One-page Summary

- SPMI Dividend Forecasting team projects the Oil & Gas sector to relinquish its position as the largest dividend-paying sector in 2024 with aggregate dividend at USD 310.7bn, sliding down to the second place behind Banks and followed by Industrials Goods & Services. Nevertheless, anchored by solid dividend commitment against prevailing geopolitical headwinds, numerous Oil & Gas companies manage to deliver consistent and appealing dividend yields with forward median of 4.84%.

- Developed markets are anticipated to continue to prioritize a combination of regular dividends and buybacks as their primary approach for rewarding shareholders, complemented by special dividends and capital returns (CRs). Regular dividends have been on progressive rise since 2016, while special dividends and CRs have been dropping by 50% since the peak payment of USD 48.8bn in 2022. Regular dividends amount to USD 274 bn in 2023 and are forecasted to reach USD 287bn in 2024.

- The US and Saudi Arabia respectively contribute 26% and 24% of the aggregate Oil & Gas dividends in 2023, followed by Mainland China (10%), the UK (7%), and Canada (6%). Variable dividends are mainly paid by north America (48%), the UK (20%) and Europe (20%). NOCs and IOCs make up a half of aggregate dividends in the global market.

- According to the World Bank, a ''large supply disruption'' in the energy sector can send oil prices to $140-157 per barrel in 2024. We recognize significant macro uncertainties such as production turmoil and downstream sanctions. From a historical perspective, however, elevated oil prices can support profit margins across companies on the supply chain and thus back up their dividend commitments. We reviewed more than 200 companies in our global stock universe, whose median dividend yield stands above 4% in 2023 and is forecast to approach 5% in 2024.

- If a high dividend yield is ascribed to overpaid dividends or undervalued stocks, companies will seek for a more flexible way to reward shareholders. Buybacks do not only support share prices but also allow companies to flexibly decide on the timing and amount. In the US, most of buybacks were done by downstream companies before the pandemic; since 2021, IOCs throughout the US and European market have showed a strong preference in repurchasing shares, typically when they have abundant cash and low debt.

- Prior to 2020, the usage of buyback was limited to reducing share counts which were inched up through stock dividends. We saw a notable increase in buyback since 2021 along with oil price rally. Buybacks can allow oil and gas companies to fairly and promptly return surged profits without a long-term commitment. In the US, Chevron leads a $75 billion repurchase program, followed by ExxonMobil's $50 billion. In Europe, Eni and Equinor have massively increased buybacks, up to 20% of cash flows from operations (CFFO), albeit dividends remained as their priority. We forecast Shell and BP to allocate 15-18% of CFFO to dividends and about 25% to buybacks in 2024.

- Mega acquisition deals secured by the two largest IOCs companies, ExxonMobil and Chevon, will continue to support their reliable and growing dividends, reserving their spots as the second and the third largest dividend payor in energy sector after Aramco. Chevron’s management said in the beginning of 2024 that the company aims an 8% annual dividend increase, which will bring the company's yield close to 4.5% at our current estimate.

- In 2023 we have seen NOCs taking diverse paths when it comes to the impact of governments on company-level dividend payouts. Government support has enabled companies like Saudi Aramco and PetroChina to maintain stable and progressive payouts for 2024. In contrast, the influence of a new Head of State has prompted Petrobras to cut is guided payout ratio as part of its new dividend policy, resulting in a reduction anticipated in its upcoming payouts.

- Incorporating SPMI dividend-related forecasting factors has proven to be a stellar investment strategy, exhibiting a 10-year annualized excess return of 1.22% and reduced volatility compared to baskets based on trailing dividend data. The integration of fundamental analysis, which incorporates analyst’s prompt forecast revisions in response to market changes provide investors with a competitive edge in Oil & Gas sector’s rapidly fluctuating market condition.

DIVIDEND FORECASTING

Global Oil & Gas winners through the lens of dividends

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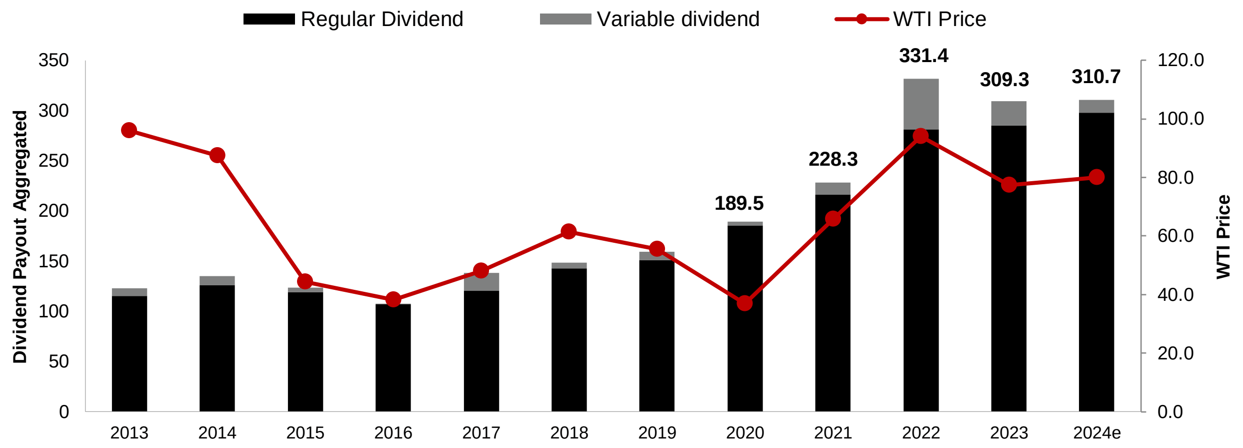
08 November 2023

What’s happening in the Oil & Gas market in 2023?

Decade trend for Oil & Gas aggregate dividends (in USD billion) against WTI price (in USD)



Data compiled Oct. 02, 2023.
Variable dividends filtered as CR and Spec. type
Dividend payout aggregated based on the payment in the respective calendar year
Source: S&P Global Market Intelligence.

-7% y/y
Finishing up Calendar Year 2023

Volatile energy prices and softer demand led to a 7% y/y decline in dividends. The compound annual growth rate for the past decade remains as forecasted at 10%, down from 12% in 2022.

▼ **Brazilian** Petrobra’s drop in payouts and less variable dividends in the **U.S.** market mark a 7.9% and 1.3% y/y dividends cut, respectively.

▲ Dividends growth is evident in the APAC region, with the **Mainland China** market poised for a significant 22% y/y increase.

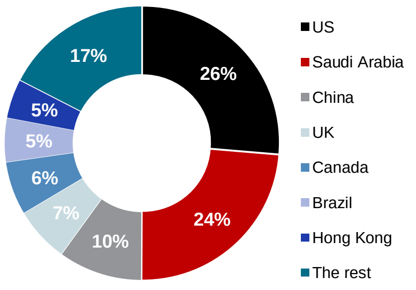
+0.4% y/y
Looking into Calendar Year 2024E

Economic uncertainties and the looming high-interest era may curb energy demand. Upstream companies seek higher production, but lower prices could impede sector revenue. Conversely, National Oil Companies (NOCs) might continue to pressure on supply.

While the **U.S.** is set for at least 1.6% growth, **Brazil, Mainland China, Canada,** and **the UK** markets are expected to see a downward trend.

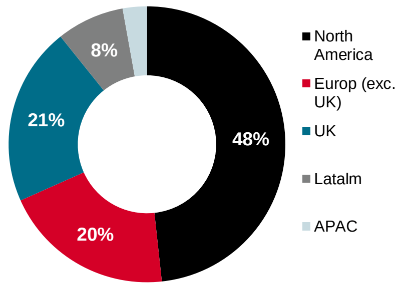
State-owned **Aramco** is expected to signify a 12% y/y dividend rise, contributing almost 3% to the total energy dividend growth in 2024.

Oil & Gas dividends by market, 2023



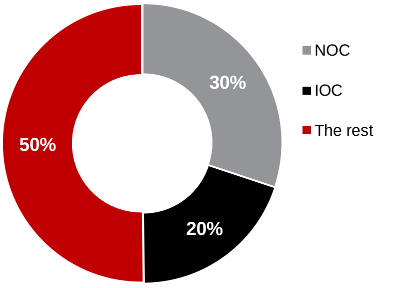
Data compiled Oct. 02, 2023.
Source: S&P Global Market Intelligence.

Special Dividends and CRs, 2023



Data compiled Oct. 02, 2023.
Source: S&P Global Market Intelligence.

NOCs and IOCs domination, 2023



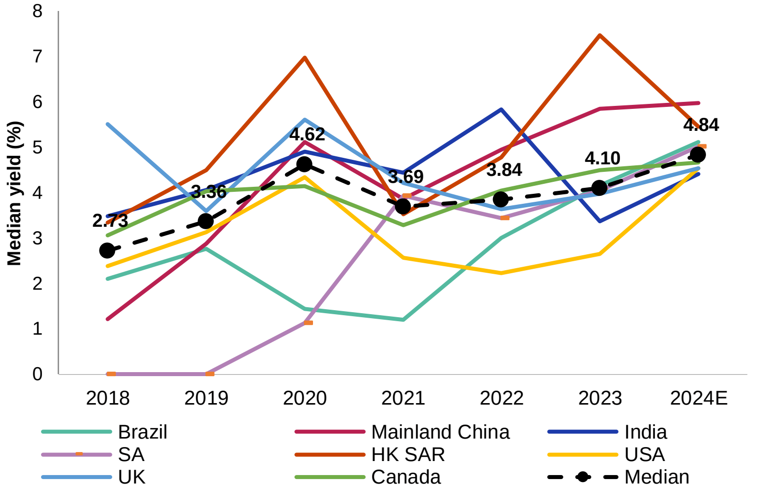
National Oil Companies (NOCs); Integrated Oil Companies (IOCs)
Data compiledOct. 02, 2023.
Source: S&P Global Market Intelligence.

Oil prices have taken a roller coaster due to geopolitical risks in West Asia. Brent Crude Oil price hovered around $90/bbl in late October. Israel has suspended production at the Tamar natural gas field, 25% of whose stake was operated by Chevron. An anticipated production fall-off in upstream, in addition to tightened sanctions on Russian crude sales, would likely further support commodity prices.

However, among more than 200 reviewed energy companies, about 140 names are forecasted to see an increase in forward DPS (dividend per share). Although the market is dominated by NOCs and IOCs, the attractive yield varies across companies' types, sizes and geographical locations.

Despite the geopolitical uncertainties, Oil & Gas sector to deliver attractive yield in 2024E…

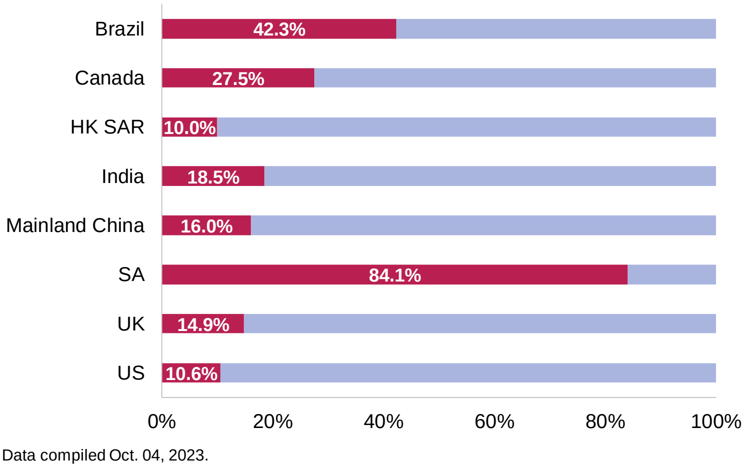
Median yield by market, 2018 to 2024E



Data compiled Oct. 10, 2023.
Source: S&P Global Market Intelligence.

Oil & Gas sector will lose its spot as the largest paying sector in 2024E, but remain as a key paying sector

Energy sector dividend contribution in the key markets for 2024E



Data compiled Oct. 04, 2023.
Source: S&P Global Market Intelligence.

Oil & Gas sector contribution to global aggregate dividends, 2023 vs 2024E

	2023	2024 E
Bank	10.2%	10.7%
Energy	11.3%	10.7%
Industrials	6.8%	6.3%
Technology	5.1%	5.1%

Top 30 Global Oil & Gas stocks ranked by forward dividend yield

We identified Top 30 attractive oil & gas stocks characterized by high yields and low risk profiles. Selection criteria include - 1) Net Debt to EBITDA ratio at or below three times, 2) drop probability at or below 30%, 3) free cash flow estimated for 2024 covers aggregated dividends at least two times, and 4) 24 companies from the list are rated and maintain an investment-grade rating.*

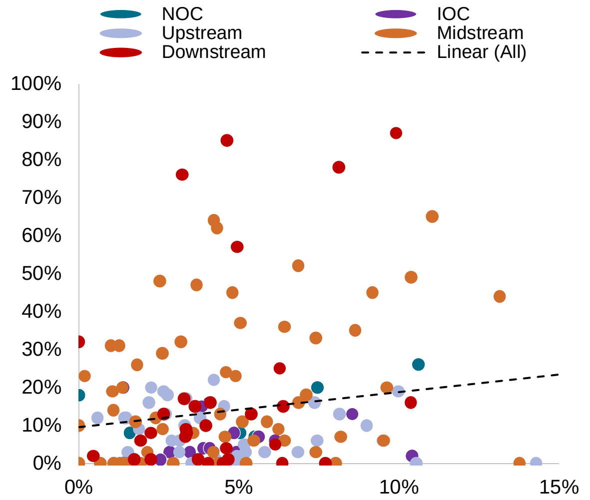
The sustainability and growth of Oil & Gas dividends, in our view, will be supported by financial discipline and the right balance between growth investments and strong balance sheets that were built up by energy companies after the pandemic prosperity. The forecast is based on companies' dividend policy, historical trends, and financial estimates.

Stock Name	ISIN	Market	Amount Confidence Rank	Trailing Yield	Forward Yield	Type	Leverage	Drop score	Beta
Energean	GB00BG12Y042	UK	M	12.25%	14.29%	upstream	1.36	0.00	1.21
Civitas Resources	US17888H1032	US	M	10.31%	9.98%	upstream	0.00	0.19	1.14
PetroChina Company	CNE1000003W8	China	H	8.64%	8.54%	IOC	0.33	0.13	0.78
Aker BP ASA	NO0010345853	Norway	M	8.00%	8.14%	upstream	0.22	0.13	1.57
Berry	US08579X1019	US	M	14.62%	7.37%	upstream	0.00	0.16	0.86
Chord Energy	US6742152076	US	H	7.89%	6.85%	upstream	-0.11	0.03	1.10
CVR Energy	US12662P1084	US	H	6.04%	6.36%	downstream	0.79	0.00	0.67
Eni S.P.A.	IT0003132476	Italy	H	5.88%	6.14%	IOC	0.74	0.06	0.83
Devon Energy	US25179M1036	US	H	7.31%	5.81%	upstream	0.53	0.03	1.15
Repsol	ES0173516115	Spain	H	5.27%	5.62%	IOC	0.30	0.07	0.75
PTT Public Company	TH0646010Z00	Thailand	H	4.58%	5.50%	NOC	1.63	0.07	0.79
Permian Resources	US71424F1057	US	M	1.67%	5.01%	upstream	0.57	0.00	1.37
TotalEnergies	FR0000120271	France	H	4.74%	4.93%	IOC	0.27	0.03	0.80
Solaris Oilfield	US83418M1036	US	M	4.59%	4.90%	midstream	0.00	0.23	1.08
BP	GB0007980591	UK	H	4.09%	4.85%	IOC	0.46	0.08	1.39
Riley Exploration Permian	US76665T1025	US	H	4.44%	4.77%	upstream	0.52	0.00	1.40
Kunlun Energy Company	BMG5320C1082	Hong Kong	H	4.17%	4.60%	midstream	-0.59	0.24	0.74
Canadian Natural Res.	CA1363851017	Canada	H	3.99%	4.28%	upstream	0.49	0.01	1.31
Northern Oil and Gas	US6655313079	US	H	3.58%	4.22%	upstream	0.60	0.22	1.16
Chevron	US1667641005	US	H	3.90%	4.21%	IOC	0.28	0.03	0.62
Koninklijke Vopak	NL0009432491	Netherlands	M	4.04%	4.20%	midstream	2.48	0.03	0.56
Shell	GB00BP6MXD84	UK	H	3.48%	4.09%	IOC	0.46	0.04	1.20
Phillips 66	US7185461040	US	H	3.79%	3.97%	downstream	1.31	0.10	0.57
Equinor ASA	NO0010096985	Norway	H	3.64%	3.89%	IOC	-0.17	0.04	1.47
Galp Energia	PTGAL0AM0009	Portugal	L	3.70%	3.84%	IOC	0.58	0.15	0.57
Delek US Holdings	US24665A1034	US	M	3.55%	3.73%	downstream	1.91	0.01	0.73
Exxon Mobil	US30231G1022	US	H	3.42%	3.55%	IOC	0.07	0.00	0.61
ConocoPhillips	US20825C1045	US	H	3.84%	3.52%	upstream	0.37	0.00	0.72
Valero Energy	US91913Y1001	US	H	3.22%	3.37%	downstream	0.29	0.08	0.71
Parkland	CA70137W1086	Canada	M	3.27%	3.35%	downstream	2.64	0.09	0.81

Notes:
*We collect only 24 names, not 30 names due to a lack of available data.
*Drop score is a dividend risk metric to help customers better predict the probability of a dividend cut or suspension. The model is to complement our existing analyst-driven forecasts to provide users with alternative quantitative insights.
*Confidence rank: L stands for low confidence, M stands for median confidence, H stands for high confidence

Special Focus 1: Why are some names excluded from the Top 30 list?

Median yield and drop score comparison



Data compiled Oct. 04,2023.
Source: S&P Global Market Intelligence.

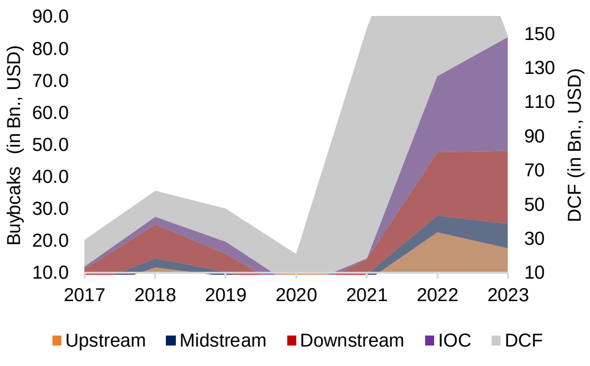
About 39 reputable energy companies, mostly in the US and Canada market, remain outside of the top 30 lists, including such names as *HF Sinclair, EOG Resources, and World Fuel Services*, with forward yield of 3.33%, 3.31%, and 3.29%, respectively.

The average estimated FCF cover for selected top 30 names is 3.5x, and the average drop score for these companies stays lower at 7% compared to the average 13% for the sector. The median yield for selected top 30 names is 4.8%, and the median yield for flowing 39 names is close to 2%.

Midstream is represented by 46 dividend-paying firms, 35 in EU and NA markets, with a median yield of 5.5% and 3.9%, respectively. Only *Solaris Oilfield, Kunlun Energy*, and *Koninklijke Vopak* are in our top 30 list, as near 50% of US names have estimated FCF cover <2x.

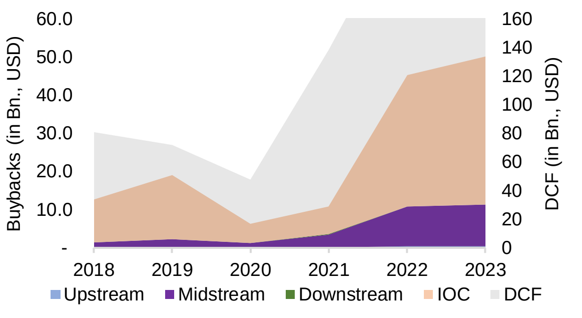
Special Focus 2: Buybacks are becoming a preferable way of returning cash to shareholders

Discretionary cash flow (DCF) and Buybacks trend (US market)



- In the US, most of buybacks were done by downstream companies before the pandemic.
- Since 2021, IOCs and upstream companies have racked up buybacks with IOCs showing a stronger momentum towards 2024.

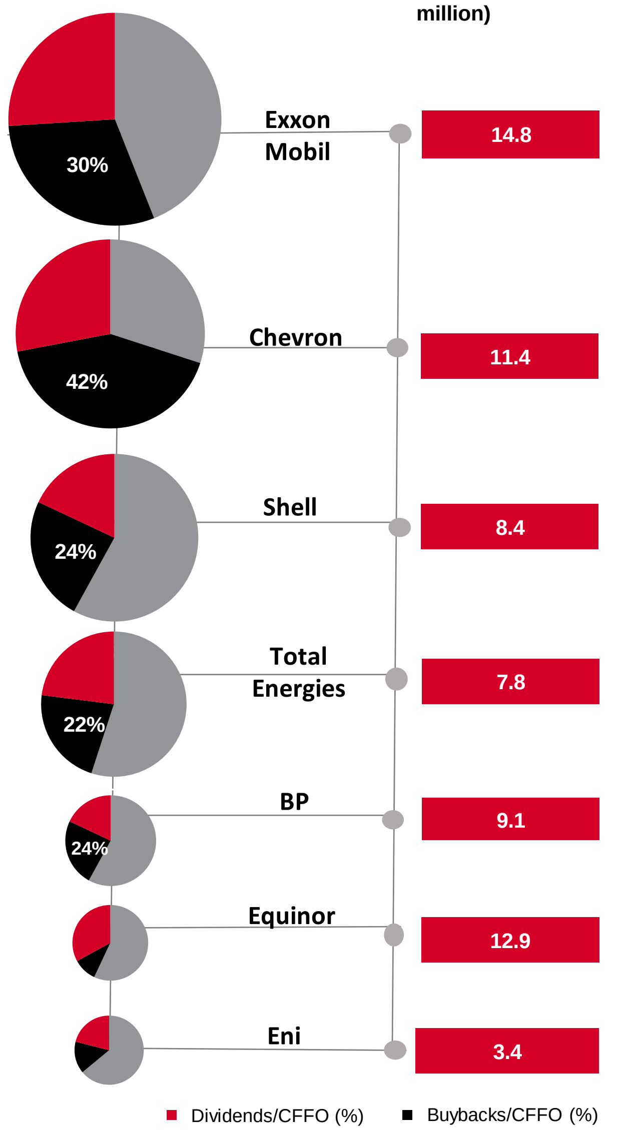
Discretionary cash flow (DCF) and Buybacks trend (Europe market)



- In Europe, IOCs have always been the biggest player in buybacks, the amount of which have been highly in line with the level of discretionary cash flow.
- Since 2021, midstream companies have been joining IOCs in repurchasing shares.

Ranked by Market Cap

2023 Aggregate Dividends (in USD million)



Special Focus 3: NOC case studies - double edged sword

Saudi Aramco ▲
(ISIN: SA14TG012N13)

SA introduced a performance-linked dividend policy from 2Q23 and intends to pay 50-70% of the group's annual free cash flow. Dividends are projected at 60% of free cash flow, resulting in a decent forward yield of 5%. However, the estimated free cash flow cover is just below 1x, thus not selected for the top 30.

Petroleo Brasileiro ▼
(ISIN: BRPETRACNOR9)

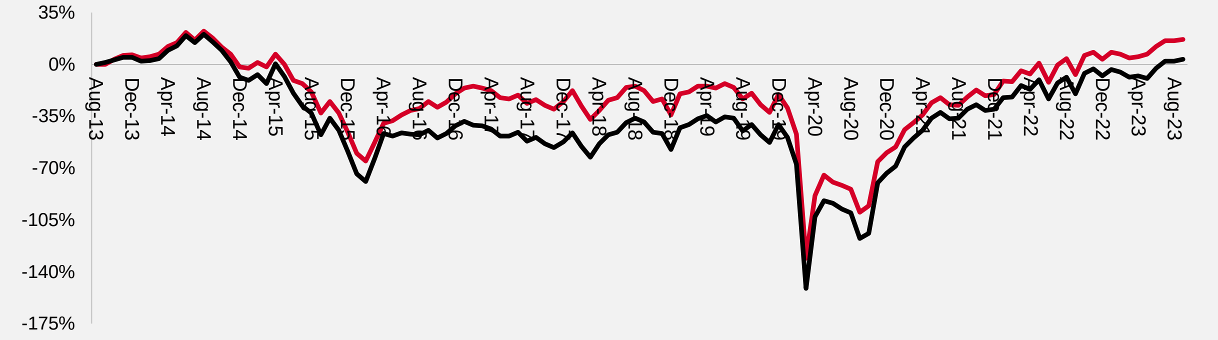
'Petrobras was overly generous with its distribution.' As guided by the new Head of State, Petrobras revised its dividend policy by cutting the quarterly payout ratio from 60% to 45% in 2023. This conservative policy is estimated to lower its payout for FY23 and therefore not selected into the Top 30 list amid the role of government.

PetroChina ▲
(ISIN: CNE1000003W8)

Under Xi's emphasis on energy security, PetroChina, China's state-owned Oil & Gas giant, maintained regular dividend payout ratio of 45% over the years. It also paid special dividends when the oil price was low to maintain fair return to the shareholders. This stock was selected into the Top 30 list due to its attractive forward dividend yield.

Special focus 4: Basket of U.S Energy large caps selected using S&P Global Market Intelligence Dividend Forecasts data outperformed the trailing dataset from 2013 to date

Cumulative return tested for Forward v.s Trailing dividend yield strategy for U.S Energy stocks (2013-2023)



Data compiled Oct. 11. 2023
Source: S&P Global Market Intelligence.

	F-yield	T-yield
10Y Annualized Return	1.58%	0.36%

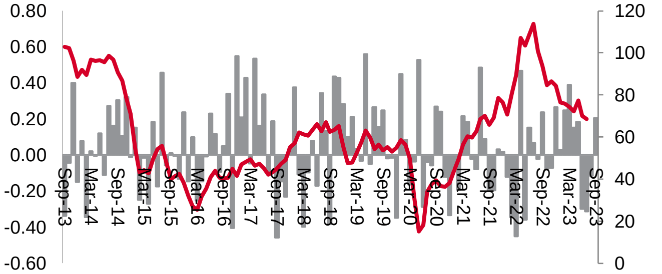
Note: We use historical dividend forecasting records from September 2013 until present to test two factors and their performance– *High Forward Dividend Yield* (***FDY***) which is defined as forecast regular dividend over next year divided by current stock price, and *High Trailing Dividend Yield* (***TDY***) which is defined as the trailing 12-month dividend divided by its trading price. We apply information coefficient (IC) analysis using one month holding period and back-test the Top 20% baskets (Quintile 1) with an equal weighting methodology applying monthly rebalances.

FDY is effective in predicting future equity returns, as shown by the average Information Coefficient (IC) of ***0.0435*** during the full period analyzed.

FDY serves a better cushion during oil price downturns, as shown by the average IC during bear months outperforms that during bull months by ***0.0898***.

Fundamental bottom-up approach is the key differentiator: dividend analyst's prompt forecast revisions in response to fast-changing market conditions allowed effective construction of the basket, thereby contributing meaningfully to the outperformance of forward yield selections.

IC of Forward dividend yield strategy for U.S Energy stocks vs. decade crude oil purchase price (2013-2023)



Data compiled Oct. 11. 2023
Source: S&P Global Market Intelligence.

	Bear period	Bull period
10Y FDY Average IC	0.0902	0.0004

For more information, please contact: dividendsupport@spglobal.com

Disclaimer. All dividend forecast data as of October 31, 2023, unless specified