin upstream developments... ***click for full report***

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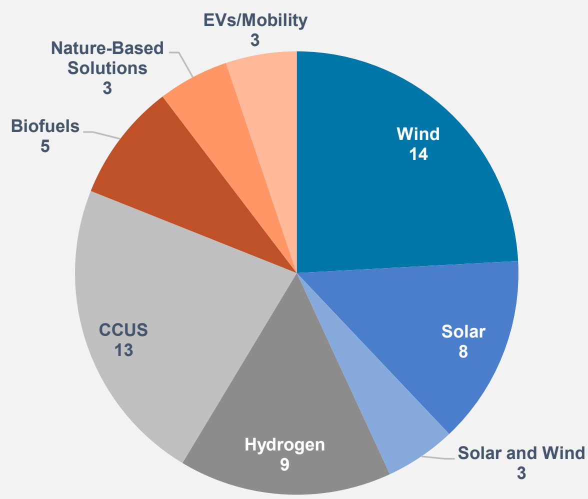
Majors' Capex Plans

($ billion)	2021 Capex	2022 Guidance	Medium-Term Guidance	Pre-Covid Medium-Term Guidance
BP	$12.8	$14-$15	$14-$16	$15-17
Chevron	11.7	<15	15-17	19-22
Exxon Mobil	16.6	21-24	20-25	30-35
Shell	19.7	23-27	23-27	~30
TotalEnergies	$13.3	near $16	$13-$16	$16-$18

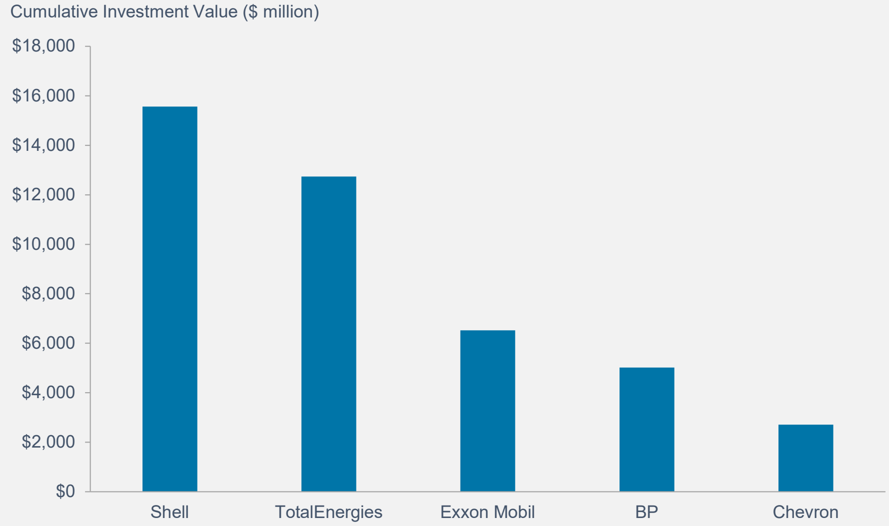
Source: Energy Intelligence, company comments, earnings releases, presentations

Majors' H1 Low-Carbon Investment Count, by Type



Source: Energy Intelligence Low-Carbon Investment Tracker

Majors' H1 Low-Carbon Investments
Cumulative Investment Value ($ million)



Source: Energy Intelligence Low-Carbon Investment Tracker

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