

BP plc

Higher payout = confidence in outlook?

Reiterate Rating: NEUTRAL | PO: 500.00 GBp | Price: 478.95 GBp

‘Redemption’ from higher buyback commitment

Along with 4Q23 results that were in line with our estimates (and VA consensus), BP yesterday significantly simplified its commitment to shareholder distributions. By committing to longer-term guidance in absolute \$ terms (\$14bn for the next two years to be precise – implying a total 11% cash yield), BP now relieves investors from having to interpret its payout policy tied to volatile cash flows quarter in quarter out.

However, we see more attractive value elsewhere

Although BP’s move anticipates credit rating upgrades from S&P and Moody’s (both still on positive outlook), we calculate BP’s balance sheet will remain heavier vs. peers. As a result, we see limited attraction from its 8% FCF yield over enterprise value (vs. >10% at TTE and [Shell](#) (see report) (Exhibit 14). We make small changes to our estimates (see Exhibit 11) and reiterate our Neutral rating.

Higher oil price breakeven, but hardly higher cash yield

In addition, without more clarity on BP’s underlying earnings and cash flow outlook, we believe its payout ratio moving from 60% to 80% of surplus FCF also moves the oil price higher required to cover BP’s new buyback commitment. However, our 2025 EBITDA estimate remains ~15% below BP’s \$46-49bn target (see Exhibit 1). So as a result, for BP to cover its payout commitment from organic FCF, we calculate it would require Brent oil prices to average ~\$80/bbl (vs. <\$65/bbl for our estimates at TTE and Shell – despite both of which offering similar >10% total cash yields – see Exhibit 6).

Still struggling to bridge 2025 EBITDA gap

Based on BP’s reference commodity price assumptions, we estimate BP’s EBITDA will grow from ~\$35bn in 2023 to only <\$41bn by 2025: We believe our 2025 estimates are ~\$3bn below BP’s cumulative growth assertions in Mobility, Archaea as well as Renewables. By only assuming “average” trading results, we calculate organic growth in BP’s heartland oil and gas businesses would need to work twice as hard to enable BP to bridge our >\$6bn gap to its 2025 target (see Exhibit 2).

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	1.46	0.78	0.74	0.77	0.80
EPS Change (YoY)	130.3%	-46.5%	-4.5%	2.9%	4.0%
Dividend / Share	0.24	0.28	0.31	0.34	0.36
ADR EPS (Adjusted Diluted - US\$)	8.74	4.68	4.47	4.60	4.78
ADR Dividend / Share (US\$)	1.44	1.71	1.88	2.03	2.14
Valuation (Dec)					
P/E	3.96x	7.83x	8.09x	7.86x	7.56x
Dividend Yield	4.00%	4.72%	5.19%	5.61%	5.92%
EV / EBITDA*	3.13x	4.39x	4.53x	4.61x	4.72x
Free Cash Flow Yield*	-18.6%	11.7%	14.4%	14.3%	14.1%

* For full definitions of *IQmethod*SM measures, see page 12.

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Refer to important disclosures on page 13 to 15. Analyst Certification on page 11. Price Objective Basis/Risk on page 10.

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Timestamp: 07 February 2024 12:28AM EST

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E EPS	0.77	0.74
2025E EPS	0.76	0.77
2026E EPS	NA	0.80
2024E DPS	0.30	0.31

Christopher Kuplent >>

Research Analyst
MLI (UK)
+44 20 7995 8222
christopher.kuplent@bofa.com

Matthew Smith >>

Research Analyst
MLI (UK)
+44 20 7996 7109
matt.smith1@bofa.com

Joseph Charuy >>

Research Analyst
MLI (UK)
+44 20 7996 6569
joseph.charuy@bofa.com

Stock Data

Price (Common / ADR)	478.95 GBp / 36.39 USD
Price Objective	500.00 GBp / 38.00 USD
Date Established	7-Dec-2023 / 7-Dec-2023
Investment Opinion	B-2-7 / C-2-7
52-Week Range	441.10 GBp-570.50 GBp
Market Value (mn)	90,943 GBp
Shares Outstanding (mn)	18,987.9 / 3,164.7
Average Daily Value (mn)	130.84 USD
Free Float	90.4%
BofA Ticker / Exchange	BPAQF / LSE
BofA Ticker / Exchange	BP / NYS
Bloomberg / Reuters	BP/ LN / BP.L
ROE (2024E)	17.7%
Net Dbt to Eqty (Dec-2023A)	22.1%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

iQprofileSM BP plc

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Sales	279,795	238,073	210,081	209,973	191,746
EBITDA Adjusted	60,362	42,964	41,627	40,986	40,017
Depreciation & Amortization	(14,318)	(15,928)	(15,982)	(15,888)	(15,936)
EBIT Adjusted	46,044	27,036	25,645	25,098	24,081
Net Interest & Other Income	(2,634)	(3,599)	(3,328)	(3,451)	(3,558)
Tax Expense / Benefit	(16,762)	(7,869)	(8,927)	(8,658)	(7,696)
Net Income (Adjusted)	27,652	13,835	12,408	12,005	11,844
Average Fully Diluted Shares Outstanding	18,988	17,751	16,664	15,668	14,867

Key Cash Flow Statement Data					
Net Income (Reported)	(2,488)	15,238	12,408	12,005	11,844
Depreciation & Amortization	14,318	15,928	15,982	15,888	15,936
Change in Working Capital	132	5,320	(899)	(1,269)	(351)
Deferred Taxation Charge	0	0	0	0	0
Other CFO	28,970	(4,447)	2,722	1,676	1,633
Cash Flow from Operations	40,932	32,039	30,213	28,300	29,063
Capital Expenditure	(12,470)	(14,998)	(16,012)	(16,429)	(17,292)
(Acquisition) / Disposal of Investments	(3,860)	(1,255)	(505)	(80.6)	(80.6)
Other CFI	2,617	1,365	(1,863)	565	0
Cash Flow from Investing	(13,713)	(14,888)	(18,380)	(15,945)	(17,373)
Share Issue / (Repurchase)	(9,996)	(7,918)	(7,675)	(6,675)	(5,675)
Cost of Dividends Paid	(4,652)	(5,212)	(5,387)	(5,468)	(5,478)
Increase (decrease) debt	(14,232)	5,010	(9,241)	2,348	2,024
Other CFF	75,824	60,074	65,016	54,856	56,215
Cash Flow from Financing	46,944	51,954	42,713	45,062	47,085
Total Cash Flow (CFO + CFI + CFF)	74,163	69,105	54,546	57,416	58,775
FX and other changes to cash	(75,649)	(65,270)	(67,576)	(57,416)	(58,775)
Change in Cash	(1,486)	3,835	(13,030)	0	0
Change in Net Debt	(12,746)	1,175	3,789	2,348	2,024
Net Debt	17,749	18,924	22,713	25,062	27,085

Key Balance Sheet Data					
Property, Plant & Equipment	90,870	86,985	89,121	88,833	89,931
Goodwill	11,960	12,472	12,472	12,472	12,472
Other Intangibles	10,200	9,991	9,991	9,991	9,991
Other Non-Current Assets	67,402	66,700	68,372	70,084	71,833
Trade Receivables	34,010	31,123	27,339	27,464	25,497
Cash & Equivalents	29,195	33,030	20,000	20,000	20,000
Other Current Assets	44,483	39,993	37,707	37,821	36,012
Total Assets	288,120	280,294	265,001	266,665	265,735
Long-Term Debt	43,746	48,670	39,429	41,778	43,801
Other Non-Current Liabilities	62,366	60,053	59,335	57,621	55,905
Short-Term Debt	3,198	3,284	3,284	3,284	3,284
Other Current Liabilities	95,820	82,794	77,132	77,316	74,406
Total Liabilities	205,130	194,801	179,180	179,998	177,396
Total Equity	82,990	85,493	85,821	86,666	88,340
Total Equity & Liabilities	288,120	280,294	265,001	266,665	265,735

Business Performance*					
Return On Capital Employed	11.4%	9.28%	7.99%	7.98%	7.91%
Return On Equity	38.7%	20.1%	17.7%	17.2%	16.8%
Operating Margin	5.54%	11.1%	11.9%	11.6%	12.2%
Free Cash Flow (MM)	(21,305)	12,194	14,099	13,140	12,277

Quality of Earnings*					
Cash Realization Ratio	1.48x	2.32x	2.44x	2.36x	2.45x
Asset Replacement Ratio	0.87x	0.94x	1.00x	1.03x	1.09x
Tax Rate	109%	33.1%	40.0%	40.0%	37.5%
Net Debt/Equity	21.4%	22.1%	26.5%	28.9%	30.7%
Interest Cover	17.5x	7.51x	7.71x	7.27x	6.77x

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Oils

Company Description

BP is one of the world's leading integrated energy companies with operations in over one hundred countries worldwide. The company's operations are focussed on a wide range of activities, including Exploration and Production of Oil & Gas, Refining and Marketing, Chemicals, Gas & Power and Renewable energy.

Investment Rationale

We see BP's financial frame requiring more balance sheet repair in order to finance growing low-carbon ambitions, ongoing oil spill payments as well as shareholder distribution commitments. In the meantime, investors are exposed to the risk of more dilutive asset disposals and lower potential for increased cash shareholder returns vs. peers.

Stock Data

Shares / ADR	6.00
Price to Book Value	1.4x

Key Changes

(US\$)	Previous	Current
2024E EPS	4.65	4.47
2025E EPS	4.58	4.60
2026E EPS	NA	4.78
2024E DPS	1.81	1.88

Still a bridge too far

We believe we are not alone in struggling to bridge the gap between our 2025 EBITDA estimate and BP's \$46-49bn target: We sit at ~\$41bn while VA consensus sits at ~\$42bn – while mostly using more bullish commodity price assumptions than in BP's reference deck.

2025 gap to BP EBITDA target remains at ~15%

Other than our differing commodity price outlook, we believe an important reason for our scepticism about the durability of BP's new buyback commitment stems from the fact that our 2025 earnings outlook remains significantly behind BP's target: Anatomy of the 2023 to 2025 EBITDA bridge is as follows:

- Exhibit 1 shows our estimates normalised for BP's commodity price deck – finishing 2025 below \$41bn EBITDA, i.e., ~15% below BP's \$46-49bn target.
- Exhibit 2 shows where we see growth in EBITDA from 2023 to 2025:
 - ~\$2bn from BP's various low-carbon growth projects in Marketing, biofuels as well as Renewables – BP's target must assume EBITDA growth closer to \$5bn in these areas.
 - We see just ~\$1.5bn in EBITDA growth from inflating BP's commodity price deck (calibrated at 2021 real prices).
 - However, we only model 'average' trading results and hence see 2023 as a tough benchmark with \$1.5bn above-average EBITDA across oil & gas trading – perhaps BP's target already assumes a new / higher average trading result level given increased capital commitments in recent years.
 - This leaves <\$4bn of organic growth in BP's heartland oil & gas businesses – again we think BP's target must assume organic growth to shine through earlier.

Exhibit 1: BP vs. BofA EBITDA outlook

At BP's price deck, our 2025 estimate sits ~15% below BP's \$46-49bn target

Nominal - \$bn	2021	2022	2023	2024	2025
EBITDAX – BofA house deck	37.6	60.7	43.7	42.2	41.5
Brent (\$/bbl)	70.8	99.0	82.5	80.0	80.0
Henry Hub (\$/mbtu)	3.7	6.5	2.7	3.0	3.0
Refining margin marker (\$/bbl)	13.4	33.1	25.7	15.5	11.6
EBITDAX – BP deck	41.7	35.2	39.2	40.9	
Brent (\$/bbl)	70.0	71.8	73.5	75.4	77.3
Henry Hub (\$/mbtu)	3.0	3.1	3.2	3.2	3.3
Refining margin marker (\$/bbl)	11.0	11.3	11.6	11.8	12.1

Source: BofA Global Research estimates, company report

Note: BP targets adj. EBITDA defined as EBITDAX, i.e. before exploration write-offs

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Exhibit 2: EBITDA growth from 2023 to 2025 – BP vs. BofA

We see ~\$2bn of growth in low-carbon

EBITDAX 2023 - BP deck	35.2
Marketing	1.2
Renewables	0.3
Archaea	0.5
Inflation of 2021 real deck	1.5
Average trading vs. strong 2023 actuals	(1.5)
Organic growth in oil & gas	3.7
BofA EBITDAX 2025 - BP deck	40.9
Gap to BP target midpoint	6.6
EBITDAX 2025 target - BP deck	47.5

Source: BofA Global Research estimates, company report

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Payout redemption?

New buyback implies >100% of surplus FCF into 2025

At our base case commodity price assumptions across 2024-25 (\$80/bbl Brent, \$3/mbtu Henry Hub, but also <\$12/bbl refining margin marker), we see BP's new buyback commitment eating into its balance sheet as soon as 2024 – with our estimates suggesting a >100% FCF payout ratio and almost \$2bn gap to be filled by disposal proceeds (see Exhibit 3). While BP guides for annual disposals of \$2-3bn, we do not model any as long as we do not know the likely dilutive effect they have on BP's underlying earnings and cash flows. And we show, this gap keeps rising into 2025:

Exhibit 3: Anatomy of BP payout ratios

Our 2024-25 cash flow estimates see BP's new buyback commitment imply >100% payout of FCF – before disposals

\$bn	2022	2023	2024	2025
CFFO before working capital changes	40.9	32.0	30.2	28.3
Net working capital changes inc. oil spill payments	(6.9)	2.8	0.1	(1.3)
Disposal proceeds	3.0	1.7	0.0	0.6
Capex	(16.3)	(16.2)	(16.0)	(16.4)
Other financing outflows*	(4.2)	(4.8)	(4.0)	(3.6)
Dividends	(4.4)	(4.8)	(5.1)	(5.2)
Surplus FCF	12.2	10.7	5.2	2.4
Share buybacks	8.7	7.2	7.0	6.0
Buyback as % of surplus FCF	71%	68%	134%	252%
Shareholder distributions as % of CFFO	32%	38%	40%	40%

Source: BofA Global Research estimates, company report

* As per BP definition: includes dividends to minorities, lease payments, hybrid bond coupons, repurchase of shares relating to employee share schemes

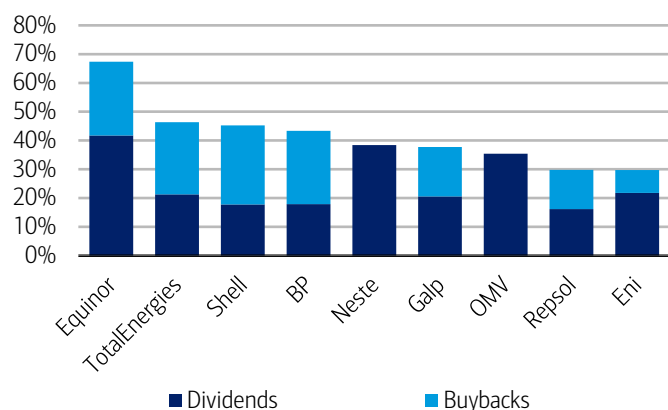
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Benchmarking BP's against other Big Oil payout policies

Exhibit 4 and Exhibit 5 show BP's \$7bn buyback commitment sitting in the middle of its Big Oil peer group in terms of its implied payout ratios over CFFO and FCF calculated on a like-for-like basis: Although less punitive than BP's 'surplus FCF' definition, we note the latter still comes close to 100% - mostly as we assume refining margins across the year to average below today's levels:

Exhibit 4: Organic CFFO payout (Dividends + Buybacks) 2024

At \$7bn buybacks, we estimate BP will pay out ~43% of CFFO in 2024

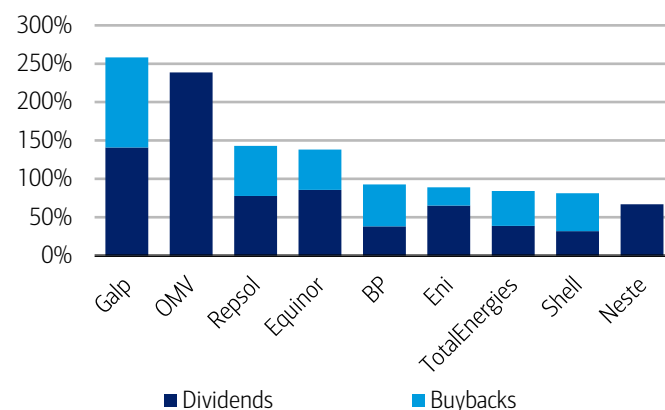


Source: BofA Global Research estimates

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Exhibit 5: Organic FCF payout (Dividends + Buybacks) 2024

At \$7bn buybacks, we estimate BP will pay out ~90% of FCF in 2024



Source: BofA Global Research estimates

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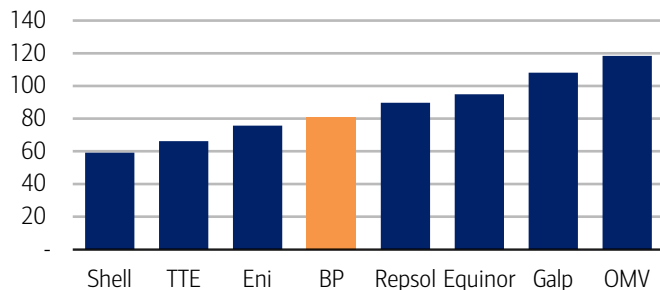
Calibrating cash yields vs. breakeven oil prices

Break-even oil prices as we see 2024 payouts across Big Oils

Oil price breakevens shown in Exhibit 6 compare to our \$80/bbl forecast and are based on our assumed shareholder distributions as described above.

Exhibit 6: 2024 distribution break-even oil prices (\$/bbl)

We see TTE & Shell will the lowest oil price break-evens <\$70/bbl

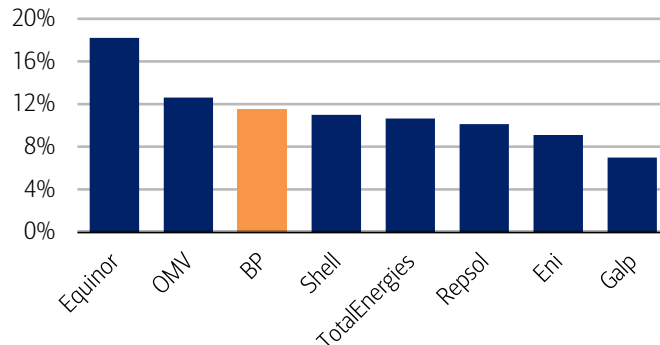


Source: BofA Global Research estimates

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Exhibit 7: Cash yields at 2024 distribution levels

BP's 11% cash yield at 2024 levels sits slightly above TTE & Shell (11%)



Source: BofA Global Research estimates

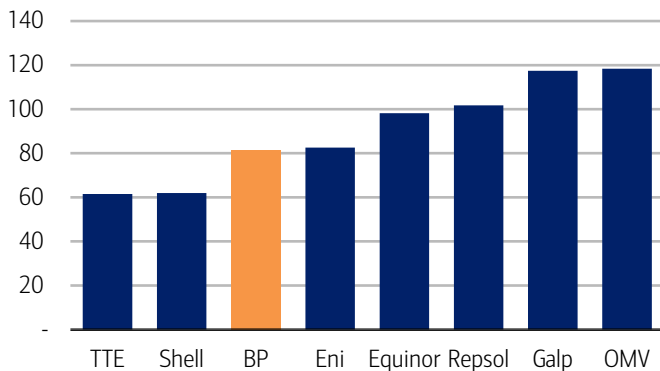
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Break-even oil prices assuming 2024 = 2023 payouts

Assuming flat shareholder distributions at 2023 levels into 2024, we see greater dispersion in 2024 total cash yields already: Shell's and TTE's breakeven Brent prices fall by ~\$5/bbl with flat distributions, while BP's remains flat. OMV would maintain its position with the highest 2024 Brent breakeven at >\$115/bbl (see Exhibit 8).

Exhibit 8: 2024 break-even oil prices at 2023 distribution levels (\$/bbl)

BP's breakeven oil price sits ~\$80/bbl

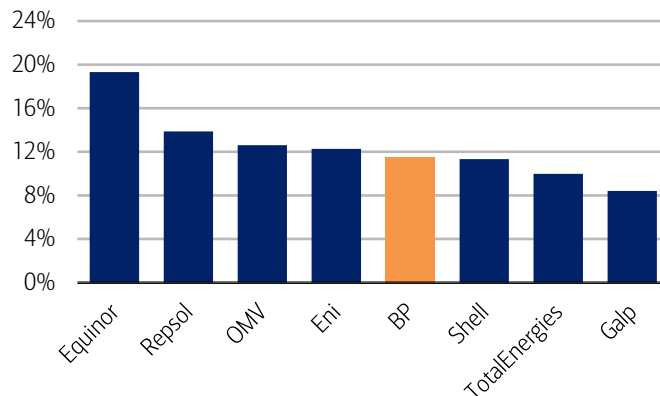


Source: BofA Global Research estimates

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Exhibit 9: Cash yields at 2023 distribution levels

BP's 12% cash yield sits middle of the pack



Source: BofA Global Research estimates

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4Q23 results digest

Earnings and organic cash flow close to consensus

Overall 4Q23 earnings were in line with our estimates and straddled consensus (beating company-collected averages but missing Visible Alpha).

Overall earnings in-line with BofA, but with lower quality mix

Clean EBIT of \$6.1bn beat \$5.9bn company-collected consensus but missed the \$6.3bn VA consensus – while hitting \$6.1bn BofA expectations. BP missed VA consensus in Upstream (despite highlighting strong gas trading) as well as Downstream while beating with lower corporate costs. Compared to our expectations, BP disappointed both Upstream and Downstream while making up for this by beating our expectations for corporate costs, consolidation adjustments as well as minority interest expenses.

Clean net income of \$3.0bn again beat \$2.8bn company-collected consensus but missed the \$3.1bn VA consensus – while again hitting the \$3.0bn BofA estimate. Taxes were in line, but net interest costs came in higher than consensus while minority interest expenses were lighter than consensus.

Organic CFFO ~\$7.3bn was in line with the \$7.3bn VA consensus and slightly ahead of BofAe \$6.6bn. Organic capex of \$4.7bn was well ahead of \$4.3bn VA consensus and \$4.4bn BofA. Organic FCF of ~\$2.6bn still beat our \$2.2bn estimate – with >\$2bn working capital inflows flattering BP's definition of 'surplus FCF' as well as pushing down net debt to \$20.9bn – before IFRS16 adding ~\$9bn of operating lease liabilities and before ~\$13bn of hybrid bonds.

Exhibit 10: 4Q23 digest: Actual results vs. history and expectations 4Q23

BP only beat company-collected consensus, which was below Visible Alpha consensus as well as BofA estimates

	4Q23A	4Q22A	3Q23A	YoY	QoQ	BofA 4Q23E	VA Cons. 4Q23E	C-C. Cons. 4Q23E	Cons. vs. BofA	4Q23A vs. BofA	4Q23A vs. Cons.
Upstream	5,326	7,576	4,392	(30%)	21%	5,604	5,607	5,310	(5%)	(5%)	0%
Downstream	803	1,902	2,055	(58%)	(61%)	836	985	850	2%	(4%)	(6%)
Rosneft	0	0	0	n.m.	n.m.	0			n.m.	n.m.	n.m.
Other businesses and corporate	(97)	(306)	(303)	(68%)	(68%)	(331)	(319)	(330)	(0%)	(71%)	(71%)
Consolidation adjustment	95	147	(57)	(35%)	(267%)	0	31	30	n.m.	n.m.	n.m.
URC Profit Before Interest and Tax	6,127	9,319	6,087	(34%)	1%	6,109	6,305	5,860	(4%)	0%	5%
Financial expense	(891)	(649)	(882)	37%	1%	(745)	(753)	(760)	2%	20%	17%
URC Profit Before Tax	5,236	8,670	5,205	(40%)	1%	5,364	5,552	5,100	(5%)	(2%)	3%
Taxation	(2,180)	(3,505)	(1,701)	(38%)	28%	(2,163)	(2,329)	(2,160)	(0%)	1%	1%
URC Profit Before Minorities	3,056	5,165	3,504	(41%)	(13%)	3,201	3,223	2,940	(8%)	(5%)	4%
Minority Expense and Preferred Dividend	(65)	(358)	(211)	(82%)	(69%)	(210)	(222)	(170)	(19%)	(69%)	(62%)
URC Net Income	2,991	4,807	3,293	(38%)	(9%)	2,991	3,051	2,770	(7%)	0%	8%
Diluted URC EPS (c/share)	17.77	26.44	19.14	(33%)	(7%)	16.41		15.19	(7%)	8%	
DPS (c/share)	7.27	6.61	7.27	10.0%	0.0%	7.27			(100%)	0%	
Effective tax rate	42%	40%	33%			40%	42%	42%			
Net debt (exc. operating leases and hybrid bonds)	20,912	21,422	22,324	(2%)	(6%)	22,517	24,540				
OCF headline (after net working capital and oil spill payments)	9,377	13,572	8,747	(31%)	7%	8,918	8,063			5%	
Total Upstream volumes (kboe/d)	2,320	2,265	2,329	2%	(0%)	2,330	2,323			(0%)	
BP average liquids realizations (\$/bbl)	76.45	80.45	71.63	(5%)	7%	78.78				(3%)	
BP average natural gas realizations (\$/tcf)	5.34	9.63	4.79	(45%)	12%	5.04				6%	

Source: BofA Global Research estimates, company data, Visible Alpha

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What has changed?

We take into account BP's updated guidance below, but barely change our earnings estimates, which remain >15% below consensus across 2024-25. We increase our buyback estimates on BP's new payout commitment, which means our balance sheet re-gears even faster – in the absence of likely dilutive asset disposals.

BofA changes leave increasing consensus downside into 2025

Our updated estimates reflect 4Q23 actuals and BP's updated guidance into 2024 and beyond – resulting in very limited (<5%) EPS estimate changes across 2023-25. They leave us still with 15% downside to 2024 consensus and even more downside in 2025 (see Exhibit 11).

Exhibit 11: Our new estimates vs. old and consensus

We fine-tune our estimates as we reflect 4Q23 actuals and new guidance

	2023	2024	2025
URCPBITDA (old)	42,993	41,559	40,419
URCPBITDA (new)	42,964	41,627	40,986
Change	(0.1%)	0.2%	1.4%
New vs. consensus	4.7%	2.1%	1.0%
FCF pre dividend (old)	12,791	12,868	11,308
FCF pre dividend (new)	17,151	11,833	12,355
Change	34%	(8%)	9%
New vs. consensus	14%	(17%)	(15%)
URCPBIT (old)	27,018	25,455	24,340
URCPBIT (new)	27,036	25,645	25,098
Change	0.1%	0.7%	3.1%
URC net income (old)	13,834	12,681	11,920
URC net income (new)	13,835	12,408	12,005
Change	0.0%	(2.2%)	0.7%
New vs. consensus	1.8%	(9.9%)	(12.2%)
URCP EPS (old) (\$c)	77.6	77.4	76.3
URCP EPS (new) (\$c)	77.9	74.5	76.6
Change	0.4%	(3.8%)	0.4%
New vs. consensus	(7.0%)	(15.3%)	(17.3%)
Ord. DPS (old) (\$c)	28.4	30.2	31.7
Ord. DPS (new) (\$c)	28.4	31.3	33.8
Change	0.0%	3.6%	6.7%
New vs. consensus	(5.6%)	(1.4%)	4.6%

Source: BofA Global Research estimates, company data, Bloomberg

BofA GLOBAL RESEARCH

2024-25 guidance updated

- Buybacks (now based on 80% of excess FCF policy – from 60%) and confirmed at \$14bn across 2024-25 (VA ~\$11bn). Buybacks for 1H24: \$1.75bn per quarter (VA consensus ~\$1.5bn) compared to BP's \$1.5bn for 4Q23 – we raise our buyback assumptions accordingly.
- Capex expected at \$16bn vs. medium-term \$14-18bn guidance (vs. VA consensus ~\$15bn) – we slightly lower our capex estimates as a result.
- Corporate costs around \$1bn – we slightly lower our estimates from previously \$1.2bn.
- D&A expected slightly higher vs. FY23 – we slightly increase our assumptions as a result.
- Upstream production slightly higher vs. FY23 – we make hardly any changes to our volume expectations except adjusting for the slight miss on 4Q23 vs. our expectations.



- Pre-tax oil spill payments now guided at \$1.2bn pre-tax – this results in a \$0.1bn cut to our prior estimate.
- Effective tax rate at 40% (vs. 39% in FY23) – as a result, we slightly increase our estimate.

Summary estimates

Exhibit 12 shows a summary of our updated estimates in context with BP's history. We highlight BP's shareholder distributions (based on an industry average of ~40% CFFO payout and stable \$80/bbl Brent oil price assumptions) will fall into 2025 – mainly due to our assumption of refining margins falling from still supernormal levels.

Exhibit 12: Key financial and operational metrics: History and estimates

We see 2022 as a peak year for BP earnings and organic FCF – fading into 2025 mostly based on our commodity price assumptions

(\$m)	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2019A-25E CAGR
URCPBITDA	20,451	29,522	39,982	37,535	22,321	37,571	60,747	43,710	42,168	41,516	40,539	2%
(-) Depreciation & exploration write-offs	(16,226)	(17,664)	(16,902)	(18,744)	(25,169)	(15,229)	(14,703)	(16,674)	(16,523)	(16,418)	(16,458)	(2%)
(=) URCPBIT	4,225	11,858	23,080	18,791	(2,848)	22,342	46,044	27,036	25,645	25,098	24,081	5%
(-) URC Financial expenses	(1,371)	(1,801)	(2,176)	(3,041)	(2,523)	(2,073)	(2,209)	(3,194)	(3,328)	(3,451)	(3,558)	2%
(=) URCPBT	2,854	10,057	20,904	15,750	(5,371)	20,269	43,835	23,842	22,317	21,646	20,523	5%
(-) URC Taxation	(212)	(3,812)	(7,986)	(5,596)	(743)	(6,532)	(15,052)	(9,365)	(8,927)	(8,658)	(7,696)	8%
(=) URCP pre minorities	2,642	6,245	12,918	10,154	(6,114)	13,737	28,783	14,477	13,390	12,988	12,827	4%
(-) URC Minority interest expense	(57)	(79)	(195)	(164)	424	(922)	(1,130)	(641)	(982)	(982)	(982)	35%
(=) URCP to BP ord	2,584	6,165	12,722	9,989	(5,691)	12,814	27,652	13,835	12,408	12,005	11,844	3%
URCPBIDA	20,239	25,710	31,996	31,939	21,578	31,039	45,695	34,345	33,241	32,858	32,843	0%
URCPBIDA per share (\$c per share)	107	130	159	157	107	153	241	193	199	210	221	5%
Diluted URC EPS (\$c per share)	14	31	63	49	(28)	63	146	78	74	77	80	8%
DPS (\$c per share)	40	40	41	41	26	22	24	28	31	34	36	(3%)
URC dividend payout ratio	292%	129%	64%	84%	(93%)	34%	17%	36%	42%	44%	45%	n.m.
Net debt	35,513	37,819	44,144	45,442	38,941	30,613	21,422	20,912	24,701	27,050	29,073	(8%)
Gearing (BP definition, i.e. excl. IFRS16 and hybrid bonds)	27%	27%	30%	31%	31%	25%	21%	20%	22%	24%	25%	n.m.
Gearing (incl. IFRS16 and hybrid bonds)					41%	37%	34%	35%	37%	37%	38%	n.m.
FCF balance ex disposals	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	
OCF (after NWC and oil spill payments)	10,691	18,931	22,873	25,770	12,162	23,612	40,932	32,039	30,213	28,300	29,063	2%
(-) Organic capex	(15,938)	(16,501)	(15,140)	(15,238)	(12,034)	(11,779)	(12,470)	(14,998)	(16,012)	(16,429)	(17,292)	1%
FCF	(5,247)	2,430	7,733	10,532	128	11,833	28,462	17,041	14,201	11,871	11,770	2%
(-) Cash dividends	(4,718)	(6,294)	(6,869)	(7,159)	(6,578)	(4,615)	(4,652)	(5,212)	(5,387)	(5,468)	(5,478)	(4%)
(-) Share repurchases	0	(343)	(355)	(1,511)	(776)	(3,151)	(9,996)	(7,918)	(7,675)	(6,675)	(5,675)	n.m.
(-) IFRS16 lease payments	0	0	0	(2,372)	(2,442)	(2,082)	(1,961)	(2,560)	(2,560)	(2,560)	(2,560)	1%
FCF post shareholder returns	(9,965)	(4,207)	509	(510)	(9,668)	1,985	11,853	1,351	(1,422)	(2,832)	(1,943)	n.m.
CFFO payout ratio	44%	35%	32%	34%	60%	33%	36%	41%	43%	43%	38%	n.m.
Key operating stats	2016A	2017A	2018A	2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	
Liquids production (tbpd)	1,216	1,362	1,288	1,287	1,230	1,092	1,071	1,115	1,086	1,048	1,032	(3%)
Gas production (tboepd)	999	1,110	1,289	1,349	1,145	1,127	1,184	1,197	1,202	1,193	1,199	(2%)
Total production (tboepd)	2,216	2,471	2,577	2,636	2,375	2,219	2,255	2,312	2,287	2,241	2,231	(3%)
BP average liquids realization (\$/bbl)	38.2	49.8	63.6	56.3	36.2	62.7	89.4	72.4	70.5	70.8	0.0	4%
BP average natural gas realization (\$/tcf)	2.8	3.2	3.8	3.3	2.7	5.3	9.4	5.5	5.6	5.4	0.0	9%
BP average achieved refining margin (\$/bbl)	11.8	14.1	13.0	13.2	6.7	13.4	33.1	25.7	15.5	11.6	11.9	(2%)

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Elusive valuation upside

Limited absolute valuation upside at \$70/bbl long-term

We make no changes to our 500p PO based on our updated sum-of-the-parts (SOTP) valuation below – reflecting BP's 4Q23 results and current outlook. At 500p per share, we see 4% upside potential – based on our long-term \$70/bbl Brent assumption.

Exhibit 13: BP SOTP valuation (\$m)

We see BP's equity value at ~500p per share

	Methodology	Valuation	% of total EV	p per Share	WACC	EV / EBITDA		
						2023A	2024E	2025E
E&P (Using 25% of capex budget)	Depletion DCF implying \$8.3/boe 1P	74,275	45%	381	8.6%	2.7x	2.8x	2.9x
Midstream	DCF	14,434	9%	74	8.6%	6.7x	6.7x	6.7x
Upstream (exc. Russia)	SOTP implying 1.3x EV/CE 2023	88,710	54%	455	8.6%	3.0x	3.0x	3.2x
BHP acquisition (\$10.5bn closed 2018)	DCF implying \$3.1/boe 2C	14,455	9%	74	8.6%	4.5x	4.4x	4.2x
Downstream	SOTP of DCF's @ avg. global ref. margin \$14/bbl	45,098	27%	231	9.2%	4.5x	5.4x	5.3x
Renewables	Renewables DCF discounted by 25% + Archaea at IC	19,523	12%	100	5.1%	42.7x	32.9x	25.5x
Other	DCF	(2,895)	(2%)	(15)	8.8%	(22.6x)	28.9x	28.9x
Total core enterprise value		164,891	100%	846	8.8%	3.8x	4.0x	4.1x
Rosneft (19.75%)	At USD0.00 per Rosneft share	0	0%	0				
Total enterprise value		164,891	100%	846		3.8x	4.0x	4.0x
Less: Net debt (inc. 100% of hybrid bonds)	2024E BV	(38,267)	(23%)	(196)				
Plus: Alaska disposal proceeds	2025-30E NPV	519	0%	3				
Plus: Net pension surplus	2024E BV	2,492	2%	13				
Less: Debt-equivalents	2024E BV (inc. GOM oil spill and IFRS16)	(24,810)	(15%)	(127)				
Less: Minority interest	10x 2024E P/E	(1,000)	(1%)	(5)				
Total equity value		103,825	63%	533				
Total number of shares outstanding (m)	2024E	15,722	n.m.	n.m.				
Equity value per share (p)		504	63%	504				

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Unattractive relative to peers when considering leverage

FCF yields to market cap do not differentiate for BP's higher gearing

Exhibit 14 shows BP's FCF yields trade below TTE and Shell (both Buy-rated) – despite its more fragile financial framework exemplified by its higher gearing.

Exhibit 14: European Big Oil valuation matrix

We still see valuation dislocations across the European Big Oils – especially when considering BP's greater leverage in FCF/EV

	FCF Yield			FCF/Enterprise Value			Gearing			Dividend Yield			Total distribution yield		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
BP	11%	12%	12%	8%	8%	7%	35%	37%	37%	5%	5%	5%	12%	11%	11%
Shell	9%	14%	14%	11%	11%	11%	19%	17%	14%	4%	4%	4%	11%	11%	11%
TotalEnergies	12%	13%	13%	10%	11%	9%	20%	16%	14%	5%	5%	5%	10%	11%	11%
Equinor	12%	13%	12%	13%	12%	3%	-9%	-1%	7%	12%	11%	11%	19%	18%	18%
Repsol	9%	7%	6%	5%	4%	3%	13%	15%	16%	5%	5%	5%	14%	10%	11%
OMV	6%	5%	5%	4%	3%	2%	15%	15%	17%	13%	13%	11%	13%	13%	11%
Galp	7%	3%	3%	2%	2%	2%	32%	36%	39%	4%	4%	4%	8%	7%	6%
Average	10%	10%	9%	8%	7%	5%	19%	20%	21%	7%	7%	7%	12%	11%	11%

Source: BofA Global Research estimates

NB: Gearing calculation uses net debt including IFRS16 leases and hybrid bonds

BofA GLOBAL RESEARCH

Exhibit 15: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
RYDAF	SHEL LN	Shell Plc	2489p	B-1-7
SHEL	SHEL US	Shell plc	US\$ 63.65	B-1-7
TTFNF	TTE FP	TotalEnergies	EUR 60.3	B-1-7
TTE	TTE US	TotalEnergies	US\$ 65.05	B-1-7

Source: BofA Global Research

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.

Shell Plc (RYDAF / SHEL)

Our price objective of 3300p/share (US\$83/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.

Analyst Certification

I, Christopher Kuplent, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Special Disclosures

Due to the current political situation involving Russia and the Ukraine, the governments of the United States, Canada, the UK, Switzerland, Australia, Japan and Singapore and the member states of the European Union and others have imposed certain sanctions on various individuals and entities, including some connected to the Russian state. These sanctions vary by jurisdiction, but generally prohibit or restrict citizens and entities incorporated under the laws of those countries imposing sanctions from having commercial dealings with sanctioned parties and also require them to freeze the assets of sanctioned parties. Additionally, US sanctions regulations impose restrictions depending on the entity, on processing payments, and transactions in, provision of financing for, and other dealings in debt or equity (issued after dates as defined) of certain Russian banks and energy companies, and other state owned enterprises, amongst others. Investors who are US persons should be aware of the OFAC sanctions requirements and advised that violating sanctions can result in civil and/or criminal penalties. For further information on US-related sanctions, please consult with www.treasury.gov/resource-center/sanctions.

BofA Securities is currently acting as advisor to ADNOC in connection with its proposed JV with BP plc, which includes an acquisition of a stake in NewMed Energy, which was announced on March 28, 2023.

BofA Securities is currently acting as financial advisor to PTT Exploration & Production PCL in connection with its potential acquisition of 25.5% stake in Seagreen Offshore Wind Farm, which was announced on December 22, 2023.

EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Capricorn Energy	CRNZD	CNE LN	Matthew Smith
	Enegean	EERGF	ENOG LN	Matthew Smith
	Enegean	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



EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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