Corporate Credit Comment

4 February 2020

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BP Plc (BPLN) FY19 beats consensus estimates, gearing remains elevated but spreads continue to look attractive

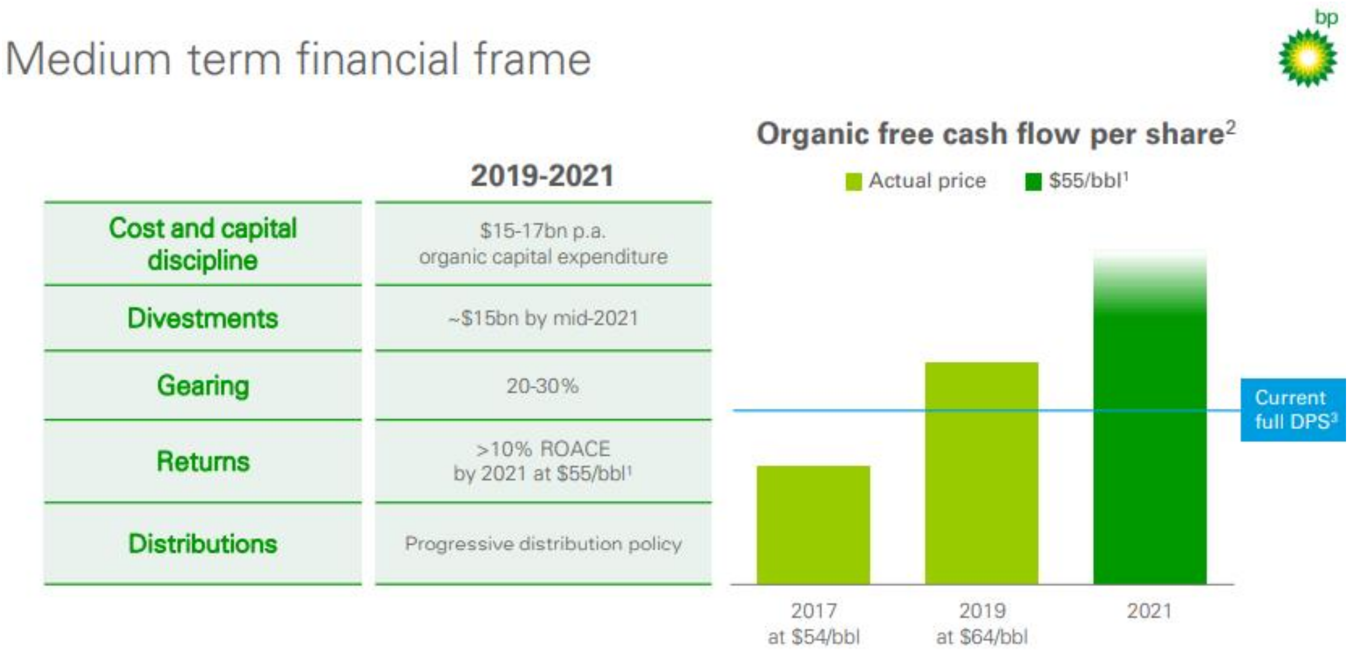
BP's 4Q19 numbers beat expectations although yoy numbers were mostly weaker. Production was a better by 2.7% at 3.8m boe/d, of which 1.2m boe/d was the Rosneft contribution. Underlying RC profit before interest and tax dipped by $4.3bn to $18.8bn, unsurprisingly given the oil price environment the Upstream division saw the biggest decline, down by $3.4bn to $11.2bn but it continues to generate two-thirds of the group's earnings. The Downstream division came in at $6.4bn some $1.2bn lower and Rosneft was the only division to slightly increase its performance to $2.4bn thanks to favourable FX and negative one-off adjustments in prior year.

Operating cashflow came in at $25.8bn up from $22.9bn, capex was down at $15.4bn from $16.7bn which was consistent with lower guidance provided earlier this year. Group net debt totalled $45.4bn which was $1.9bn higher yoy, which represented gearing of 31.1% which was above target but largely unchanged compared to the 30% registered in prior year.

Outlook for 2020 forecasts production to be down on 2019 due to declines in lower margin gas basins as well as reflecting the divestment programme. Management also guided towards the lower end for capital expenditure, the target range is $15-17bn. BP reiterated its gearing objective of between 20-30% in 2020 which should be helped by divestments, on top of the $10bn that had already been announced the group said it would look to execute another $5 by mid-2021.

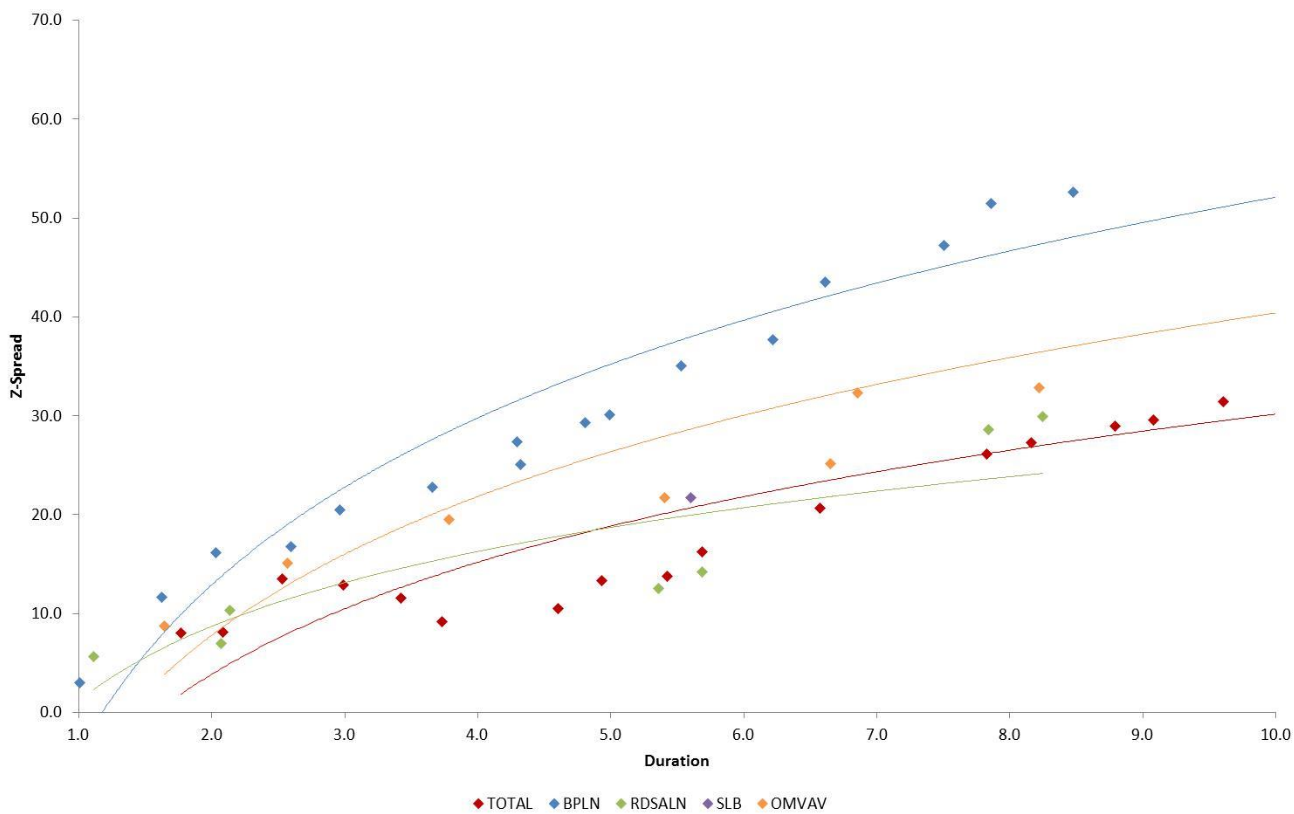
BP's leverage remains somewhat sticky, but we think it's only a matter of time before asset sales are realised, and we think management should be given the benefit of doubt to deliver on its stated target gearing range. The group's consistently strong cash flow and targeted asset divestments should help BP on the right path at S&P, and towards the higher end of the adjusted FFO/debt 30%-40% range required for an upgrade. S&P rate BP the lowest of the three agencies (A1, A-, A), but we note that historically they are on average one notch more conservative in Energy. From a relative value perspective we feel BP offers an interesting proposition in the EUR energy space, it's a true supermajor with a globally diversified profile, and whilst it may lack the AA ratings of some of its peers we feel valuations are attractive compared to other energy names.

CHART 1: MID TERM TARGETS SHOULD BE POSITIVE FOR CREDIT



Source: Company disclosure

CHART 2: BP SPREADS REMAIN WIDE COMPARED TO PEERS



Source: Bloomberg, MUFG

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