

# **BP p.l.c. (BP) Q2 2024 Earnings Call Transcript**

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**Body**

BP p.l.c. (BP)

Q2 2024 Earnings Conference Call

July 30, 2024 08:00 AM ET

Company Participants

Craig Marshall - Group Head, IR

Murray Auchincloss - CEO & Director

Katherine Thomson - CFO, SVP, Finance for Production & Operations & Director

Emma Delaney - EVP Customers & Products

Carol Howle - EVP, Trading & Shipping

Conference Call Participants

Irene Himona - Bernstein

Biraj Borkhataria - RBC Capital Markets

Paul Cheng - Scotiabank

Michele Della Vigna - Goldman Sachs

Lydia Rainforth - Barclays Bank

Peter Low - Redburn Atlantic

Roger Read - Wells Fargo Securities

Ryan Todd - Piper Sandler

Lucas Herrmann - BNP Paribas

Martijn Rats - Morgan Stanley

Alastair Syme - Citigroup

Christopher Kuplent - Bank of America Merrill Lynch

Josh Stone - UBS

Doug Leggate - Wolfe Research

Presentation

Craig Marshall

A warm welcome to everyone joining us in person at our headquarters today and to those joining online and on the phones. I trust everyone has had a chance to watch the second quarter 2024 video presentation and read our stock exchange announcement, both of which were posted this morning on our website, bp.com. We heard the feedback that you appreciated this new format. For today, we're aiming to finish the call at 2 p.m. UK time.

So with that let me hand over to Murray for some brief opening remarks.

Murray Auchincloss

Great. Thanks, Craig, and thanks to everyone for joining today. I'm in the room and I'm joined by Kate Thomson, CFO; Carol Howle, EVP, Trading and Shipping; and Emma Delaney, EVP Customers and Products, which luckily for me will provide me with the opportunity to pass all difficult questions to them today.

To recap on today's results, our operations are running really well. 96% upstream plant reliability and 96% refining availability in the quarter. We generated strong operating cash flow of $8.1 billion, net debt reduced by $1.4 billion to $22.6 billion, and we remain confident in the opportunity and potential we have in growing the value of BP. This should be clear with today's 10% increase in our announced dividends, the $1.75 billion buyback in respect of our 2Q results, and our commitment to announce $3.5 billion of share buybacks for the second half of 2024. That's $1.75 billion to be announced each at 3Q and 4Q results.

You'll have heard from our video some real examples of us in action delivering on our six priorities. We've accomplished an awful lot over the past six months. Of course, there's always more to do. And we have clear focus on our drive to 2025, which we can control. We see a lot of opportunity ahead of us, and we're remaining pragmatic, flexible, focused on value. And we look forward to updating you on our medium-term plans in February next year.

So Kate, Carol, Emma, and I are here to answer your questions. Can we ask each of you please to limit your questions to two, and I'll go ahead and start off here in the room.

Irene, why don't we start with you, please.

Question-and-Answer Session

Irene Himona

Thank you. Irene Himona at Bernstein, and congratulations. My first question concerns progress towards the $2 billion operating cost reduction target you announced, particularly in the context of a 4% increase in unit upstream costs, which I see. My second question on transition engine EBITDA, which in the first half has halved year-on-year. I can see biofuels, convenience, renewables, they're all down. So it seems even if EV charging and hydrogen break, even by year end, the $3 billion to $4 billion next year looks a bit challenged. But that was my question.

Murray Auchincloss

Great. Thanks, Irene. I'll let Kate lead off on cost and maybe Emma you can amplify a bit and then I'll tackle the TGs and pass over to Carol and Emma as well. Go ahead, Kate.

Katherine Thomson

Yes. Thanks, Irene. As I said back in April at our 1Q results, we're aiming to deliver $2 billion, and I said then, I'd like to exceed it, I'd like to be able to do it quicker. So since April, as you'd imagine, we've been in action right across the company in every business, in every function, underpinning that. So the three things that are on my mind. One, make sure that $2 billion is underpinned. Second, can we accelerate it? Can we deliver more? And then third, how do we make those savings sustainable? So that's where we've been over the last three months. And as you've seen today, we've now been able to get clear that we can deliver $0.5 billion of that cash cost saving in 2025. And we'll continue to update as we go. But back to where I was in April, I would hope we can do better in terms of the delivery, but also the pace.

Just in terms of the unit production cost, that's just portfolio mix at the moment. We're on track for the sort of around $6 that we said we would be by the middle of 2025.

Murray Auchincloss

Great. And Emma, anything to add on cost, please?

Emma Delaney

Yes, I think just amplify, Kate, your point is the costs are owned by the businesses. So we've run a process over the last few months and the costs are embedded in our near term plan for both 2024 and 2025, as well as that will flow into 2026. The majority of the costs are embedded right down into the business units. And there's some that we're still holding centrally. Murray, you talked about four buckets for cost portfolio, we're always churning the bottom of our portfolio tail end. You talked about digital, just a couple of examples on digital on cost. In my part of the business, we are, for example, rolling out self-serve checkout at our retail convenience site. That is a saving on labor cost, which increases -- inflates every year. So that's a sustained saving. Things like our -- on the digital side, we have multiple portals on B2B self-serve, which we're consolidating the back end so that you can still see a different front. And that also will deliver a cost saving as well as the ability to self-serve on digital.

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And then we're also in action, you talked about in procurement as a potential saving Murray earlier, and some of the things we're in action on there is in the US, for example, we are joining together our TA, AMPM, Travel Centers of America, AMPM, as well as our Thorntons merchandising. And now we have a bit more scale to go to market. So just some examples of how we're embedding and write down in the details on the cost side.

Murray Auchincloss

Fantastic, thanks Emma. And then on the TGs, so last year we made around $1 billion of EBITDA. For the first half of this year we made about $0.5 billion. We've of course announced the acquisition of Bunge as well, which we expect to close in the fourth quarter. If you just pretend the run rate is the same, $500 million, 1H, $500 million, 2H, and you add Bunge into the mix, you're probably at almost $2 billion of EBITDA as a starting point headed into 2025. And then we remain on track. We remain on track to grow into the three to four range. We feel very comfortable with that.

Emma, maybe you can talk about what we see in convenience and electrification, and Carol can talk about bio as well, please. Go for it, Emma.

Emma Delaney

Sure, I'll kick off. So, in terms of convenience and electrification, we're well on track to deliver around $1.5 billion from convenience and electrification together. Electric -- EV charging lost -- with a loss of $0.3 billion, so $300 million last year. And we're talking about breaking even, so that will contribute to the $1.5 billion.

And in convenience, we're well on track. So we did $0.5 billion this year already, first half. That's up $200 million, first half versus first half. And we're in action both on the revenue line as well as on the cost line. So on the revenue line just a few examples, our like-for-like sales are up and our store conversions. So when we convert stores to strategic convenience sites, which you'll see we've now increased another 50 over this recent reporting period. And when we increase our strategic convenience stores, we see double-digit increase in sales, just from those conversions. And at the same time, we're working on our revenue line on the base business. So for example, we're constantly innovating our offers. We launched pizza in Thorntons, that saw a 13% uplift in sales in the first month. We also launched just this year and it was launched, we launched 13 SKU stock keeping units on water, which is one of the top selling beverages for anybody who stops on the road, as well as sweet sort of jellies, candies. They're called epic brands.

Why do I say that? Because actually consumers are under pressure and consumers under pressure want a better value product and we actually make a better margin from these private labels. So where we go directly to suppliers, conceive of a range of the top-selling products, it works for us, higher profit and it works for the consumer because it's more value. So I think as I put those together, we're now in the top five of convenience stores in the USA and our program in Europe is well underpinned with the pipeline of conversion, big conversions still happening in Poland. Here in the UK we continue to convert at the margin and then big program in Germany.

Murray Auchincloss

Thanks, Emma.

Emma Delaney

EV?

Murray Auchincloss

EV, I think you said we break even and we feel comfortable with that right now.

Emma Delaney

Everything moving in the right direction.

Murray Auchincloss

Happy to come back to that after if we like. And then Carol.

Carol Howle

Okay. So I mean, I think first thing I'd say is on bio, because you did mention bio, so we recognize obviously globally in most markets is weaker. And I'll come to Arkea shortly, because that's one market where it isn't. But I would say on the bio side, we have seen lower transport tickets in Europe. We have also seen short-term oversupply. We've also seen some reduction in mandates, for example, Sweden, Finland. So you know, there is some regulatory uncertainty which has contributed to that. But we do also forecast that we're going to see margins improving through the end of 2025 and into 2026. That says we see mandates increasing in key markets like Germany and Netherlands and that's also as potentially there might be import duties placed onto biodiesel into Europe and also bioenergy is still needed to decarbonize the hard to abate sectors, such as transport.

I think Emma can talk to the business side of that more so. But I'd say it's a recognition, but we do still see positive margins for the future. In our Arkea, I'd say this is a slightly different story D3 RINs are actually holding up very well at the moment. It's a combination of high mandates, it's a combination of low availability around cellulosic ethanol, it's also that the waiver credit there has been discontinued. So that's a positive pricing market, averaged about [3.19] (ph) in Q2.

So why are we confident around Arkea? Well we're confident because we're also seeing increase in demand in the transportation market. So it's up 14% first half of this year versus last year and we also see continuing growth as people use biogas to decarbonize, but we're also confident on the supply side. So we brought online four plants this first half of the year. So that's roughly around 4 million mmBtu's of high margin RNG. And we've got two more in commissioning at the moment due to start up this week and a further two undergoing final commissioning due to start up in August. So we're making progress in bringing those plants up online.

And just as a reminder, if Henry Hub were $3 an mmBtu, which I know is probably a little bit optimistic at the moment, but if it were and we were looking at placing our RNG into the transport market with RINs at $3, we can actually sell that RNG for 10 times more the value of Henry Hub. So that just gives you a sense still of the value in that portfolio. Now also what I would say is, we've learned a lot, commissioning times are reducing. [Madora] (ph) that took us around seven weeks, we're now at around seven to 10 days. So we are improving and getting those plants up and running more quickly. That's not to say that there are some headwinds, we've seen that across the market permitting interconnect delays, but we're confident about that delivery and we're still focused on delivering $800 million to $1 billion by 2030 [Multiple Speakers] Arkea.

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Murray Auchincloss

Thanks, Carol. Thanks, Emma. So we feel confident, Irene. One more question in the room then we'll go out to the phone lines. Biraj.

Biraj Borkhataria

Thanks for taking my question. It's Biraj Borkhataria, RBC. The first one is just on the balance sheet. The market has been concerned about your debt levels over recent quarters. And when I start to look at the figures, you've got net interest at 80% of your dividend. Your lease payments have gone up 40% over the last couple of years. And so, I understand the push on EBITDA growth, but there are real reasons why the EBITDA growth is not translating to free cash flow at the bottom line. So just going back to the 80% surplus payout, could you just help me understand why it still makes sense to -- it feels quite restrictive, is my question, rather than putting more cash to the balance sheet. So that's the first question.

And then the second question is just on employee share options and dilution. It looks like there's a large amount that comes due in the first quarter of 2025 from plans put in place a few years ago. In normal years, you have a separate buyback to offset that dilution, but it looks like a very large number, and obviously you don't know exactly what's going to come through. So could you help me understand whether you intend to offset the amount in 2025 or I think last quarter you introduced language saying over time, so what exactly does over time mean? Thank you.

Murray Auchincloss

Yes, great. Kate, I think on the balance sheet I'll start and pass to Kate and she can answer the question on shareholder options.

I think it's important to remember that we're focused on credit rating. We're not necessarily slavishly focused on net debt. And if you think about where our credit rating is and where our spreads are, we're A+ and A+ with Fitch and Moody's. So we're in very strong position and we don't plan on moving to AA. It gives us the flexibility we need for trading. It gives us lots of firepower for what we want to do. So that's why we feel that we're comfortable with where we are. We've come a long way over the past and it makes sense to buy us to share buybacks that we think create more value for shareholders, both through the buyback flywheel and the dividend that comes with that.

Kate, anything to add and then on to the share -- on to employee schemes?

Katherine Thomson

Maybe just a couple of points. I think that the share buybacks are part and parcel of our sector-leading distributions and the shareholders that we talk to are very supportive of that component of the financial frame. The balance sheet's in good shape. We've made tremendous progress since 2020 with reducing it by $29 billion in terms of debt. So it's there and it's strong so that it can tolerate fluctuations. So I think that's important alongside Murray's point, which is absolutely spot on with regard to financial resilience, where it being way more than just net debt.

On the ESOP dilution, yes, we did decide to move to offsetting overtime and that is where we are going to be. So a decent run rate last year, we offset $675 million of ESOP dilution through share buyback. So we'll continue to step through that. With regard to next year, yes, there are some options out there. I'm not going to predict at what point they start to be exercised, they have a six-year life. So we will continue to offset that over time and we'll step through it and can give you a little bit more detail as we get into that.

Murray Auchincloss

Hard to predict, isn't it? Yep, great. Thanks, Biraj. Why don't we go to the phone and I'll start with Paul Cheng on the phone, please.

Paul Cheng

Thank you. Good morning. Two questions. I think the first one is okay. You may have already saw it. Just for [OP&P], the OpEx -- the implied OpEx seems like it's a bit high. I think there's a higher exploration charge off, but in addition to that, is there anything else we should be aware? And how much is the exploration charge off for the quarter?

The second question maybe is for Murray. BPX, can you give us an idea then how is the second half activity level going to look like in the first half? Second quarter is a good quarter. It looks like it must be perming. The production number is -- especially in the [liquid] (ph) is much higher. So you can comment on that. That would be great. Thank you.

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Murray Auchincloss

Great, thanks Paul. I'll lead off with BPX and I'll hand back to Kate. She might have answered most of your question already. On BPX, yes, the teams have made great progress there. I visited with them after our last set of results for a few days. And you're right, we brought on the third central gathering facility in the first quarter, and we started to fill that up. That's why we see the strong growth in liquids. In the second quarter, they are now working on the last one, which is really a compressor station, which will lower line pressure, which will draw more resource out of the ground, and that should come online sometime middle of next year.

As far as activity set, generally we've described these in rig years. The difficulty with that is they're drilling so fast that they're able to drill the same number of wells with half the rigs. So they've just done incredible work on ranging well drilling and some TDS technology as well. It's hard to believe that they've been able to do that step change yet again. So, when you look at the rig count numbers that we provide with you, it's as if it's 2 times the rigs that existed two years ago if you measure it to that metric, given the productivity they've seen. Right now in the gas basins, obviously gas price is quite low. We've got tons of resource, 22 TcF of resource. And we've just moved down to minimal drilling inside the Haynesville. So we're down to one rig in the Haynesville, just keeping going. But we continue to focus on the oily side.

So we'll continue to drill out the Permian and gradually fill that system up entirely. We'll probably hit peak production for liquids in the Permian around 2027, based on the last analysis I did. And the other very interesting thing that we talked about while I was there is, they're rethinking the Eagle Ford. So we have 500 wells there that have been producing for about a decade. They were fracked a decade ago. Obviously, fracking technology has moved on materially since then. So they've gone in and done 50 re-fracks. And the returns on these things are unbelievable. With the new technology on the fracks, you're getting all kinds of liquid production coming out of them. So we trialed 30. We now have 500 opportunities. The Gordon is working with them on to decide at what pace we fund those.

And the last thing I'd say on the Eagle Ford is, they also started to down space, which is very counter to what you think of in some of these plays that maybe you don't down space, you're getting it through laterals. But what they found is, the couple of downspacing wells they've drilled have delivered 3,700 barrels of oil a day, which is way above POPs, even what we're seeing in some of the Permian acreage. So the Eagle Ford is opening back up to us, and it's this mantra that we always have to think about with resources is, once you think you're done on recovery factor, have another go at technology and see what happens. And that's what we're proving in the Eagle Ford. They used to talk about recovery factors of 7% to 10%. That might resonate with you for the Permian. They're now talking 30% recovery factors in the Eagle Ford from these re-fracs and from the down spacing. And of course, that's a question that will constantly challenge ourself in the Permian as well. How can we completely change that?

So what should you see? You should see us continue to focus on liquids with liquids growth. Gas production will decline with only one rig running in the Haynesville, but given where our prices are right now, that's fine. We'll take our hedges through profit and we'll see what happens with gas prices as we move through 2025 and 2026. Our sense is, it'll be more resilient, and if it's more resilient, we can lean in and we can produce an awful lot more natural gas. But we have tremendous flexibility in the portfolio, given all the resource we have there.

Kate, back to you then on OpEx.

Katherine Thomson

Yes, So Paul, just a couple of quick points. So I think I kind of answered the point on unit production costs earlier. It's really just mix. The only thing I would add to that is, don't try and correlate that directly to what we're saying on cash costs because, obviously, there's a whole segment of costs that don't feed into the production cost numbers. So there's not a direct relationship between those -- and then EWOs, we have a EWO of about $100 million in the second quarter, which was largely related to the Gulf of Mexico.

Murray Auchincloss

Great. Thank you, Kate. I'll take one more on the call, and then I'll come to the room, Michele Della Vigna at Goldman.

Michele Della Vigna

And really congratulations on the strong results and the industry-leading cash return to shareholders. Two questions, if I may. The first one is on LNG. You've run historically with more spot exposure than most of your peers, and you've monetized it through trading. I'm wondering with more and more supply coming on stream, especially potentially oversupplied market from 2026, 2027 whether you're looking for more brand linked long-term contracts. And if you can give us an idea of the split of your long-term exposure between spot and long term?

And then secondly, I wanted to come back to the two biorefineries that you've decided for the moment not to proceed with. It makes perfect sense in terms of capital reallocation following the BP Bunge acquisition. But I was also wondering if there was anything that changed in your assumptions on policy or demand or cost of feedstock that influenced that decision. Thank you.

Murray Auchincloss

Great. Well, as Carol is in the room, she can have fun with LNG, a way you go, Carol? .

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Carol Howle

Thank you, Murray. So I won't give you a percent of the Brent length. But what I would say is, we do buy on Henry Hub and Brent basis, and we do also sell on Henry Hub and Brent basis. The way that we look at our portfolio is the first thing that we want to do is lock in the intrinsic margin then because we built a lot of optionality into our portfolio over time. What we then look to do is trade and optimize around those flows, rewire cargoes into the optimal markets and highest pricing centers.

So as an example, around 50% of our supply is open for Asia and Atlantic cross basin optimization, and we expect that to grow to around two-thirds in 2025. And we also use tools continuously on a daily basis to actually look at those rewiring opportunities and they take price feeds in. So we're looking at should we be flexing volumes? Should we be redirecting supply into a particular market because of a price change or an OP movement. So we're constantly looking at that portfolio in order to maximize the value for BP.

In terms of volumes, so we had around 23 million tonnes last year, which was up 20% versus 2022. On top of that, we had 10 million tonnes, around 10 million tonnes of what we would call short term and spot contracts. But for us, the short term, it's like a three to five year period. So it's not all spot. But if you think -- if you're looking for a split last year, it was 23 long term and 10 short to medium term. And in terms of long-term contracts, just in April, we signed with CoGas who has a strategic relationship with us. We signed a further contract with them, which was 11 years in duration and up to 9.8 million tonnes supplying into them, which is in addition to a long-term contract we already had with him, which I think was 20-plus years. So we are looking at long-term contracts. We also look at short-term market opportunities.

Murray Auchincloss

And I think on the bio -- thank you, Carol. Excellent. We are very different than the competition. We have a different viewpoint on this and we believe in flexibility. On biorefining, maybe just a few things to say. Over time, it's become clear that a lot of people are building biorefineries, whether it's through coprocessing or hydrocracking. And that's not the part of the complex that will be short. So you'll have lots of steel. We think we need up to three different plants that we build this decade, not have been sanctioned yet, so we still have to go through our sanction process. But we think that gives us enough capacity for what we want for our aviation fleet and for our trading fleet.

We think instead that the value is in the upstream, and that's why we decided to reallocate scarce capital to the purchase of Bunge. It offers us a lovely biofuels -- bioethanol position inside the domestic market, inside Brazil. It also offers tremendous opportunity to increase yields to drive better performance inside the plants, because it can be modernized significantly over time with very little investment. And our scientists in San Diego, who we work with so closely have all kinds of different enzymes that they're thinking about that can increase yield and create different products out of it.

And last, Carol has the opportunity to on-trade this out of Brazil, which is always historically where we've been selling and into the West Coast of the United States or Europe to optimize trading flows as well. So we think that, along with focusing on the upstream on things like Carinata with new seed that's where you apply your scarce capital, that's where the value will be. And that's what's going to create long-term enduring value. It's not about any changes in viewpoint on pricing, no change on viewpoint on mandates. It's simply the fact that so many plants have been built. We can toll through them as opposed to constructing them ourselves, which is much more capitally efficient for shareholders.

So thanks for the question, Michele, and we'll come back here into the room and lead off with Lydia, please.

Lydia Rainforth

Thank you. Ans it's Lydia Rainforth from Barclays. And hopefully you'll forget a direct question, Murray. But the idea being simpler, more focused, higher value. The idea of how focused are you really on that drive to 2025? And part of the reason I ask that is things like Bunge, there is an opportunity cost to doing it. You could have taken down that and you've then got Bunge TA to incorporate everything else to do. So actually, how focused is it really on that drive to 2025?

And then secondly, on the EBITDA numbers for 2025, I know you flagged the kind of potential price impacts if we were an excellent forward curve environment. What would that mean for cash returns at this stage?

Murray Auchincloss

Yes. Okay. I'll ask Kate to answer the cash question. I think it's a relatively straightforward question. On simpler and focus, look, when we laid out six months ago when I became CEO, we laid out six priorities. Obviously, safety, obviously, drive to 2025 are big parts of that, including the cost agenda that Kate talked about earlier. But what we said is, we really now need to focus our efforts and focusing on the things that we're going to build this decade that will set the shape for 2030, and that's what we're focused on.

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And so you've heard us talk about focusing inside Emma's business and EV, we're focused on four core markets for EV, China where we're number one, Germany number one, U.K. number one or two and building out the West Coast of the U.S. right now. So we're very, very focused in EV now than we've had over the past couple of years. In biofuels, focusing down the number of plants we're pursuing and there is tremendous countercyclical pricing opportunity with Bunge to create real long-term flows like we have in Arkea, that's the benefit of these renewable oilfield or gas fields. They've got long, long flow and long, long RP associated with them, which is quite valuable.

And we said today hydrogen, we're focusing hydrogen down. We'd chase 30 different opportunities in the past. We're now thinking about what can we actually construct and get going and that's where we focused it down where we think we'll sanction around five to 10 and build five to 10 this decade with the first two being in Castellon in Spain building green electrolyzer at Castellon that will help us make SAF in Castellon and decrease the carbon intensity of the refinery and the same in Lingen. Castellon with our partner, Ibedrola, Lingen, it's 100% owned. It will create 100 megawatts of green hydrogen to go into local, both for SAF and local demand. And of course, the IPCEI funding that's coming from the European market for these things makes these very attractive with high returns.

So I think Lydia, geographic focus is concentrating and concentrating and concentrating. You'll see more of that. So we're concentrating down to fewer markets that are aligned with the movement that we're taking as moving from an IOC to IEC. And we're picking those very best markets with the very best opportunities that give us integrated trading value or optionality outside it. So I feel as if we are concentrating and I'd invite you each quarter to ask that as you see the announcements we make and watch how we concentrate. I won't preannounce any other moves. Kate over to you.

Katherine Thomson

Certainly feels like we're focused internally [indiscernible] say that. So it's probably a fair assessment. If you just look at the impact on EBITDA, a typical proportion of that will feed into cash flow, right? Our cash conversion has been improving quarter-on-quarter for the last four quarters, but I think that's as good a guide as we can give you. In terms of what your next question might be in terms of -- so what does that do for the 14. We're next going to update on February 2025. So we've moved to a cadence where we just update twice a year with regard to share buyback, we've preannounced all the way through to February 2025. And as a Board, we'll take into consideration facts and circumstances at that time, but anchor on the fact that we've said 80% -- at least 80% of surplus to buybacks.

Murray Auchincloss

Thank you, Lydia. Next question in the room. Peter? .

Peter Low

Thanks. Peter Low from Redburn Atlantic. Yes, the first was just on the Paleogene following kind of the sanction of Kaskida, would you look to farm down your position there at some point? And what will be the optimum time in the development to do that?

And the second was just on oil production and operations, just on the results. I think you mentioned again that there were some price lag effects in the GoM and the UAE. Are you able to just quantify the approximate impact of that in the quarter? Thanks.

Murray Auchincloss

Kate, do you want to do price lag and then I'll do a Paleogene.

Katherine Thomson

Yes. I think it was in the trading statement. I think we quantified it as between $100 million and $200 million. Don't think of price lag impact as a direct correlation to things like working capital, which does reverse. So price lag and the degree to which it reverses in subsequent quarters depends on the pattern of prices in that quarter and also the two areas where we get the price lag in the U.S. and in the UAE. And the outcome that you saw is a combination of fact there was some reversal from the first quarter, but also in the first quarter, we had a read-through from the price lag impact in the fourth quarter of last year.

Murray Auchincloss

On Paleogene, if you'll allow me to wax eloquent about the Paleogene for a minute. 10 billion barrels of discovered resource in the basin, that's now been highly developed by other companies. It's time for us to catch up with that. We've used an industry standard solution for Kaskida, it will produce 80 kbd. It will be less than $5 billion. It will drill six wells in the East bump. That's all that we're putting into that sanction case, delivering at least 275 million barrels.

When I listen to Gordon's team, we might do quite a bit better than that. The reason we might do quite a bit better than that is, we have 1,000 feet of pay and the average across the rest of the Paleogene is 500 feet of pay. So it's an enormous, enormous column of oil. And we'll be doing a seven frac completion inside those. So let's see if we get 2.75 or something much higher over time. It will be hopefully followed by Tiber, 12 months later, mid next year, we think we'll be sanctioning Tiber. It will pretty much be a photocopy of Kaskida as well for capital productivity. And at the same time, we're doing that, we'll be appraising the West bump at Kaskida. And hopefully, that will just tie back and flow into East Kaskida over time. And we've got a couple of exploration wells to the East and West of Kaskida and some more stuff near Guadalupe and Tiber as well.

So it's a very, very, very strong resource base. We've got some derisking to do with appraisal wells and exploration wells that are very sensible to do, given the high-quality seismic that we've shot. And obviously, to your point, Peter, we have a 100% working interest there. I think for now, we're going to start Kaskida, get it going. We will appraise these wells. We'll drill the exploration well, see what we have. And in probably 12 to 18 months' time ask me that question again. And I'll think about how much of the resource we've appraised and got under our thumb to think about what we do. Do we bring in a partner or not. Kaskida alone will be a 5% increase in operating cash flow when it comes in at a group level, 5% alone, and Tiber will follow that as well. So it's will be an interesting choice to ask me 12 or 18 months away. Thank you.

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Did everybody like the Kaskida pitch? Is that okay? Sorry for waxing eloquent, those of you on the web. Next question to the web and then we'll come back to the room, Roger Read, please. Hey, Roger, can you hear us.

Roger Read

Can you hear me.

Murray Auchincloss

Yes, go for it Roger.

Roger Read

Can you all hear me now?

Murray Auchincloss

Yes, I can hear you, Roger.

Roger Read

Okay. Sorry, something with my headset. So apologies for the speaker here if it creates a problem. Can we just take a quick ride down the political aisle. You just had an election and a change in government in the U.K. We've got an election coming up in the U.S. Anything in particular you're seeing locally or looking at over here in the U.S. that we should be thinking about?

Murray Auchincloss

I think my hope, Roger, from all these elections as we can speed up the pace of moving forward, whether that be in the oil and gas space or in the transition space. Permitting grid connections build-outs have been an incredible drag, no matter what geography you sit inside in the West. The East is different. It's very fast in the East, but in the West, whether that's Europe, the U.K. or the United States. I'm hopeful that whoever comes in, in the elections can help us with that because it's a definite drag on returns and cash flow for the corporations. And I'm very much looking forward to seeing the pace of that pick up.

And as you know, we're happy to work with whichever governments come in, in any nation. We've been around for 115 years working with all sides and all kinds of countries. So as long as you stay aligned with the country, you're paying your taxes, you're investing in your people, you're developing research and you're a good corporate citizen. I think we're happy to work with any political affiliation in the world. Do you have a second question, Roger?

Roger Read

Yes, I do. As we think about and I don't mean this at all to criticize the cash returns you're doing now. But as you've laid out, pretty good path here to greater cash flows as we go towards the end of the decade. What's the right way for us to think about what are some of the maybe stair-step events or other catalysts for what would make you confident to continue increasing cash payouts to shareholders on share repos, whichever.

Murray Auchincloss

Yes. I think if you think about our current financial frame and how we talk about it, we obviously have a buyback dividend mechanism that if you look backwards, it's enabled at least three 10% buybacks now. So that -- it's not guidance, it's not forward guidance, but it gives you a sense of how we think about these things. And then from an underlying basis, what you should continue to hear me say is that, we're aiming for 3% to 4% on underlying growth in, we call it EBITDA, but since CapEx is relatively flat, proceeds are flat. Working capital through cycle is relatively flat. You should be thinking about 3% to 4% increase in cash flow as well moving forward.

And that comes about from two things: one, the cost efficiency drive we've talked about, where we see $2 billion by the end of 2026 million. Hopefully, we can go further. We'll see. Time will tell. Certainly, given where technology is going these days, it gives me optimism. And second, construction. We are a construction company, and that's what we're doing is we're sanctioning a ton of construction projects. Six months ago, I told you that we have 32 projects that we need to sanction moving forward. We've been through 12 of them. We sanctioned five of them. We've said no thank you to seven. But those five, along with what we've done in Bunge, what Carol is doing in Arkea, et cetera, just shows this constant construction wave and we look for that construction wave to overcome base decline in the business and grow the overall cash flows for the business by 3% to 4% per annum moving forward.

So I think watch progress on construction. And you can sure feel that -- the later part of the decade is really underpinned with a Paleogene. That feels pretty good right now to be that well underpinned. And we continue to do other interesting things in transition growth engines and unconventionals to drive forward the growth earlier than that.

Thanks for the question, Roger. I'll go one more on the web before I come back to the room. Ryan Todd, please

Ryan Todd

Great, thanks. Maybe a couple of gas-related questions. I mean as we think about your global gas business, thanks for some of the -- Carol, thanks to some of the color you gave earlier on trading. I mean some of your competitors have talked about gas trading, maybe trending towards the lower end of the typical range as you think about returns uplift over the next couple of years due to market dynamics. When you look forward at your business over the next couple of years, both of your portfolio trading mix, global supply/demand dynamics and potential impact on pricing volatility, et cetera. What do you think about your gas trading business? And is that -- do you expect to be able to continue to grow that over the next couple of years? Are there any broader dynamics that may push the kind of the returns uplift lower in the range? And then maybe just a follow-up on specific timing, maybe any update on timing of Tortue and first gas and first cargos?

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Murray Auchincloss

Yes. Tortue, and then over to Carol on Tortue, we continue to make good progress. We got the FPSO into the harbor. I think Gordon, you were out there recently. And now we're just hooking together all the equipment, and we'll have to start to flow gas relatively soon. I think we'll start flowing gas into the systems. We obviously need to leak test, make sure everything is okay from the journeys across the world to get together. And once we've got the leak testing done, then you'll move into starting the refrigeration units inside the LNG, and then you can start to build up cargoes.

We would look to introduce first gas into the system to start all the pressure testing, et cetera, over the next three or four months, I think, would be a comfortable place to say. So that's what we can say on Tortue. I'll just say to the teams in the field who are listening, stay safe guys, no matter what safety is all we care about.

Carol, let's see how you negotiate your performance contract.

Carol Howle

Yes. Thank you for that. I mean, the first thing I would say is that, from a trading and shipping perspective, overall, we've been consistent in our delivery. So we have delivered, on average, an uplift of around 4% to the group's return on average capital employed over the past four years. So that's through a number of cycles, a number of environments. I mean and roughly, we would say it's probably 50-50 oil gas. So we've also got a history, I would say, on the gas side of actually purchasing countercyclical.

So a lot of the long-term contracts that we've entered into on the supply side have been done at low points in the market. So they are high-value contracts. And we also have strong strategic relationships in terms of contracts for sales into the East as well into other markets. We're a top-tier energy trader. So we're going to continue to invest in the platform. This is my return performance contract to Murray. We're going to continue to invest in the platform to maintain and grow that competitiveness. And that does mean in looking at access to infrastructure to downstream markets. And I mean this is both on the oil and gas side.

And as an example, we were the leaders of going into LNG downstream in China with Guangdong JV. So we're going to be continuing to look at opportunities there to also support and develop and grow that portfolio going forward. So I'm still -- we're not guiding to the future, but I'm still holding that the team will be able to continue to deliver consistently with historic performance.

Murray Auchincloss

Yes. And we've said since 2020, we've averaged 4% incremental return on ROACE on the overall group capital employed, and there's no reason to think despite dampened volatility that we wouldn't be able to continue to do that, as Carol baked in some fabulous contracts over time. Great questions. Back in the room now.

Lucas Herrmann

Thanks, Murray. Can I ask a couple. One on refining and downstream and the other capital allocation towards the renewable power businesses. So refining downstream, I can't feel like I'm losing track on what the earnings power of that business actually is. Clearly, a chunk of that is because you've had a lot of downtime. TAs have been a real focus this year, last year. Just to try and give us some idea or some better idea of what the -- what you think the underlying earnings power of the refining assets are in a normalized price environment or at your RMM, whatever you -- however you choose to put it. And I guess, aligned with that on the basis of the margin environment looks as though it will be tougher going forward. You've talked in the past about margins shifting from Emma's businesses to refining business. How much of that would you expect may shift back? That's one question.

And the second, when you stood up -- towards the start of 2023, you talked about the allocation of $60 billion or so of capital towards the transition growth engines over the period of 2030. I know you're going to update in next year. But do you still think that it's -- or $25 billion to $30 billion of that was going to be allocated towards hydrogen, solar, offshore wind power in effect. Is that still a realistic number? Or is that something that you really think you can allocate elsewhere or not allocate at all? That's it.

Murray Auchincloss

Great. Thanks, Lucas. Emma, do you want to tackle the refining and margin shift question? I'll tackle a second.

Emma Delaney

Yes, sure. Thanks, Lucas. On the refining side, the first thing I'd point to is safe operational performance. That's always our focus in refining. And this quarter, we did had an availability of 96.4%, and four of our refineries were up at 96.5%. Just as a reminder, last year, the full year performance for refining was 96.1%, and that was a record since 2005, if I remember right. So job number one is to run the kit safely. And then we optimize commercially. Actually, we don't report refining, as you know, because we put it in products. We work very closely together with Carol's business with -- on the oil trading and the product side and the midstream -- and so after job number one, which is safe operational performance, job number two is to optimize the commercial value.

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And we do see value move up and down the chain from customers to products and back. I think as I reflect on 2022 and 2023, we saw elevated refining margins compared to history. I think 27 RMM in the 2022, 2023 versus 15 in the period 2015 to 2021, if I remember. So there has been significant volatility in the refining. So I'm not going to guide to the future because it's really difficult. But we do with our trading statements and Kate, we do aim to guide as we go into each quarter because the volatility just has been really, really significant over the past quarters.

And in this particular quarter, so second quarter 2024, what we did see was, our RMM is based on the typical configuration of refineries in a specific region and then we blend it all together. Actually, our advantaged refinery configuration has more distillate waiting, about 60%. And so that's why you saw in this quarter, with the diesel, well, the distillate in general, but the diesel margin declined significantly with gasoline going up that did impact our refining financial delivery this quarter. So I think hard to say for the future.

Lucas Herrmann

The [oil] (ph) capacity numbers are great. I'm not sure [indiscernible] slightly uncertain obvious how much -- or the extent to which the kit is actually available and how much more kit is going to be available to optimize, make money from, et cetera, in 2025 relative to the past two years. It's the scale of the task. And I guess associated with TARs, I presume the cost of a TAR are actually capitalized rather than take it through P&L. Is that correct? .

Katherine Thomson

Yes. So in terms of the TARs, we do give guidance on the TARs for the -- and this year, we've said that the TARs will be weighted towards the second half and the fourth quarter. And I think on the portfolio side, we have been streamlining our portfolio for some time now. And with the six refineries remaining, and we also have talked about in [indiscernible] in particular, that we will be reducing capacity from 2025 in a controlled manner by about a third. So I think from a throughput capacity and availability, I think I'm happy to pick this up later. But I think we gave quite enough on the availability quarter-on-quarter.

Murray Auchincloss

Yes. I'll just go back to something we have made some comments we made in a previous quarter, Lucas, which is we expect the refining TARs to decrease in intensity from 2025 onwards because we've had a heavy dose of tours in 2022, 2023, 2024 as we catched up from the COVID time period where it was impossible to mobilize individuals. So we do see a lessening of the TAR environment from 2025 as we've done that catch-up. Capacity, I think we've -- I think you can see the capacity, you can see where we're operating at. How much we actually utilize then is a question of supply and demand for the product.

Right now, diesel is slightly oversupplied, gasoline is about average. Let's see what happens in driving season. Generally, you deplete these stocks as we move through driving season. And the interesting things to watch are, we have not seen any weather events yet in North America or Europe that would impact the refineries. We have seen them in the Asia and the Middle East, but not yet in the West. So that will play on forward margin on what the earning capacity is. And there have been 600 KBD of announced shutdowns that have not occurred yet from the third-party market. So in Europe, U.K. and the U.S., we should see that $80 million a day of capacity shrink again as these things shut down, which again means less product flow and more transfer margin.

I think my overall conclusion in this space, Lucas, is that capacity is tight. Capacity is tight because [indiscernible] continues to grow, refining capacity in the West continues to shrink. And we continue to have weather events that are quite volatile. So I think what that leads me to is, we'll see quite a bit of volatility in margins around refining as far as the eye can see. That's how I relate to it. And that our earnings capacity will be based on how we do in that.

On your capital allocation question, it's probably more a question for February than it is today. I think the statements that I can make right now are, in offshore wind, we're happy with our portfolio. We're busy building out 10 gigawatts. We will do that for as little capital as possible. This for us is all about the electrons. So we'll lever these up as much as we can, we'll bring partners in. And this is all about electron flows into our own business. That's how we relate to offshore wind.

Lightsource BP, of which we're buying 50%. Once that's brought into the envelope, we adjusted a bit on what it's working on and we are happy that we optimized it. We'll consider bringing in partners for that quite quickly. So that will mean there's very little capital intensity in Lightsource BP for us. And hydrogen, let's see how we get on on the five to 10 plants. We've sanctioned two things, Castellon and Lingen. We have big decisions coming on NetZero Teeside here in the U.K. on the Integrated Energy Hub in Cunane in Australia is a big decision, and we have a few more as well that we need to think our way through. Whatever those capital decisions are that will determine what the capital is for the decade, and I'd hate to prejudge that right now. I hope that helps, Lucas.

Another question in the room, Martijn?

Martijn Rats

Hi. Hello. It's Martijn Rats for Morgan Stanley. I've got two questions, if I may. First of all, on the previous call, there was a question about the production profile in the second half of the decade due towards 2030 and what that could look like. And I remember you mentioning at the time said, well, we have 32 possible FIDs ahead. And what we decide on those will determine how that looks like. I fully recognize you haven't done all 32 by now, but you've done 12, and you seem to have some strong ideas about Tiber and a few others. So perhaps some clarity is emerging of what the production profile could look like in the second half of the decade and not to preempt yet another question that it shifted to February. But could you say something about the production profile in the second half of the decade?

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The other one I wanted to ask is about impairments. BP is not alone in this, but the impairments continue to run at very high levels. And every quarter we go noncash, but it was cash ones. And impairments, they're not great. Can you say anything about what the outlook is for further impairment charges over the quarters and possibly years ahead?

Murray Auchincloss

Great. Kate I'll let you do impairments. On production profile, Martijn, I think -- so we've gone through 12 different sanctions, five of them we've approved, seven we have not. The two that we've approved in the upstream -- actually three in the upstream, sorry, we did Atlantis DC1 last time around. We've done Ruwais and we've done Kaskida. Tiber looks hopeful, but we need to work our way through the supply chain to make sure that's the case. So I can't prejudge Tiber, but I feel optimistic about it today. .

So we have done some, but there's an awful lot more to go as we think about it in that program of 32. But I don't -- I'm not really thinking about production, what I'm thinking about is cash flow and returns. How can I really drive the upstream to be as prolific as possible on cash flow growth through the decade at the return hurdles that we have or better. That's what -- that's how I really think about it. And what we've guided on cash flow is growing to 25% and then relatively stable. I'm optimistic we'll do better than that. I don't know what the production associated with that will be, but I'm optimistic that we can do better with that given the quality of the portfolio.

So let's see, Martijn. I think that's all I can say right now. And yes, we'll update you in February. Kate, over to you on impairments.

Katherine Thomson

Yes. So at 2Q, a chunk of the impairments were due to refining. And we've made previous announcements with regard to how we're seeking to optimize the Galfan Korkan and in particular, reducing the capacity there by a third. We said in the trading statement, it would be $1 billion to $2 billion post tax, we're being in the middle of that, impairments came in at $1.5 billion.

The other point to just comment on with regard to refining is, we as a function of the accounting rules, which push you to be prudent, we took onerous contract provisions in the second quarter. Those are calculated at a point in time before you have any option to commercially negotiate the outcome. So I would expect we'll do an awful lot better than that. And I give Emma a stretch target now that we see that entirely reversing as we step through it, because currently it's noncash cost, that truly is noncash cost.

With regard to impairments going forward, it's a function of business decisions that we make in plans and environment. So I'm not going to start predicting what that's going to look like, but I take your point.

Murray Auchincloss

It's a bit tricky with IFRS. It makes you -- it effectively brings your asset values. It just mechanically brings your asset values down to your price and your discount rate. And then if your discount rate increases, you impair. If your discount rate drops, you write back. And if your price viewpoints change up and down, you have to write back, et cetera. So I tend to think of it more like advanced depreciation, because it's forcing us to depreciate earlier than we otherwise might have, and it's a nature of the rules. So that's just another thing to think about, Martijn, as you look at it.

Next question in the room, Alastair.

Alastair Syme

I just had a question for Emma about the marketing business. If you could give some picture on globally what you're seeing in same-store sales, particularly how may that shifts between -- splits between footfall and basket size and particularly within that actually the U.S., given that you did call out previous quarters that you're seeing signs of consumer recession in the U.S.

Emma Delaney

Yes. So in the marketing business, in terms of -- if I think about -- we've got -- we did $4.5 billion last year and aiming towards the $7 billion in the four big areas of growth that we're aiming for. The first one is in continued performance and convenience. We saw 6% margin growth first half this year versus first half last year. To your question specifically on what is the growth is made up of like-for-like versus store revamps, it depends on the market. So in the U.S., specifically, it's probably about a third like-for-like and two-third store revamps. And each market is different depending on whether you have a program of store revamp. So for example, we have store revamps currently under way in Poland. So there's more on the store revamp side.

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So continued performance and convenience will be a big part of our growth in the marketing businesses as we look through 2024 and 2025. In our base, when I think about the base business, Castrol has now had six quarters of momentum. We had a record quarter in aviation this year. And our cost program that I talked about earlier will continue to give some engine -- growth engine to the base business. I talked as well about EV already and Bunge will also contribute in that.

So as I look at sort of the big picture for the marketing business, I think we're well on track, and it's made up of a whole I mean, literally 20,000 sites on the retail side. We worked them top line, bottom line, and we work all the other B2B businesses as well. So really a big diverse portfolio there to get after.

Murray Auchincloss

Amazing, we're number five in convenience in the United States would have thought. Chris? .

Christopher Kuplent

Thank you. Chris Kuplent from Bank of America. Two questions. First one is on your 2025 targets again. And I think Emma, you referred to 2022, 2023 as remarkable years in many respects in terms of achieved refining margins. So I wonder, can you add a little bit more subtlety around what I thought was a very subtle change already suggesting that these EBITDA targets are to be achieved at 2023 prices. And I recall that they used to be based on mid-cycle assumptions way back in 2021 when we didn't have RMMs above 20% and yet they were above 20% in both 2023 as well as in H1. And if I extrapolate H1 earnings, I kind of struggle to get to that EBITDA figure even if I give you full credit for these EV and low carbon growth numbers coming through. So I wonder what you can talk to us through about that. I thought quite subtle change in underlying assumptions behind these 2025 targets.

And then just a follow-up for you, Kate, on the net working capital. Is it appropriate to think about the Q2 as a $1.5 billion roughly reversal because the headline of $500 million or so includes the Gulf of Mexico spill payment? And are you confident that the remainder of the Q1 build is going to reverse in Q3? Or what more color can you give us around that? Thank you.

Katherine Thomson

Yes. So maybe if I take that one first. we had a $2.4 billion capital build -- working capital build in the first quarter. Yes, it's about $1.5 billion that's come back this quarter. So we've got about another $1 billion to come. So as I said, I think earlier, we are expecting net working capital release in third quarter. So my expectation based on our current forecast is that, net debt will trend down in the third quarter prior to acquisitions that will consolidate acquired debt, right?

On the assumptions. I think at 1Q, it might have been 4Q when we were talking, we made it very clear, we were building from the 2023 delivery to how you are confident in the 2025 targets. And we said, okay, at these prices, with these buckets of growth that we've got line of sight to in the underlying business, that's how you get to your $46 million to $49 million. And we will ask you to triangulate back to that. I think, and maybe Craig and the IR team can follow up afterwards. When the original slide was put out, there was a footnote which talked about 2021 planning assumptions. So maybe, Craig, you can pick that up with Chris after the call.

Murray Auchincloss

Good. Yes, Josh?

Josh Stone

Thanks. It's Josh Stone of UBS. First, I want to pick up on the decision to fully consolidate Bunge and Lightsource BP, because it seems like there are some companies in the sector are choosing to separate out those businesses and you've got your way to fully consolidate and back into the BP balance sheet, too. Can you talk about the benefits of those businesses being part of BP versus a stand-alone entity. So that's the first question.

And second one, I did want to follow up on sort of surplus cash flow and buybacks. Because if we look at the first half of the year, surplus cash flow has underperformed where your buyback level is. And so you -- it looks like you've been using debt to help pay the buyback. But when you decided to maintain the buyback flat and clearly using the outlook, and you've mentioned a lot of the positives on the outlook you're using to maintain that buyback. So maybe just go through some of the one of the key building blocks in that improvement on surplus cash -- and how much of an outlook are you using? Is it just the second half of this year? Or are you also counting on 2025 growth to help maintain the buyback? Thanks.

Murray Auchincloss

Sure. I'll start with Lightsource BP, then Emma, you want to handle Bunge consolidation and then Kate. I think on Lightsource BP, look, we had a partner when we put it off balance sheet back in 2017 fabulous entrepreneur, helped us grow the business up to 4 or 5 gigawatt development per year, but hit the end of when they wanted to continue doing this.

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So now is the time where they wanted to cash out, it was convenient for us to go in and take control over 100%. It's a fabulous vehicle to go and help Carol build out her business. So many customers around the world want natural gas coupled with power -- clean power to start to decarbonize their own energy systems. And with the growth of hyperscalers, we're seeing just increased demand after demand after demand.

So taking 100% control of that entity given that incredible native demand we see for energy, especially from the hyperscalers now and the desire of nations to transition makes an awful lot of sense. At the same time, once you've taken that control, you've restructured it, done some stuff to the portfolio based on where your customers sit, et cetera, you will then think about bringing a passive partner into this. You'll think about giving a passive partner it. They've got a very different cost of capital than we have. And so that should offer the chance to arbitrage the price over time.

Josh Stone

[indiscernible] Murray?

Murray Auchincloss

Well, let's see when we complete and then probably over 12 to 18 months, we'd bring somebody else in. So that's why we think it was a really good time, both given where the partner was, the opportunity we see in the market and how we see that business moving forward. So that's how we think about Lightsource BP. Emma, on Bunge?

Emma Delaney

Yes, I have sort of a very short answer on Bunge. We've been in the joint venture since 2019. So we actually understand the operational performance metrics now quite well and saw the opportunity to take the 50% to then consolidate to 100% because the two biggest sources of value are inaccessible to us as just a 50%, namely, the first one is about integrating with Carol's business on the trading side. So that's a big source of value there. Very difficult to do when you're 50-50. And then the other source of value is applying -- Murray, you mentioned it earlier, some of the science, but also some of our techniques from refining on automated control systems, for example, we see the opportunity to increase the mill uptime. And so, again, difficult to do when you're -- when it's in a joint venture of 50-50.

So I think the sources of value, we can see them immediately ahead of us in the near term, and then there's tons to do long term. A lot to do on the biogas side, we can use the waste from the mills. We will take a relatively small investment waste from the mills to be able to then convert into biogas digest, biogas and then either use in our own vehicle network, it's a massive vehicle network there. We have 1,500 vehicles, combined harvesters in the field either to use your own fleet over time or to sell into the grid, that's a big opportunity.

Again, hard to do when you're 50-50 and you have different objectives for the joint venture. And then there's more to do in the future on next-generation ethanol. So I think those things, we see both near-term sources of value and then in the long -- in the medium to long term opportunities for investment to really bring this to life.

Murray Auchincloss

So our decisions are driven by how do we create the maximum value for shareholders. That's how we drive, and that's the two examples in that case. Keith, over to you on the other question?

Katherine Thomson

Yes. So when we updated the fin frame at the fourth quarter, we deliberately stepped away from the quarter-on-quarter calculation of surplus cash because it was creating an awful lot of volatility and perhaps unhelpful focus on what's your absolute surplus cash in any one quarter. So we wanted to provide predictability and a level of certainty into the market with regard to the forward share buyback.

1Q, we had a whiting outage that was significant, as you know. So the surplus cash was lower than we might have expected. At 2Q, the level of share buyback compared to surplus cash is down to 59%. So what we're saying is, 80% over time, at least 80% over time to surplus cash. And as the Board makes its decisions and as we had the conversation last week with regard to the second half of 2024, we take into consideration what's come today and what's coming forward. And we're confident in the delivery of the business. We're confident in the improved performance. There's a lot of discipline that we're putting into the capital frame. As you know, we've tightened that right down to around 16% for the year, and we're bang on that at the first half. Divestments are slightly higher than 2023 at 2% to 3%. We've probably got between $1 billion and $2 billion more to come on that. And we've got a full year of cash flow from TA to take into consideration. So we're confident in our delivery and our outlook for the remainder of 2024.

Murray Auchincloss

Great. Thanks, Kate. I realize that we're overrunning, so I'm going to take one more call on the phone. Apologies for that with Doug Leggate at Wolfe, and then I'm going to have to close it down, and we'll follow up with any other questions out there. Doug, over to you. .

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Doug Leggate

Thank you, Murray. Can you hear me okay?

Murray Auchincloss

Yes, I hear you great. Thanks, Doug.

Doug Leggate

So I'll try two quick ones, hopefully. I wanted to try and maybe circle back on the longer-term production outlook. A couple of quarters ago, you talked about 2 million barrels a day in a stabilized level. You're well above that, and you're now sanctioning new projects. I don't want to front run January or February when you report. But is 2 million still the right number?

Murray Auchincloss

Okay. Did you have another question, Doug? Or was that it?

Doug Leggate

Yes. My follow-up is, I want to come up to the buyback question. I've had the pleasure of covering many of your peers for three decades. And the big difference between those buying back stock in yourselves is a much, much stronger balance sheet. And if I look at your share performance since you started the buyback, you really haven't had any benefit. Your share price is down and you bought back a fifth of your stock, but your net debt remains relatively high if you include the hybrids. I'm just curious why you believe that method of cash return is still the optimal way to maximize value for shareholders.

Murray Auchincloss

Okay. Great. On long-term production, yes, we're running about 2.3 right now, but of course, we've got some divestments. We've announced the divestment of Egypt into a joint venture that will take effect in fourth quarter, I think, which should drop production about 50 kbd, so it will be down at 2,250, and then we have some other divestments that we continue to pursue low-margin, high-volume assets that may or may not happen, but if they were to happen, that would drop their production to around 2-ish.

As far as what the production outturn looks like for the back end of the decade. Of course, we'll update you on February and where that is. And I'll just repeat what I said earlier. I'm focused on cash flow and returns. And production will be an outcome of that, but I'm really, really focused on growing cash flow. If I just wanted to grow volume, I could plow all the money in the world into the Haynesville and I could grow volumes like crazy, but that's not the right thing to do for shareholders is to create cash flow and returns. And so that's why I'm focused so much on that, Doug. So I hope that helps you. And Kate, over to you.

Katherine Thomson

Yes. Thanks, Murry. Doug, hi, nice to hear your voice. We've already had one debate with regard to share buybacks versus debt. I'm sure we'll have others by the sound of it. Look, I think I said earlier on the call, the investors that we talked to, they like the balance of the financial frame as we've currently got it structured. As I said, it's sector-leading distributions. And the balance sheet is in good shape. It is strong. We have brought it down a significant amount since 2020. And the flywheel that the share buybacks give us to be able to continually increase dividends, as you've seen in the last three years we have done 10% each of the second quarters. It creates a flywheel for that and the increasing earnings per share. So for now, we're comfortable with where that sits, and we like the balance, and so do our investors.

Murray Auchincloss

Great. Thanks very much, everybody. Thanks for listening. Sorry, we overran a bit, and I hope everybody has a nice one. Take care.

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