

Industry Top Trends Update

Oil and Gas

Second crash in five years is stress-testing resilience

What's changed post-COVID?

Prices are lower. After excess supply swamped COVID-19-affected demand in April, oil prices have been rising, but companies are preparing for lower oil and gas prices as well as refining margins in 2020 and in the longer term.

Crisis management has ramped up. Companies that could, have bolstered liquidity. They have cut outgoings aggressively across costs, capex, and shareholder distributions. This has induced more pain for oilfield services.

The ratings impact varies by credit quality. Negative outlooks on investment-grade entities could mean downgrades if metrics do not rebound in 2021. For lower-rated entities we have typically cut ratings by one notch, given less headroom.

What is the likely path to recovery?

Demand is rebounding from the 20% drop in the second quarter. Miles traveled should substantially recover during 2021, except air miles. OPEC+ supply restraints have been critical to underpinning the oil price rebound since April.

Base-case projections typically show metrics below rating thresholds in 2020 on weaker cash flows. Most metrics should recover, or close to, rating thresholds by 2022 on higher prices and contained costs and capex.

What are the key risks around the baseline?

Lower mobility due to a COVID-19 resurgence or home working.

Loss of supply discipline. Increased production, from the U.S. or elsewhere, would constrain or reverse recent price increases.

2021 prices and metrics. We assume Brent averages \$50/bbl in 2021. If lower in 2021 and 2022, metrics may recover too slowly for some investment-grade ratings.

Latest Related Research

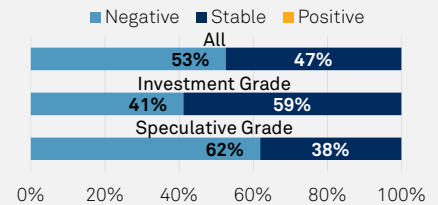
- Global Oil And Gas Company Rankings Published, June 24, 2020
- Severe Downturn Prompts Rating Actions Across The European Oil And Gas Value Chain, March 31, 2020
- Harsh Downturn Prompts Rating Actions On Multiple European Oil And Gas Companies, March 25, 2020
- S&P Global Ratings Cuts WTI And Brent Crude Oil Price Assumptions Amid Continued Near-Term Pressure, March 19, 2020

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Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	17	25	42
Downgrades	0	16	16
Upgrades	0	1	1

Ratings data as of end-June, 2020

COVID-19 Heat Map

Oil and Gas		
COVID-19, Recession, and O&G Impact		High
Potential Negative Long-Term Industry Disruption		--
2020 Estimates v. 2019		
Revenue Decline	EBITDA Decline	Incremental Borrowings
25% to 50%	25% to 40%	<5%
2021 Estimates v. 2019		
Revenue Decline	EBITDA Decline	
10% to 20%	10% to 20%	