It's not easy being green for UK and European oil giants

WA Today
May 9, 2024 Thursday 2:28 AM UTC

Length: 1207 words
Highlight: The ***oil*** super majors are eyeing shifting their primary stock exchange listings to New York as a stronger push to reduce fossil fuels in their home markets weighs on their share prices.

Body

There's a yawning gap between the valuations of US ***oil*** and ***gas*** majors and their UK and European counterparts. That's prompted a debate over whether the more lowly rated energy giants should switch their primary stock exchange listing to New York.

The discussion was given a sharper edge late last month when the chief executive of France's Total Energies, Patrick Pouyanné, said the century-old super major, founded by the French government, was *seriously considering a shift of its listing*, albeit not its headquarters.

Shell, which shifted its headquarters from The Hague and unwound its dual listing to base itself and its shares in London in 2022, is known to have also seriously pondered a shift in its primary listing three years ago.

BP has said a move is not on its agenda but would inevitably have done some analysis on it. There's also been speculation that its relatively low sharemarket valuation could make it a target for one of the more highly rated ***oil*** giants, which could effectively produce a transfer of its listing.

The driver of the discussion is a significant disparity in the sharemarket valuations of European and UK energy companies relative to their US counterparts like Exxon and Chevron, which trade on cashflow multiples up to 50 per cent higher than their transatlantic rivals.

Not only does that make their shareholders happier, but it lowers the US majors' cost of equity, enables them to invest more productively and makes acquisitions more attractive. *Exxon bought Pioneer Natural Resources for $US60 billion* ($91 billion) last year, while Chevron announced an agreed all-share $US53 billion for Hess Corp.

The smaller strand in the explanation for the varying valuations relates to the markets themselves.

The New York stock market is much bigger and deeper than London and the fragmented European exchanges and is supported by a far larger pool of institutional and retail investors. Historically, that has produced higher valuations relative to European peer companies.

With the US being the world's largest producer and exporter of ***oil*** and ***gas***, there is also stronger interest in the sector there and better support from US and international investors.

While the market dynamics have seen some UK and European companies, particularly (but not exclusively) tech and biotech companies, shift their listings to the US, they are not the primary reason energy companies have considered the move.

Nor is the post-Brexit decline in the status of London's market a major factor, although what was once the global hub for resources investment has been fading as some of its larger listings, like BHP's UK listing, have disappeared or - as will happen if *BHP succeeds with its Anglo-American bid* -- London-listed miners have been acquired.

The US companies are pursuing growth strategies. Their trans-Atlantic competitors aren't.

The more material influence on the ***oil*** majors' valuations than the nature of their domestic markets is the extent to which policymakers and investors in the UK and Europe have responded to climate change and the way that has, and is, shaping the growth strategies of companies like TotalEnergies, ***Shell*** and BP.

Exxon and Chevron are aggressively growing their ***oil*** and ***gas*** production volumes and investing in increasing their output even as, across the Atlantic, TotalEnergies, ***Shell*** and BP are pursuing carbon emissions reduction-related strategies that will eventually see their volumes decline.

The US companies are pursuing growth strategies. Their transatlantic competitors aren't.

Shell and BP have received significant criticism recently for slowing the rate at which their fossil ***fuel*** volumes are scheduled to fall.

BP, for instance, had a 2020 plan to cut its ***oil*** and ***gas*** production by 40 per cent by 2030 from 2019. *Last year, the target was shifted* to 25 per cent by 2030, with the 35 to 40 per cent target for its own carbon emissions revised to between 20 and 30 per cent.

Shell, which had said it would reduce its output by 1 or 2 per cent a year through to the end of the decade, last year restated its plan.

It now expects flat volumes through to 2030 and, where it had planned to reduce investment in ***oil*** and ***gas*** and increase its spending on low-carbon products, it will now invest $US40 billion in ***oil*** and ***gas*** by 2035, against the $US10 to $US15 billion it will spend in those low-carbon products.

The backlash against BP and ***Shell*** was strong because European and UK fund managers, retail investors and their governments are far more committed to environmental, social and governance policies than most US fund managers and other investors.

In the US, where President Joe Biden has presided over a massive increase in US ***oil*** and ***gas*** production and Donald Trump is promising to "drill, baby, drill" if he regains the presidency, there has recently been something of a backlash against ESG investment policies.

The stronger emissions reduction frameworks in Europe and the UK (and successful legal actions by environmental activists) have forced their ***oil*** and ***gas*** companies to pursue strategies that have resulted in them constraining their ***oil*** and ***gas*** investment and production while building a presence in greener technologies and fuels.

From the companies' perspective - and that of prospective investors less concerned about fossil fuels - the pressure to reduce their ***oil*** and ***gas*** production and invest in renewables and hydrogen will deliver lower returns than the more aggressively pro-fossil ***fuel*** strategies pursued by Exxon and Chevron.

When BP unveiled its new timetable for responding to climate change, it said that it generated returns on investment of 15 to 20 per cent from its fossil ***fuel*** projects. The returns from bioenergy were about 15 per cent, but they were only 6 to 8 per cent from renewables like solar and wind. It's not surprising that it decided to invest more in ***oil*** and ***gas*** and biofuels than in renewables.

There's a relatively recent view among the majors, one that arguably was held earlier and more strongly by the US companies, that the transition to cleaner energy is going to take longer and, if it is to be relatively smooth, will require more investment in fossil fuels to maintain energy supply than was once projected.

That view doesn't sit well with ESG-sensitive European or British investors. At the same time, the significant and still-growing presence of lower-returning assets in their portfolios and the absence of the production growth strategies of Exxon and Chevron deter those investors less fussed about investing in fossil fuels.

TotalEnergies, which has far more US investors than Europeans and whose biggest exposure to ***oil*** and ***gas*** is in the US, has less of a discount relative to Exxon and Chevron than the UK companies. But it believes that, if it were valued in line with them, there would be a very substantial uplift.

But as a French national champion, TotalEnergies would face significant obstacles to moving its listing - as might ***Shell*** and BP - from governments determined to retain their flagship companies, retain their corporate offices and maintain the size and relevance of their equity markets.

Load-Date: May 8, 2024