

Questions That Matter

Oil and Gas | Can Energy Companies Prevail?

Stubbornly low oil prices and industry challenges will continue to strain creditworthiness, even as demand picks up after plunging during lockdowns.

How this will shape 2021

Ratings downside persists. Potential downgrades can stem from restructuring and defaults of weak oil and gas players. At investment grade ('BBB-' or higher), even if leverage metrics recover in 2021, sustained pressure on profitability, volatile prices, and mounting industry hurdles may weigh on business profiles.

Continued low oil prices will hamper investment and oilfield services. The major international oil companies have already reduced capital expenditure by 25%-30% on average. If prices remain low, investment is unlikely to rebound, resulting in more restructuring for oilfield services companies.

Refining margins have been hit hard. This as COVID-19 pushed down demand and excess capacity resulted in low utilization rates. If consumption and refining margins don't improve in 2021, more plant closures and conversions to bio-refineries in mature economies are likely.

What we think and why

Oil price recovery is tied to demand. Lockdowns have hit the transport sectors, and monthly oil demand is still down year on year after dropping more than 8% for 2020. We assume it will recover in 2021, but still be 2%-3% lower than in 2019, not least because air travel remains weak.

Our \$50/bbl Brent crude and \$45/bbl WTI assumptions for 2021 and 2022 are underpinned by OPEC+. A gradual adjustment of the current 7.7 million barrel per day cuts is critical for balancing the market and reducing high oil stocks. Depressed consumption means refining margins will likely stay at or below the five-year average.

What could go wrong

More lockdowns, cracks in OPEC+ compliance, or a warm winter. Oil prices could languish below our \$50/bbl Brent assumption if COVID-19 infection rates lead to tighter restrictions, and supply remains higher than demand. In particular for gas companies, a warm winter will again hit revenue and margins.

Overbidding for renewables assets could dilute returns. Many European majors are ramping up non-oil and -gas investment to 20% or more of total capital spending. This comes with execution and other risks, even in growth markets such as renewables.

Moving too fast or too slow. The pace of the energy transition and shape of future energy markets are uncertain. Companies may forego returns by leaving oil behind too soon or building new energy businesses too late.

Simon Redmond

London

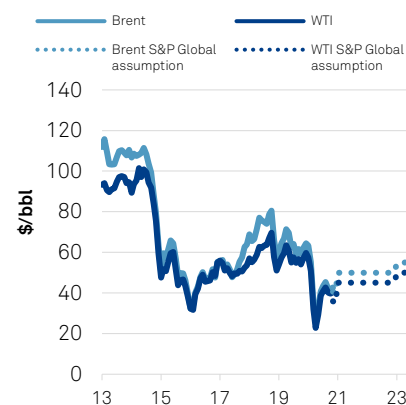
Simon.redmond@

spglobal.com

+44 20 7176 3683

Oil Prices Will Likely Stay Low

Current prices and S&P Global Ratings assumptions



The energy transition will take decades and means companies face increasing uncertainty, whatever their strategic choices

Robust liquidity keeps a company afloat in a crisis. A solid balance sheet underpins strategy. But it's the resilience and predictability of the business that sustains high ratings

Read more

[The Energy Transition: COVID-19 And Peak Oil Demand](#), Sept. 24, 2020

[The Energy Transition: COVID-19 Undermines The Role Of Gas As A Bridge Fuel](#), Sept. 24, 2020

[Write-Downs, While Eye-Catching, Are Not The Largest Issue Facing Oil And Gas Supermajors](#), Aug. 3, 2020

This report is an extract from the S&P Global Ratings report, “Global Credit Outlook 2021: Back On Track?”

This report does not constitute a rating action

S&P Global Ratings believes there remains a high degree of uncertainty about the evolution of the coronavirus pandemic. Reports that at least one experimental vaccine is highly effective and might gain initial approval by the end of the year are promising, but this is merely the first step toward a return to social and economic normality; equally critical is the widespread availability of effective immunization, which could come by the middle of next year. We use this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.capitaliq.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Australia: S&P Global Ratings Australia Pty Ltd holds Australian financial services license number 337565 under the Corporations Act 2001. S&P Global Ratings' credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

spglobal.com/ratings