

European Oil & Gas

European OCTG: 2024 playbook – summary changes

Price Objective Change

Key takeaways

- Aramco's halt of its production capacity expansion has limited near-term implications for OCTG volumes and pricing.
- We tweak Tenaris' PO by -3% on lower perpetuity shipments. Our FY24 estimates remain unchanged.
- Reiterate Neutral on lack of near-term buyback catalyst, coupled with high expectations for DPS growth.

Tweak PO to reflect slightly lower perpetuity volumes

Yesterday's Aramco announcement to halt its oil MSC expansion underlines our conviction that only Oil Service companies which adopt 'value over volume' strategies will outperform. We believe the MSC 'halt' should have limited near-term impact on Int'l volumes and pricing, and as such, leave 2024 forecasts unchanged at TEN. We lower our DCF-driven PO at TEN from US \$40/EUR 18 to US \$39/EUR 17.5 (-3%) – reflecting slightly lower long-term volume assumptions (-50KT).

Post-FID projects will continue

Whilst Safaniya (+700kb/d) is now likely to be deferred, the development of the Dammam (2024 and 2027), Berri (2025), Marjan (2025), Zuluf (2026) fields, will continue according to our [MENA colleagues](#). As a result, they still expect Aramco's capex to peak in 2025, and thus spending growth is unlikely to deviate too much in 2024-25. Our [US colleagues](#) equally believe the 'halt' is likely less disruptive than it seems, and upstream capex i.e., OFS Middle East revenue will still move up higher-in 2024-25.

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Equity
Pan-Euro
Oils

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Jargon buster:

MSC: Maximum sustainable capacity

FID: Final investment decision

OFS: Oilfield services

OCTG: Oil Country Tubular Goods

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Timestamp: 31 January 2024 12:25AM EST

Aramco to maintain production capacity

Aramco announced yesterday receiving a directive from the Saudi Ministry of Energy to maintain its max sustainable capacity at 12mb/d and not increase it to 13mb/d, which was expected to be completed in 2027. Aramco is expected to provide updated capex guidance during its FY23 results in March. We continue to expect Aramco's capex peaking in 2025 given the continued development of already sanctioned projects.

Development of Aramco's sanctioned projects to continue

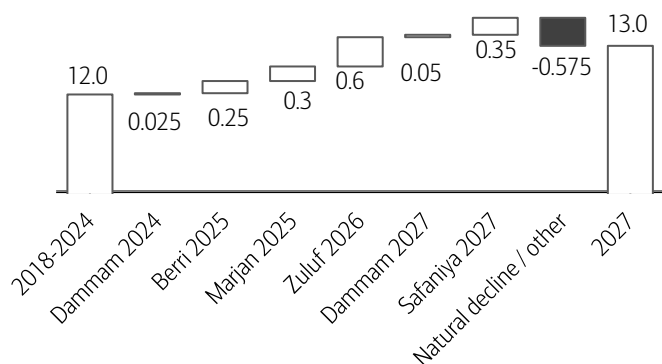
The development of the Dammam (2024 and 2027), Berri (2025), Marjan (2025), Zuluf (2026) fields, which have passed final investment decision already, will in our view continue. Through infill drilling, the company will control production capacity in each of these fields, which will help offset natural declines across other fields and eventually help the company maintain its production capacity of 12mb/d.

Safaniya key victim of deferrals

Safaniya (700kb/d capacity, world's largest offshore oil field) is the only large field of Aramco's expansion plan still awaiting sanction, which is now likely to be deferred because of the announcement. Upstream reported last week that Aramco had started tendering EPCI (Engineering, Procurement, Construction and Installation) contracts worth US\$10bn for the project, while Woodmac has reported total capex of US\$26bn.

Exhibit 1: Aramco's route to 13mb/d decomposed (mb/d)

Zuluf was expected to add 0.6 mb/d with the remaining from other fields



Source: Company report. BofA Global Research. Note: Safaniya currently pending final investment decision; c.350mbpd planned delivery in 2027, with remainder after 2027.

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Summary changes

Tenaris - Neutral: PO US\$39/EUR17.5

We maintain our Neutral rating on Tenaris. Our PO of EUR 17.5 (previously EUR 18) is derived from a discounted cash flow (DCF), where we use a 9.5% discount rate, before deducting financial net debt and other balance sheet provisions to arrive at our equity value (Exhibit 5). Mid-cycle, we now assume ~3.3 MT of tube shipments (previously ~3.4 MT), implying a capacity utilization rate of 43% (in-line with 10YA). We maintain our medium-term Tubes division ASP at USD 2,900/t.

Exhibit 2: Tenaris valuation

We lower our PO of US\$39/ADR (EUR17.5) implying 20% upside potential

12 Months Base Target (DCF)	
Sum of Cash Flows	1,784
Present Value of Terminal Value	17,048
Enterprise Value	18,833
Net Debt / (cash) ('24)	(3,969)
Other Investments (Non-current) ('24)	92
Minority interest ('24)	129
Provisions ('24)	109
Pensions Liability ('24)	230
Equity Value	22,241
Equity Value Per Share (USD)	19.5
ADR/Share ratio	2x
ADR per share (USD)	38.9
EUR/USD average (2024, BofAe)	1.1
Equity Value Per Share (EUR)	17.6
Current share price (EUR)	14.7
Upside/ Downside potential	20%

Source: BofA Global Research estimates

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2024 estimates remain unchanged; sit above consensus

We leave FY23 and FY24 estimates broadly unchanged (see Exhibit 6). We now model flat Int'l tubular ASPs 2024-25 (+1% previously) meaning that our EBITDA forecast is lowered by 2% in 2025.

Exhibit 3: Tenaris: Summary estimate changes

USDm

GROUP FINANCIALS	4Q23 (Implied)	2023	2024	2025
Revenue (old)	3,187	14,641	13,082	13,961
Revenue (new)	3,187	14,641	13,082	13,864
Change	0%	0%	0%	-1%
New vs. consensus	2%	0%	2%	6%
EBITDA (old)	888	4,778	3,650	3,849
EBITDA (new)	888	4,778	3,650	3,780
Change	0%	0%	0%	-2%
New vs. consensus	6%	1%	4%	9%
EBIT (old)	756	4,253	3,075	3,274
EBIT (new)	756	4,253	3,075	3,205
Change	0%	0%	0%	-2%
New vs. consensus	11%	2%	4%	11%
Net income (old)	647	3,459	2,500	2,595
Net income (new)	629	3,441	2,488	2,530
Change	-3%	0%	0%	-3%
New vs. consensus	7%	1%	2%	6%

Source: BofA Global Research, Bloomberg

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Summary estimates versus consensus – we sit above:

Our financial estimates sit 5-10% above a thin consensus 2023-25e. However, our DPS estimates sit below. Our Tubes division ASPs are in-line, while our volume estimates are above.

Exhibit 4: Tenaris: Summary estimates vs Consensus

US\$ m

Financial	4Q23 (Implied)	2023	2024	2025
Group Revenue - BofA	3,187	14,641	13,082	13,864
Group Revenue - Consensus (BBG)	3,120	14,574	12,827	13,022
Delta	2%	0%	2%	6%
Group cash cost - BofA	2,299	9,863	9,433	10,084
Group cash cost - Consensus (BBG)	2,284	9,848	9,304	9,570
Delta	1%	0%	1%	5%
Group EBITDA - BofA	888	4,778	3,650	3,780
Group EBITDA - Consensus (BBG)	835	4,725	3,523	3,452
Delta	6%	1%	4%	9%
Group EBIT - BofA	756	4,253	3,075	3,205
Group EBIT - Consensus (BBG)	681	4,179	2,961	2,891
Delta	11%	2%	4%	11%
Group Net income - BofA	629	3,441	2,488	2,530
Group Net income - Consensus (BBG)	586	3,398	2,428	2,378
Delta	7%	1%	2%	6%
Organic FCF (ex WC) - BofA	460	3,319	2,133	2,184
Organic FCF (ex WC) - Consensus (Visible Alpha)	435	3,294	2,150	2,310
Delta	6%	1%	-1%	-5%
DPS - BofA	na	0.60	0.65	0.68
DPS - Consensus (Visible Alpha)	na	0.57	0.70	0.70
Delta	na	5%	-7%	-3%
Operational	4Q23 (Implied)	2023	2024	2025
Tube volumes (KT) - BofA	966	4,101	4,160	4,356
Tube volumes (KT) - Consensus (Visible Alpha)	950	4,085	4,161	4,218
Delta	2%	0%	0%	3%
Tube ASP (\$/t) - BofA	3,143	3,419	3,001	3,045
Tube ASP (\$/t) - Consensus (Visible Alpha)	3,087	3,407	2,838	2,909
Delta	2%	0%	6%	5%

Source: BofA Global Research estimates, Bloomberg, Visible Alpha

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Summary estimates

Our summary financials are below (see Exhibit 8):

- Group EBITDA should fall ~20% 2023-25e, although remain above US\$ 3.5bn across each year (>2.5x vs 2021).
- Cumulative FCF generation 2023-25e should amount to US\$ ~8bn.
- Gearing should fall by >15pp YE23-25e as net cash (TEN defined) increases by US\$1.9bn.
- DPS should grow at a 6% CAGR 2023-25e.
- Total cash returns should amount to US\$ 1.7bn in 2024e, organically covered by 1.5x.

Exhibit 5: Tenaris: key financial forecasts

	2020A	2021A	2022A	2023E	2024E	2025E
Tubes Volume (KT)	2,397	2,802	3,533	4,101	4,160	4,356
Tubes ASP (USD/T)	2,021	2,139	3,151	3,419	3,001	3,045
Revenue	5,147	6,522	11,763	14,641	13,082	13,864
EBITDA	16	1,302	3,571	4,778	3,650	3,780
EBIT	(663)	708	2,964	4,253	3,075	3,205
Net Income (group share)	(634)	1,100	2,553	3,459	2,500	2,542
Basic EPS (US\$)	(0.54)	0.93	2.16	2.93	2.19	2.27
DPS (US\$)	0.21	0.41	0.51	0.60	0.65	0.68
CFFO (TEN definition)	1,520	119	1,167	4,386	3,112	2,572
Organic CFFO (BofA, ex. WC)	461	1,165	3,298	4,027	2,813	2,905
CAPEX	(193)	(240)	(378)	(708)	(680)	(721)
FCF (TEN definition)	1,327	(120)	789	3,678	2,431	1,851
Organic FCF (BofA, ex. WC)	268	926	2,920	3,319	2,133	2,184
Dividends	(83)	(319)	(531)	(637)	(684)	(757)
Increase/(decrease) in equity (net)	-	-	-	(215)	(985)	-
Cash payout	(83)	(319)	(531)	(852)	(1,669)	(757)
FCF cash coverage (TEN definition)	16.1x	-0.4x	1.5x	4.3x	1.5x	2.4x
Organic FCF cash coverage (BofA, ex. WC)	3.2x	2.9x	5.5x	3.9x	1.3x	2.9x
Net Debt / (Cash) (TEN definition)	(1,085)	(705)	(921)	(3,384)	(4,137)	(5,221)
Net Debt/ (Cash) (BofA, Post-IFRS16 and excl. Non-current investments)	(581)	(268)	(689)	(3,216)	(3,969)	(5,053)
Gearing (TEN definition)	-11%	-6%	-7%	-26%	-32%	-39%
Gearing (BofA, Post-IFRS16)	-5%	-2%	-5%	-24%	-31%	-38%
Net Debt / EBITDA (x) (TEN definition)	(67.8x)	(0.5x)	(0.3x)	(0.7x)	(1.1x)	(1.4x)
Net Debt / EBITDA (x) (BofA, Post-IFRS16)	(36.3x)	(0.2x)	(0.2x)	(0.7x)	(1.1x)	(1.3x)

Source: BofA Global Research estimates, company report

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Exhibit 6: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
TNRSF	TEN IM	Tenaris	EUR 14.685	B-2-7
TS	TS US	Tenaris	US\$ 32.17	C-2-7



Exhibit 6: Stock Mentioned

Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
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Source: BofA Global Research

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Investment Rationale

Tenaris

We rate Tenaris Neutral. It remains a leader in its main markets and should deliver organically covered, sector-leading 9% cash returns 2024e whilst maintaining a strong balance sheet with net cash set to grow by c.\$2bn YE23-25e.

Nonetheless, Tenaris is less-exposed Int'l market torque than Vallourec, and we see limited outperformance from further buyback upgrades 1H24 without a formal payout policy. Furthermore, consensus DPS expectations are high from 2024+.

Price objective basis & risk

Tenaris (TNRSF / TS)

Our PO of US\$39/EUR 17.5 for Tenaris is based on our DCF valuation, which assumes a WACC of 9.5% and a perpetuity growth rate of 1.5%.

Upside risks to our PO include: (1) upside to our Tubes price forecast, (2) upside to Tubes volume forecast, (3) favourable exchange rate movements and (4) decreases in raw material costs.

Downside risks to our PO include: (1) downside to our Tubes price forecast, (2) downside to Tubes volume forecast, (3) unfavourable exchange rate movements, (4) increases in raw material costs and (5) global trade issues, including possible anti-dumping duties

Analyst Certification

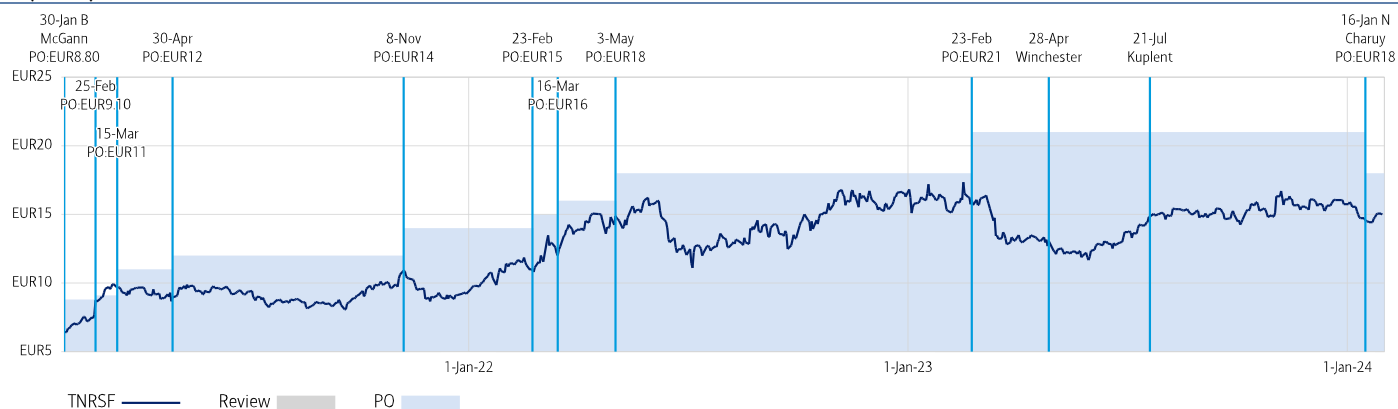
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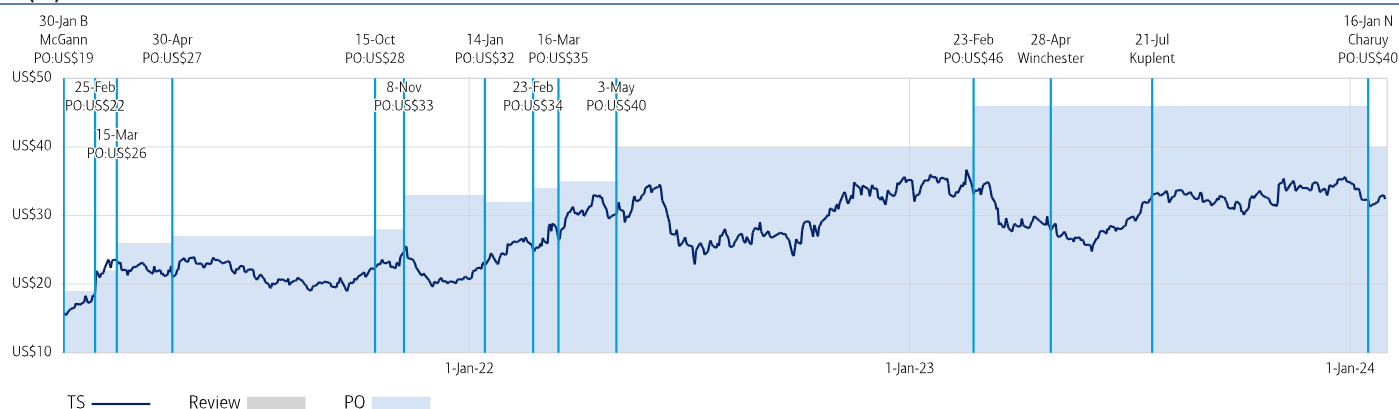
Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Capricorn Energy	CRNZD	CNE LN	Matthew Smith
	Energiean	EERGF	ENOG LN	Matthew Smith
	Energiean	XMQFF	ENOG IT	Matthew Smith
	Equinor ASA	STOHF	EQNR NO	Christopher Kuplent
	Equinor ASA	EQNR	EQNR US	Christopher Kuplent
	Harbour Energy	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

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Tenaris (TNRSF) Price Chart

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Tenaris (TS) Price Chart

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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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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^{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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