

BP's Earnings Results Today, 31 July 2018 Cause for optimism



Source: BBC News, Business Live, Tuesday, 31 July 2018 – BBC's interview with LBC Energy's Dana Novakovic ahead of the BP's 2Q 2018 Results Presentation

Today, BP announced \$2.8 Billion in underlying replacement cost profits (BP's definition of net income) for 2Q 2018, a 4.5 times increase from \$684 Million in the same period last year, surpassing analysts' expectations. Analysts had forecast just under \$2.7bn. Oil prices increased from under \$50 /boe in 2Q 2017 to \$75 / boe in 2Q 2018. However, in LBC Energy's interview given to BBC's Business Live ahead of the management presentations, we summarised that a rise in production due to 3 out of 6 new projects this year coming onstream, improved refining margins and reduced GoM settlement payouts have also increased 2Q 2018 earnings, beyond BP's earnings level in 1Q 2018.

"BP's management both signalled confidence and provided comfort to its shareholders by announcing a 2.5% increase in dividends to ca. c 10.5/ share, as well as share buy-backs of \$200 Million in Q2 2018, on announcement of the US onshore acquisition of BHP Billiton's assets last month. I am particularly keen on the cash generative nature of the US onshore asset acquired in US heartlands' prime basins: Delaware, Eagle Ford and Haynesville."



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"I am very pleased for BP, after a few very tough years for the company, and somewhat sentimental about it, too. Not counting the Army, BP's petrochemical divestitures were my very first mandate in my very first week in my very first job ever, as an Associate M&A Energy starting with Lehman Brothers in New York in 2001, two weeks before September 11th. BP are in a very good shape."



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BP have set a target gearing ratio at ca. 20 – 30%. Whilst the ratio has improved to 27.8% in 2Q 2018, as compared to 28.8% in the same period last year, BP will have to keep an eye on it. However, the expectation is that cash generative nature of the ca. 190,000 boe/d acquired onshore US will help reduce debt levels, while sustaining dividend pay-out growth.

In its presentation at 9 AM today, following our interview at 8:30 AM, Bob Dudley, CEO of BP stated: "We changed our strategic direction six quarters ago, this is the sixth quarter in a row we've been at or above expectations. The company's got momentum, it feels good". The 1Q 2018 was the best quarter following 11 consecutive quarters since 2014 producing \$2.6 Billion in underlying replacement cost profits, and 2Q 2018 produced \$2.8 Billion.

BP is also bringing onstream six major projects in 2018. Three projects have already been brought onstream in the first two quarters of this year, in Russia, Egypt and Azerbaijan. Another three are expected to come onstream before the year end.



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"BP's balance sheet is strengthening. Gulf of Mexico oil spill payments in the 2Q 2018 were \$0.7 Billion on a post-tax basis. Net debt was reduced by \$0.7 Billion to \$39.3 Billion. BP's share buyback programme continued with 29 million ordinary shares bought back in the first half at a cost of \$200 Million. With the GoM payouts reduced to ca. \$1 Billion pa, BP can start a new chapter."



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For an expanded report containing answers to the above questions please contact:

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