

European Oil & Gas

1Q23 Reference Book: summary changes

Price Objective Change

When the going gets tough...

How to soften the landing? Our 1Q23 reference book distils all updates from pre-close calls and trading statements across European Big Oils – into ~2% average FY23 EPS estimate reduction, still leaving us with average consensus upside of 5%. Since the start of the quarter and before '1Q23 trading update season', FY23 consensus net income is down ~3% on average – with the exception a small upgrade at Shell. And although refining margins remained at super-normal levels in 1Q23, concern about downside into 2Q23 may yet overshadow 1Q23 beats.

...who can keep going?

So the scene remains set for Big Oils competing for re-rating instead – which, in our view, remains driven by the 'redemption roadmap': We expect Big Oil buyback run-rates to be maintained into 2Q23 (following TTE's (TotalEnergies) example) – partly helped by working capital inflows as well as upside from conservative payout ratios. Beyond 1Q23, we point to Shell's investor update in June as key re-rating event showing capex discipline as well as increased shareholder distributions – without diluting cash flow harvests in Upstream and without slowing down its shift to Big Energy (see [Shell - Ticking higher: Dividends, not capex](#)).

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Equity
Pan-Euro
Oils

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

Karen Kostanian, CFA >>
Research Analyst
Merrill Lynch (DIFC)
+971 4 425 8224
karen.kostanian@bofa.com

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

James Winchester >>
Research Analyst
MLI (UK)
+44 20 7995 0616
james.winchester@bofa.com

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

Exhibit 1: PO Changes

We increase PO's at BP, Shell & TTE

	New	Old	PO Change	Upside
BP	550p	540p	2%	4%
Eni	€ 13.01	€ 13.01	0%	-4%
	NOK	NOK		
Equinor	360	360	0%	20%
Shell	3150p	3100p	2%	29%
TTE	€ 81.00	€ 80.00	1%	41%
Average			1%	18%

Source: BofA Global Research

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Earnings momentum inflects in 1Q23

Cash conversion (still) hampered by working cap, despite fall in oil & gas prices

Our European Big Oil 1Q23 estimates show a 14% decrease in q/q clean net income (see Exhibit 2), and a 20% decrease y/y. The sequential earnings decline was the direct result of a softening macroeconomic environment across the quarter, as the banking turmoil on both side of the Atlantic weighed on oil prices and European gas storages filled above seasonal averages. More closely watched than earnings momentum will, in our view, once again be cash conversion – where we expect organic CFFO to increase 25% q/q.

Exhibit 2: 1Q23 summary clean earnings and organic OCF expectations

We forecast net income to decrease 14% q/q and -20% y/y

Company	Result Date	Rating	PO	Reported Currency	BofA 1Q23		BofA vs Consensus	BofA NI q/q	BofA NI y/y	BofA 1Q23 OCF (ex W/C)	BofA OCF q/q	BofA OCF y/y
					Net Income	VA Consensus						
BP	02-May	NEUTRAL	550p	USDm	4,794	4,109	17%	0%	-23%	6,571	51%	-59%
ENI	28-April	NEUTRAL	€ 13.01	EURm	1,809	2,321	-22%	-28%	-45%	4,088	244%	-28%
Equinor	04-May	NEUTRAL	NOK 360	USDm	3,416	3,295	4%	-42%	-34%	6,511	-4%	-59%
Shell	04-May	BUY	3150p	USDm	9,456	8,050	17%	-4%	4%	14,851	32%	-31%
TotalEnergies	27-April	BUY	€ 81.00	USDm	7,316	6,187	18%	-3%	-18%	10,615	16%	-9%
Weighted Average/ Sum (\$m)					29,531	27,128	7%	-14%	-20%	47,734	25%	-37%

Source: BofA Global Research estimates, Visible Alpha consensus

BP OCF excludes 1.2bn of Oil spill payments

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BofA>consensus after estimate updates

We adjust our earnings estimates reflecting 1Q23 macro conditions and company trading updates – resulting in average 5% / 4% / 23% upside to current 2023 Visible Alpha EBITDA / EPS / FCF consensus on average.

Consensus: Lagging indicator as usual

Exhibit 3 below shows the varying distance between our company estimates range and consensus across 2023-25. Our updated earnings and cash flow estimates now range 2% / 5% / 25% ahead of current 2023 EBITDA / EPS / FCF Visible Alpha consensus on average. We continue to believe consensus is a lagging indicator.

Exhibit 3: BofA vs. Visible Alpha consensus

We remain 2% / 5% / 25% ahead of current 2023 EBITDA / EPS / FCF consensus on average

	EBITDA			EPS			FCF			DPS		
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025
BP	2%	-1%	-5%	2%	-5%	-7%	25%	-11%	-44%	0%	-1%	-1%
Shell	-2%	-3%	-8%	-1%	5%	6%	15%	5%	-9%	1%	1%	3%
TotalEnergies	3%	17%	10%	10%	26%	26%	29%	40%	37%	11%	18%	4%
Equinor	6%	20%	-10%	16%	47%	40%	32%	92%	-51%	19%	63%	71%
Eni	-2%	11%	-13%	-2%	28%	-11%	26%	40%	-15%	-4%	-4%	-6%
Average	2%	9%	-5%	5%	20%	11%	25%	33%	-16%	5%	15%	14%

Source: BofA Global Research estimates, Visible Alpha

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PO changes – small revisions at Shell, BP & TTE

We increase PO's at TTE, Shell & BP by 1-2% and leave our POs unchanged elsewhere with average Big Oil PO upside now offering >15%

Exhibit 4: European Big Oils: What has changed?

We increase our PO's slightly at TTE, Shell & BP

	New	Old	PO Change	Upside	ADR New	ADR Old	Rating	Comment	BofA 2023 EBITDA (% change)	BofA EBITDA 2023 vs. VA Consensus
BP	550p	540p	2%	4%	\$41.00	\$41.00	NEUTRAL	MTM macro	-4%	2%
Eni	€ 13.01	€ 13.01	0%	-4%	\$28.36	\$28.36	NEUTRAL	MTM macro	-12%	-2%
Equinor	NOK 360	NOK 360	0%	20%	\$36.00	\$36.00	NEUTRAL	MTM macro & trading statement	-2%	6%
Shell	3150p	3100p	2%	29%	\$79.00	\$74.00	BUY	MTM macro & trading statement	-6%	-2%
TTE	€ 81.00	€ 80.00	1%	41%	\$89.00	\$84.00	BUY	MTM macro & trading statement	-10%	3%
Average			1%	18%					-7%	2%

Source: BofA Global Research estimates, Visible Alpha

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Changes to our estimates and price objectives

Exhibit 5 summarises changes to our PO and ADRs across big Oils:

Exhibit 5: Big Oils PO and ADR changes

We increase our PO's slightly at TTE, Shell & BP

	New	Old	PO Change	ADR New	ADR Old	ADR Change
BP	550p	540p	2%	\$41.00	\$41.00	0%
Eni	€ 13.01	€ 13.01	0%	\$28.36	\$28.36	0%
Equinor	NOK 360	NOK 360	0%	\$36.00	\$36.00	0%
Shell	3150p	3100p	2%	\$79.00	\$74.00	7%
TotalEnergies	€ 81.00	€ 80.00	1%	\$89.00	\$84.00	6%

Source: BofA Global Research estimates

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We change estimates across Big Oils

As part of this reference book publication, we fine-tune our estimates based on 1Q23 macro realisations, trading statements and corporate updates. Given the law of small numbers eroding the usefulness of percentage changes, the tables below also show the absolute changes in our Big Oil estimates.

Exhibit 6: What has changed? EBITDA

We change EBITDA by -6% / 1% / 1% for 23 / 24 / 25

Company	BofA Ticker	Old			New			%Change		
		2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
BP (USD)	BPAQF	50,261	44,964	41,197	48,408	45,104	41,275	(3.7%)	0.3%	0.2%
Eni (EUR)	EIPAF	24,491	22,455	15,198	21,517	22,555	16,205	(12.1%)	0.4%	6.6%
Equinor (USD)	STOHF	57,856	61,425	39,261	56,703	61,676	39,514	(2.0%)	0.4%	0.6%
Shell (USD)	RYDAF	73,311	65,292	61,240	69,001	65,589	61,422	(5.9%)	0.5%	0.3%
TotalEnergies (USD)	TTFNF	55,838	51,759	47,066	50,476	53,039	48,132	(9.6%)	2.5%	2.3%
Weighted average								(6.3%)	0.9%	1.3%

Source: BofA Global Research estimates

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Exhibit 7: What has changed? EPS

We change EPS by -2% / 0.4% / 0.9% for 23 / 24 / 25

Company	BofA Ticker	Old			New			%Change		
		2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
BP (USD)	BPAQF	1.12	0.95	0.91	1.05	0.96	0.91	(6.1%)	0.3%	(0.1%)
Eni (EUR)	EIPAF	2.00	1.84	0.68	2.34	2.72	1.63	16.8%	47.4%	140.3%
Equinor (USD)	STOHF	5.37	6.38	5.04	5.30	6.45	5.12	(1.4%)	1.0%	1.5%
Shell (USD)	RYDAF	5.14	4.69	4.34	4.70	4.70	4.33	(8.6%)	0.3%	(0.1%)
TotalEnergies (USD)	TTFNF	13.05	11.87	11.63	11.55	12.11	11.84	(11.5%)	2.0%	1.8%
Weighted average								(1.6%)	0.4%	0.9%

Source: BofA Global Research estimates

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1Q23 – Macro summary

Both major European hub gas prices extended quarterly declines in 1Q23. After beginning the quarter at 180p/therm / €76/MWh, UK NBP & Dutch TTF dropped >40% across the quarter as European gas storages remained at the top-end of 5-year averages. As of writing, downward price momentum has continued in 2Q23 as storage levels remain at record highs, with UK NBP down ~20% QTD (currently ~100p/therm) and Dutch TTF sitting at €42/MWh after experiencing a further 15% fall. Across the Atlantic, Henry Hub prices also saw q/q declines of 46%, averaging \$2.8/MMTU across the first quarter. Asian LNG (JKM) suffered even more, falling 55% and the average JKM-TTF differential remained positive (+\$1.3/MMBTU) for the second consecutive quarter, as the region continued its emergence from COVID shutdowns improving competition for marginal cargoes.

Demand concerns and forced liquidation of speculative long interest on the back of the SVB collapse caused Brent to fall by \$8/bbl q/q (-12%) to average \$82/bbl. Brent has since rallied ~\$5/bbl on the back of 1.66mb/d OPEC+ quota cuts

NWE refining margins decreased q/q but remained historically high. Pre Feb 5th-embargo spikes in middle-distillate cracks pushed the BofA reference margin to \$20/bbl before falling to as low as \$7.9/bbl in late March. At the time of publishing, BofA NWE refining margins sat at \$10.1/bbl (~1.3x historical averages).

Exhibit 8: Quarterly Macro Summary Indicators

NWE Refining margins and oil fell q/q but remained historically high. UK NBP and Henry hub also fell significantly

	1Q21A	2Q21A	3Q21A	4Q21A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	1Q23A
E&P											
Brent Oil (US\$/bbl)	61.3	69.1	73.1	79.7	70.8	97.9	112.0	97.7	88.6	99.0	82.2
WTI (US\$/bbl)	58.1	66.1	70.5	77.1	68.0	95.0	108.5	91.4	82.6	94.4	76.1
Henry Hub (US\$/MMBtu) - Bid Week Price	2.7	3.0	4.3	4.8	3.7	4.6	7.5	7.9	6.1	6.5	2.8
UK NBP gas price (pence/therm)	49.3	62.4	121.8	242.8	119.1	232.2	132.5	286.3	169.5	205.1	132.6
European Refining											
North West Europe (complex)	-3.4	-3.4	0.2	1.8	-1.2	6.0	21.0	15.2	14.2	14.1	10.1
Mediterranean (complex)	-1.6	-0.9	2.2	3.6	0.8	15.0	19.3	9.9	14.7	14.7	10.4
Average currency											
1 GBP/USD	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.2	1.2	1.2	1.2
1 EUR/USD	1.2	1.2	1.2	1.1	1.2	1.1	1.1	1.0	1.0	1.1	1.1
1 USD/NOK	8.5	8.4	8.8	8.7	8.6	8.9	9.4	10.0	10.2	9.6	10.2
1 USD/RUB	74.5	74.2	73.5	72.7	73.7	88.9	67.2	60.3	63.3	69.9	73.4

Source: BofA Global Research, Bloomberg, Refinitiv

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Macro changes – refining margins benefit from crude oil downward revisions

Since our last report card, we have lowered our Brent, Dutch TTF & Henry Hub forecasts across 2023, benefitting North West Europe (complex) refining margins (see Exhibit 9).

Exhibit 9: What has changed? Commodities

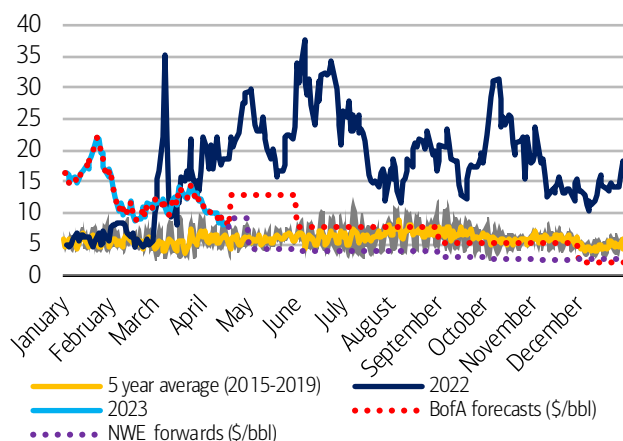
Since our last report card we have lowered our Brent, Dutch TTF & Henry Hub forecasts across 2023

	BofA Most Recent (31.03.2023 - MTM End of Q1)			BofA Old (Year Ahead - 16.1.2023)			% Change		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
Brent Oil (US\$/bbl)	88.1	90.0	80.0	100.0	82.5	70.0	-12%	9%	14%
WTI (US\$/bbl)	82.0	84.0	77.0	94.0	78.5	67.0	-13%	7%	15%
European gas price (EUR/MWh)	67.1	66.0	22.0	70.0	66.0	22.0	-4%	0%	0%
European gas price (pence/therm)	174.2	176.1	58.7	183.7	175.8	58.6	-5%	0%	0%
European gas price (US\$/MMBTU)	20.9	21.6	7.2	22.1	21.6	7.2	-5%	0%	0%
Henry Hub (US\$/MMBTU)	2.8	4.0	4.0	4.5	4.5	4.5	-39%	-11%	-11%

Refining margin charts: BofA forecasts vs forwards

Exhibit 13: NWE Refining Margin tracker (\$/b)

NWE refining margins have fallen in recent weeks, now sitting ~1.3x historical averages.

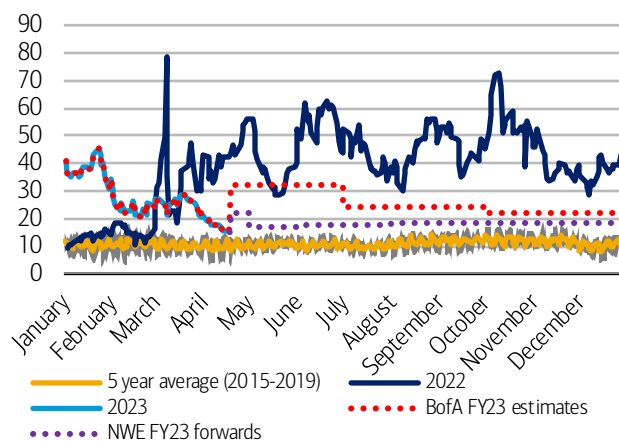


Source: BofA Global Research, Refinitiv

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Exhibit 14: NWE Diesel cracks (\$/b)

Diesel cracks have averaged ~\$27/bbl in 2023 and currently sit ~1.4x historical averages.

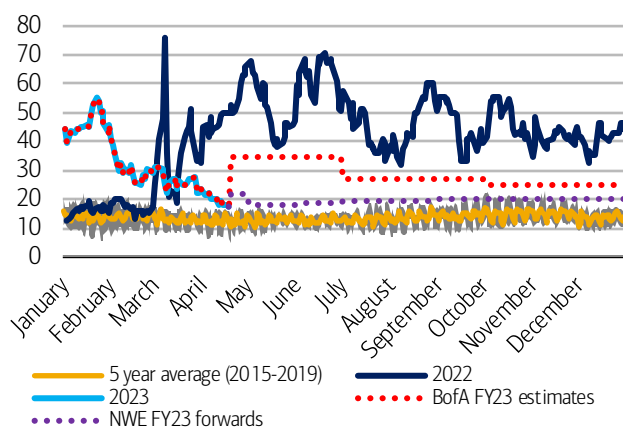


Source: BofA Global Research, Refinitiv

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Exhibit 15: NWE Jet Fuel cracks (\$/bbl)

Kerosene cracks have averaged ~\$31.9/bbl in 2023 and currently sit ~1.4x historical averages.

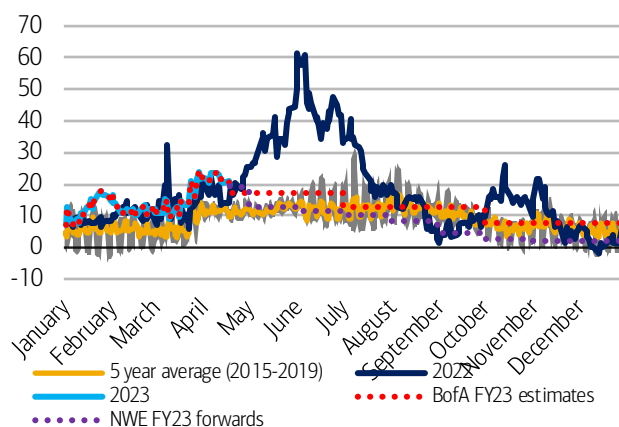


Source: BofA Global Research, Refinitiv

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Exhibit 16: NWE Gasoline cracks (\$/b)

Gasoline cracks have staged a recovery in 2023 after hitting \$0.1/bbl in December. Current cracks sit ~\$20/bbl – 1.6x historical averages.

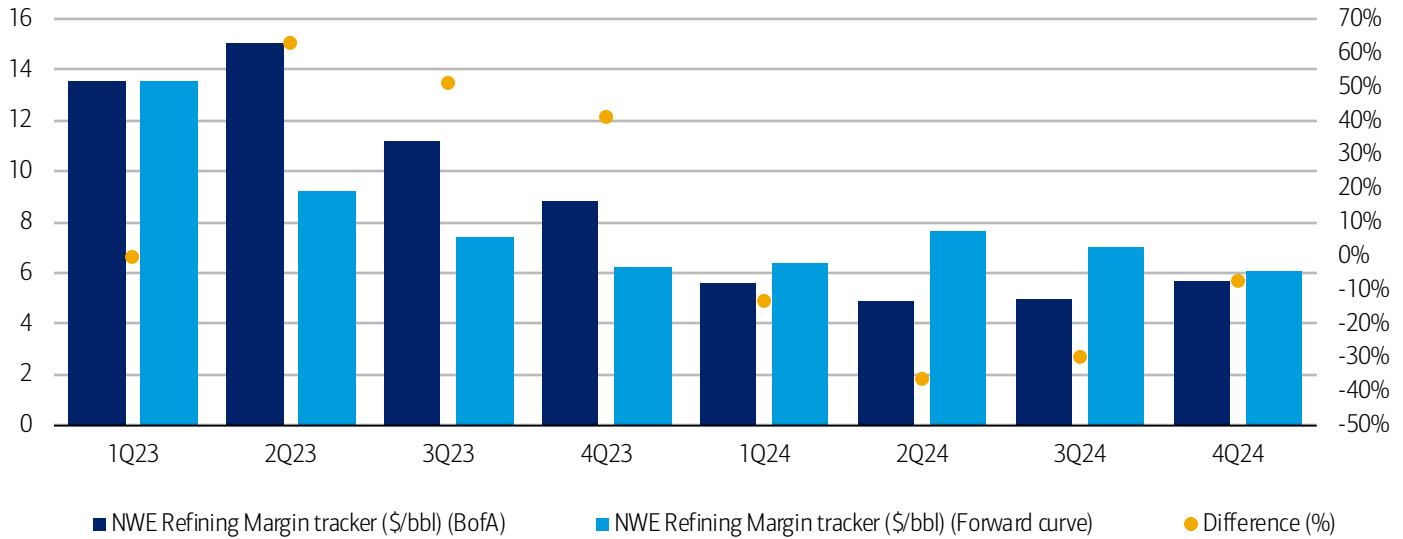


Source: BofA Global Research, Refinitiv

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Exhibit 17: BofA NWE refining margin tracker vs forwards

We sit ~60% ahead of the curve in 2Q23, and 35% above FY23.

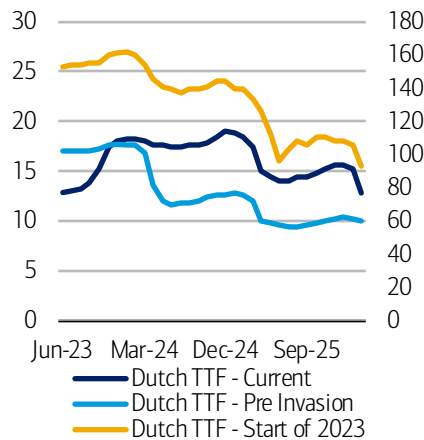


Source: BofA Global Research, Refinitiv

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Commodity price forward curve movements**Exhibit 18: Dutch TTF futures (LHS: \$/MMBTU; RHS: \$/BOE)**

European gas futures fell dramatically in 1Q23

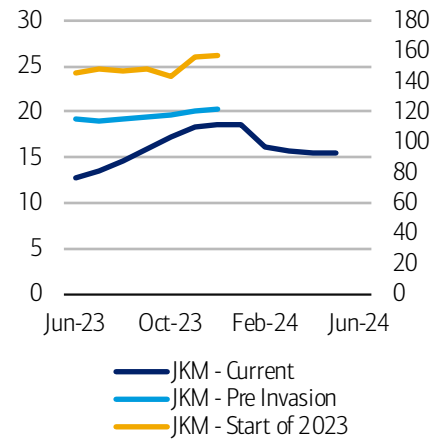


Source: BofA Global Research, Refinitiv

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Exhibit 19: JKM futures (LHS: \$/MMBTU; RHS: \$/BOE)

... as did Asian LNG marker JKM...

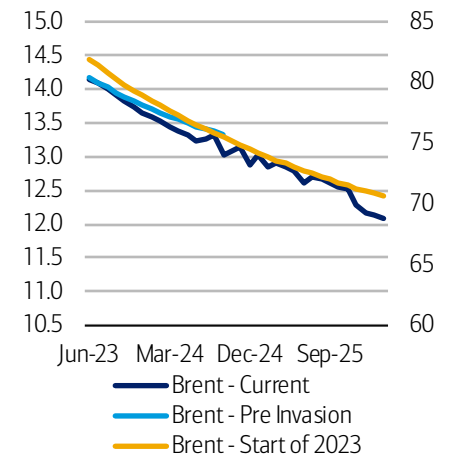


Source: BofA Global Research, Refinitiv

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Exhibit 20: Brent futures (LHS: \$/MMBTU; RHS: \$/BOE)

... however Brent futures shifted upwards slightly



Source: BofA Global Research, Refinitiv

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Exhibit 21: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
EIPAF	ENI IM	Eni	EUR 13.584	B-2-7
E	E US	Eni	US\$ 29.98	B-2-7
STOHF	EQNR NO	Equinor ASA	NOK 301	A-2-8
EQNR	EQNR US	Equinor ASA	US\$ 28.58	B-2-8
RYDAF	SHEL LN	Shell Plc	2449.5p	B-1-7
SHEL	SHEL US	Shell plc	US\$ 61.65	B-1-7
TTFNF	TTE FP	TotalEnergies	EUR 57.58	B-1-7
TTE	TTE US	TotalEnergies	US\$ 63.53	B-1-7

Source: BofA Global Research

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Price objective basis & risk**Eni (EIPAF / E)**

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 50% discount. WACC is 8%. It gives us a PO of €13.01 (\$28.36/ADR).

The following are specific downside risks to our PO: Potential delays to cash generating upstream projects, risk the Italian economy deteriorates putting pressure on the stock, and impacts of lower oil prices. General risks to attaining our price objective are: moves in the oil price, moves in the Euro/dollar exchange rate, political interference/unrest in the countries in which the company operates, and delays/cost overruns on new projects. Upside risks are oil price and exploration success.

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, and \$50/bbl for our bear case. We also include our bottom-up Renewables valuation at a 0% discount. We use in both cases a WACC of 8%, terminal growth rate of 0.4%. Weighting the base and bear case 50/50 gives us a PO of NOK360 (USD36.00).

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 3150p/share (US\$79/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 (8.4% for Upstream, 10.0% 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 EUR81/share (ADR US\$89) is based on our bottom-up cash flow model and resultant sum-of-the-parts valuation. Our SOTP valuation uses 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

We, Christopher Kuplent and Karen Kostanian, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Oil & Gas Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Aker Carbon Capture	AKCCF	ACC NO	James Winchester
	Capricorn Energy	CRNZF	CNE LN	Matthew Smith
	Energean	EERGF	ENOG LN	Matthew Smith
	Energean	XMQFF	ENOG IT	Matthew Smith
	Galp Energia	GLPEF	GALP PL	Karen Kostanian, CFA
	Gaztransport & Technigaz	GZPZF	GTT FP	James Winchester
	Harbour Energy	PMOIF	HBR LN	Matthew Smith
	Neste	NTOIF	NESTE FH	Christopher Kuplent
	Neste	NTOIY	NTOIY US	Christopher Kuplent
	Repsol	REPY	REPY US	Karen Kostanian, CFA
	Repsol	REPYF	REP SQ	Karen Kostanian, CFA
	Saipem	SAPMF	SPM IM	James Winchester
	Saras S.p.A.	SAAFF	SRS IM	James Winchester
	SBM Offshore	SBFFF	SBMO NA	James Winchester
	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	James Winchester
NEUTRAL				
	Aker Solutions	AKRTF	AKSO NO	James Winchester
	BP plc	BP	BP US	Christopher Kuplent
	BP plc	BPAQF	BP/ LN	Christopher Kuplent
	Eni	E	E US	Karen Kostanian, CFA
	Eni	EIPAF	ENI IM	Karen Kostanian, CFA
	EnQuest	ENQUF	ENQ LN	Matthew Smith
	EnQuest	XESQF	ENQ SS	Matthew Smith
	Equinor ASA	STOHF	EQNR NO	Christopher Kuplent
	Equinor ASA	EQNR	EQNR US	Christopher Kuplent
	Ithaca Energy plc	XMFYF	ITH LN	Matthew Smith
	Kosmos Energy	KOS	KOS US	Matthew Smith
	Kosmos Energy	XKELF	KOS LN	Matthew Smith
	Var Energi	XGZNF	VAR NO	Matthew Smith
UNDERPERFORM				
	Aker BP	DETNF	AKRBP NO	Matthew Smith
	Maire Tecnimont	XUPPF	MAIRE IM	James Winchester
	OMV	OMVJF	OMV AV	Karen Kostanian, CFA
	OMV	OMVKY	OMVKY US	Karen Kostanian, CFA
	Subsea 7 SA	ACGYF	SUBC NO	James Winchester
	Technip Energies	THNPF	TE FP	James Winchester
	Technip Energies	THNPY	THNPY US	James Winchester
	Tullow Oil	TUWLF	TLW LN	Matthew Smith

Disclosures

Important Disclosures

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

^{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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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%

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