

European Oil & Gas

4Q23 Earnings Playbook: summary changes

Estimate Change

4Q23 reporting season overshadowed by 2024 outlook

Our [2024 Year Ahead](#) (see report) outlook for the sector recommends a defensive strategy – given rangebound oil and gas prices, fading refining margins and ongoing capex and opex inflation. We expect 4Q23 results and – more importantly – updates to 2024 capital allocation to provide growing evidence for whose financial framework is more / less resilient among Europe's Big Oils. In our view, relative alpha will continue to stem from the degree of resilience in shareholder returns. We reiterate Shell and TTE as our top picks benefitting from their cash returns requiring <\$70/bbl oil price break-evens – with >\$90/bbl elsewhere.

Consensus still too high for 4Q23 earnings

Despite 2% YTD average downgrades of FY23 consensus EPS estimates for Europe's Big Oils so far, our updated estimates still point to 4% downside for 4Q23. We believe that Big Oil share prices (down 6% YTD), however, have already looked beyond these earnings downgrades as consensus for 2024 cash flows has been revised down 5% over the same time. We reiterate our view that share price reaction will primarily be driven by surprises in updated 2024 cash return outlooks.

Top picks Shell and TTE – battleground Equinor

We expect commitments to 2024 cash returns to outshine peers at TTE (2024 DPS +7.5% + \$8bn buybacks = 11% total cash yield), Shell (2024 DPS +7% + \$16bn buybacks = 11% total cash yield) as well as Equinor. The latter in our view represents the most obvious battleground surrounding how much investors are prepared to value commitments to shareholder distributions worth >100% FCF into negative earnings momentum. However, we believe investors overestimate the post-tax cash flow sensitivity of softer European gas prices (see [Equinor ASA: Net cash vs. free cash – how to end 2025 with zero debt and 25% mkt cap paid back](#) report for more detail).

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Table 1: 2024 Year Ahead

BofA Global Research Reports

BofA Global Research Reports

2024 strategy in European Energy

[European Oil & Gas: Year Ahead 2024: Greater resilience to command greater premium](#)

The Oil Gusher #576: Refining margin rally masks lack of 2024 cash flow resilience

The Oil Gusher #575: Seeking cash return resilience in <\$70/bbl vs. >\$100/bbl break-even Brent oil prices

The Oil Gusher #574: Strong balance sheets – help balance cash returns across 2024 cash flow volatility

Source: BofA Global Research

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Refer to important disclosures on page 7 to 10. Analyst Certification on page 5. Price Objective Basis/Risk on page 4.

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New macro deck – change to estimates

What has changed?

We update our models for backward-looking 4Q23 updates to our macro deck - resulting in average 1% downgrades in our FY23 EBITDA estimates. As a result, we now see 3% downside to FY23 VA consensus estimates for clean net income across Big Oils.

With this reference book, we also update our macro estimates across the coverage – mostly updating for backward-looking 4Q23 moves (see Exhibit 1):

- We tweak our forward-looking FX assumptions and now expect a weaker USD vs the Euro, Pound and Norwegian Krone in 2024.

Exhibit 1: Key macro assumptions

We update our macro assumptions for realized 2023 values

	BofA (new)			BofA (old)			% change		
	2023A	2024E	2025E	2023A	2024E	2025E	2023A	2024E	2025E
E&P									
Brent Oil (US\$/bbl)	82.2	80.0	80.0	83.0	80.0	80.0	-1%	0%	0%
WTI (US\$/bbl)	77.7	76.0	77.0	78.6	76.0	77.0	-1%	0%	0%
Henry Hub (US\$/MMBtu) - Bid Week Price	2.7	3.0	3.0	2.7	3.0	3.0	-2%	0%	0%
UK NBP gas price (pence/therm)	99.3	121.6	108.2	112.4	121.6	108.2	-12%	0%	0%
Dutch TTF gas price (EUR/MWh)	40.6	47.5	42.5	44.9	47.5	42.5	-9%	0%	0%
Asian LNG (US\$/MMBtu)	14.2	15.4	14.6	14.0	15.4	14.6	2%	0%	0%
Refining									
NWE refining (complex)	10.0	5.2	2.5	10.3	5.2	2.5	-3%	0%	0%
Average currency									
1 GBP/USD	1.25	1.27	1.35	1.25	1.27	1.35	0%	0%	0%
1 EUR/USD	1.08	1.11	1.17	1.08	1.11	1.17	0%	0%	0%
1 USD/NOK	10.55	10.21	9.21	10.59	10.25	9.21	0%	0%	0%

Source: BofA Global Research estimates

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Change to BofA estimates

Reflecting the above revisions to our macro deck, we revise our 2023 EBITDA estimates down by 1% on average and leave our 2024 and 2025 estimates mostly unchanged (see Exhibit 2).

Exhibit 2: EBITDA estimate revisions

We revise our 2023 EBITDA estimates down by 1% on average and leave our 2024 and 2025 estimates mostly unchanged

EBITDA (Adjusted)		BofA (Draft)			BofA (Published)			Change (%)		
Name	Currency	2023	2024	2025	2023	2024	2025	2023	2024	2025
Shell Plc	USD	68,553	68,618	67,303	68,553	68,618	67,303	0%	0%	0%
BP plc	USD	42,993	41,559	40,419	43,715	41,744	40,505	-2%	0%	0%
TotalEnergies	USD	48,192	47,135	46,171	48,219	47,310	46,317	0%	0%	0%
Equinor ASA	USD	44,844	45,460	46,169	45,850	45,654	46,404	-2%	0%	-1%
Eni	EUR	19,725	18,520	18,207	20,259	18,586	18,207	-3%	0%	0%

Source: BofA Global Research estimates

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Consistent with limited revisions to near-term earnings estimates, we leave PO's unchanged (see Exhibit 3).

Exhibit 3: Changes to price objectives vs previous

Consistent with limited revisions to earnings estimates, we leave PO's unchanged

Name	Rating	Price Currency	Current Price	PO (new)	PO (old)	PO change	PO Potential Upside	ADR (new)	ADR (old)	ADR change
Shell Plc	BUY	GBP	2361.5	3200.0	3200.0	0%	36%	80.0	80.0	0%
BP plc	NEUTRAL	GBP	446.05	500.0	500.0	0%	12%	38.0	38.0	0%
TotalEnergies	BUY	EUR	57.75	74.0	74.0	0%	28%	81.0	81.0	0%
Equinor ASA	BUY	NOK	293.7	400.0	400.0	0%	36%	37.0	37.0	0%
Eni	NEUTRAL	EUR	14.34	15.0	15.0	0%	5%	33.0	33.0	0%

Source: BofA Global Research estimates

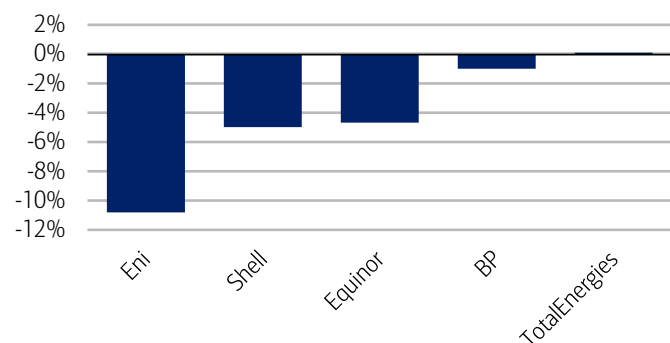
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Now 3% downside to FY23 EBITDA VA consensus

On an aggregate basis, we now sit 4% below Visible Alpha consensus when considering European Big Oils' FY23 EBITDA – while we sit 6% ahead regarding organic CFFO (see Exhibit 4 and Exhibit 5).

Exhibit 4: 2023 EBITDA versus VA consensus

On an aggregate basis, we now sit 4% below Visible Alpha consensus when considering European Big Oils' FY23 EBITDA

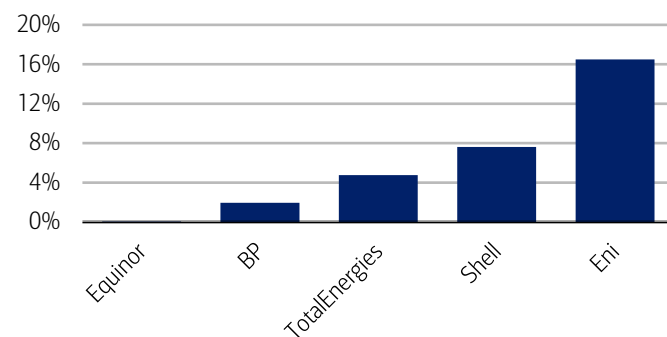


Source: BofA Global Research estimates, Visible Alpha

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Exhibit 5: 2023 organic CFFO versus VA consensus

On an aggregate basis, we now sit 6% ahead Visible Alpha consensus when considering European Big Oils' FY23 organic CFFO



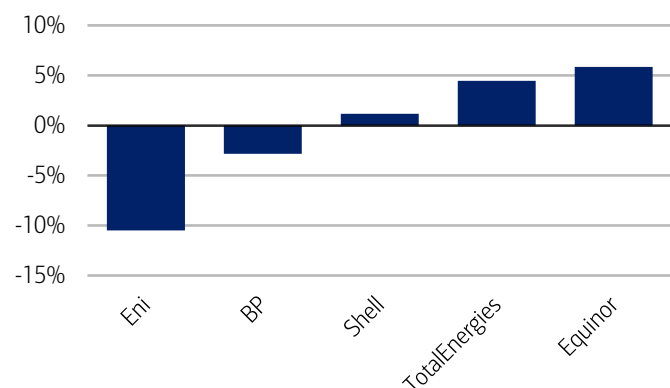
Source: BofA Global Research estimates, Visible Alpha

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On a FY24 basis our estimates sit +1% vs consensus on EBITDA and 10% ahead on organic CFFO (see Exhibit 6 and Exhibit 7).

Exhibit 6: 2024 EBITDA versus VA consensus

On an aggregate basis, we now sit in-line with Visible Alpha consensus when considering European Big Oils' FY24 EBITDA

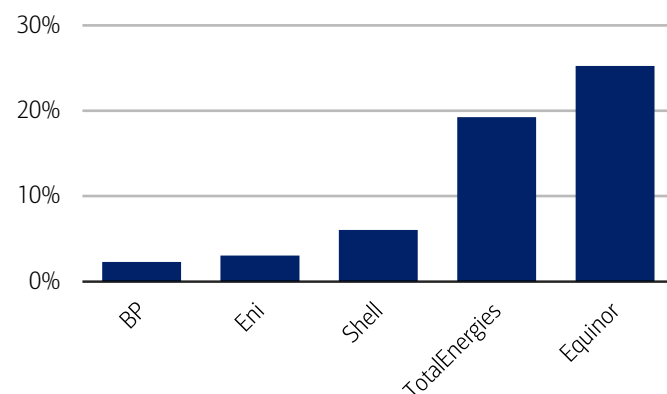


Source: BofA Global Research estimates, Visible Alpha

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Exhibit 7: 2024 organic CFFO versus VA consensus

On an aggregate basis, we now sit 10% ahead Visible Alpha consensus when considering European Big Oils' FY24 organic CFFO



Source: BofA Global Research estimates, Visible Alpha

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Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BPAQF	BP/ LN	BP plc	451.2p	B-2-7
BP	BP US	BP plc	US\$ 34.25	C-2-7
BPAQF	BP/ LN	BP plc	451.2p	B-2-7
E	E US	Eni	US\$ 31.05	B-2-7
EIPAF	ENI IM	Eni	EUR 14.358	B-2-7
EQNR	EQNR US	Equinor ASA	US\$ 28.21	B-1-7
STOHF	EQNR NO	Equinor ASA	NOK 296.9	B-1-7
RYDAF	SHEL LN	Shell Plc	2375.5p	B-1-7
SHEL	SHEL US	Shell plc	US\$ 61.15	B-1-7
TTE	TTE US	TotalEnergies	US\$ 63.27	B-1-7
TTFNF	TTE FP	TotalEnergies	EUR 58.12	B-1-7

Source: BofA Global Research

Price objective basis & risk**BP plc (BPAQF / BP)**

Our PO of 500p/share (US\$38/ADR) is based on our bottom-up cash flow model and resultant sum-of-the-parts valuation. Our SOTP valuation uses DCF valuation for BP's sub-divisions based on differentiated discount rates: 9.2% for Downstream, 5.1% for Renewables as well as 8.8% for Corporate (assuming a zero perpetuity growth rate for all). Our divisional DCF valuations are usually based on perpetuity assumptions beyond 2030 - except for BP's E&P assets: Here we run a "depletion DCF" (at a 8.8% discount rate) and disregard both the income and capex attributable to future prospects (effectively assuming these are value neutral) while based on our long-term Brent oil price assumption of \$70/bbl. This E&P analysis excludes Russia, as we value BP's equity stake in Rosneft at current share price.

Risks (upward and downward) to our PO are sharp moves in refining margins, oil and gas prices as well as the USD. Other risks are unanticipated government intervention and regulation, expropriation risk, project execution/oil spill/environmental risk, bankruptcy risk, litigation risk, M&A risk and the general risk of increased taxes and tariffs. In addition, our PO is subject to significant exploration success or lack thereof, general risks of changes in taxes and tariffs as well as fluctuating capex costs.

Eni (EIPAF / E)

Our Eni PO is €15 (US\$33/ADR). Our price objective is derived from divisional discounted cash flow (DCF) models, where we use discount rates between 7-8%, before deducting financial net debt and other balance sheet provisions to arrive at our equity value. Our long-term Brent price is \$70/bbl.

Upside risks to our PO: (1) upside to our Brent price forecast (2) upside to our European gas forecast (3) operational upsides primarily within the Upstream or gas trading divisions (4) favourable USD/EUR exchange rate movements (5) favourable value crystallisation for its renewable division.

Downside risks to our PO: (1) downside to our Brent price forecast (2) downside to our European gas forecast (3) operational downsides primarily within the Upstream or gas trading divisions (4) unfavourable USD/EUR exchange rate movements.

Equinor ASA (STOHF / EQNR)

Our price objective is defined by DCF-based valuation using our base case \$70/bbl for long-term Brent oil prices. We also include our bottom-up Renewables valuation at a 0%

discount. We use in both cases a WACC of 8%, and a terminal growth rate of zero to arrive at our PO of NOK400 (USD37).

Downside risks to our price objective are a significant change in the price of oil or natural gas prices, currency, government regulatory or fiscal intervention, unforeseen circumstances with operation. Upside risks are: lower capex than expectations, further cost efficiency gains and exploration success.

Shell Plc (RYDAF / SHEL)

Our price objective of 3200p/share (US\$80/ADR) is based on our sum-of-the-parts valuation breaking Shell up into its constituents (upstream, downstream and others). We value these separately from our bottom-up cash flow model via a DCF valuation based on differentiated discount rates (8.7% for Upstream, 9.7% for Downstream, 5.4% for Renewables, 8.7% Group and others). Our divisional DCF valuations are usually based on zero-growth perpetuity assumptions beyond 2030 - except for Shell's and legacy BG E&P assets: Here we run a "depletion DCF" and disregard both the income and capex attributable to future prospects while using our long-term Brent oil price assumptions of \$70/bbl.

Risks are: Changes in oil & gas prices, political / regulatory risks as well as significant exploration success or lack thereof. Other risks are exposure to swings in the global economy that could impact oil and gas prices as well as refining margins, currency moves for the US dollar, general risks of changes in taxes and tariffs and rising capex costs.

TotalEnergies (TTFNF / TTE)

Our PO of EUR74/share (ADR US\$81) is based on our bottom-up cash flow model and resultant sum-of-the-parts valuation. Our sum-if-the-parts (SOTP) valuation uses discounted cash flow (DCF) valuation for TotalEnergies's sub-divisions based on differentiated discount rates: 9.1% for Refining and Marketing & Services, 5.2% for Renewables as well as 8.8% for Corporate (assuming a zero perpetuity growth rate for all). Our divisional DCF valuations are usually based on perpetuity assumptions beyond 2030 - except for TotalEnergies's E&P assets: Here we run a "depletion DCF" (at a 8.5% discount rate) and disregard both the income and capex attributable to future prospects (effectively assuming these are value neutral) while using our long-term Brent oil price assumption of \$70/bbl.

Risks (upward and downward) to our PO are sharp moves in refining margins, oil and gas prices as well as the USD. Other risks are unanticipated government intervention and regulation, expropriation risk, project execution/oil spill/environmental risk, bankruptcy risk, litigation risk, M&A risk and the general risk of increased taxes and tariffs. In addition, our PO is subject to significant exploration success or lack thereof, general risks of changes in taxes and tariffs as well as fluctuating capex costs.

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EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Energiean	EERGF	ENOG LN	Matthew Smith
	Energiean	XMQFF	ENOG IT	Matthew Smith
	Equinor ASA	STOHF	EQNR NO	Christopher Kuplent
	Equinor ASA	EQNR	EQNR US	Christopher Kuplent
	Harbour Energy	PMOIF	HBR LN	Matthew Smith
	Kosmos Energy	KOS	KOS US	Matthew Smith
	Kosmos Energy	XKELF	KOS LN	Matthew Smith
	Neste	NTOIF	NESTE FH	Christopher Kuplent
	Neste	NTOIY	NTOIY US	Christopher Kuplent
	Saipem	SAPMF	SPM IM	Christopher Kuplent
	Shell plc	SHEL	SHEL US	Christopher Kuplent
	Shell Plc	RYDAF	SHEL LN	Christopher Kuplent
	TotalEnergies	TTFNF	TTE FP	Christopher Kuplent
	TotalEnergies	TTE	TTE US	Christopher Kuplent
	Vallourec	VLOUF	VK FP	Joseph Charuy
NEUTRAL				
	Aker Solutions	AKRTF	AKSO NO	Christopher Kuplent
	BP plc	BP	BP US	Christopher Kuplent
	BP plc	BPAQF	BP/ LN	Christopher Kuplent
	Eni	E	E US	Matthew Smith
	Eni	EIPAF	ENI IM	Matthew Smith
	EnQuest	ENQUF	ENQ LN	Matthew Smith
	Ithaca Energy plc	XMFYF	ITH LN	Matthew Smith
	Tenaris	TS	TS US	Joseph Charuy
	Tenaris	TNRSF	TEN IM	Joseph Charuy
	Var Energi	XGZNF	VAR NO	Matthew Smith
UNDERPERFORM				
	Aker BP	DETNF	AKRBP NO	Matthew Smith
	Galp Energia	GLPEF	GALP PL	Matthew Smith
	OMV	OMVJF	OMV AV	Matthew Smith
	OMV	OMVKY	OMVKY US	Matthew Smith
	Repsol	REPY	REPY US	Matthew Smith
	Repsol	REPYF	REP SQ	Matthew Smith
	Subsea 7 SA	ACGYF	SUBC NO	Christopher Kuplent
	Technip Energies	THNPF	TE FP	Christopher Kuplent
	Technip Energies	THNPY	THNPY US	Christopher Kuplent
	Tullow Oil	TUWLF	TLW LN	Matthew Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



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Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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