BP

by Adrian Phillips

The willingness of BP’s senior management to meet private shareholders for what is the now the fifth time was saluted by a capacity turnout of 55 UKSA members (with another ten on the waiting list) who filled the presentation suite at the company’s St. James’s headquarters. They were briefed by a team led by the Chairman, Carl-Henric Svanberg, and the Head of Investor Relations, Jessica Mitchell.

We received a full, open and detailed account of recent performance, trading conditions and outlook. 2015 profits fell by 51% on the company's standard measure. Weaker upstream profits were only partly offset by an improvement downstream. The company had been braced for an even more prolonged negotiation over Macondo compensation so there is relief that it took only six years. Since then the final Court approval has been given.

The operating environment is still described as challenging although management point out that this is the fourth major price cycle that they have experienced. 50% drops in the oil price are part of life. 2016, though, will be tough. The key message is that the company is working to “balance organic sources and uses of cash with an oil price around $60 by 2017 and to generate free cashflow thereafter.” If there is no substantial recovery from the current $40 price more will be needed.

Management is certainly not relying on a recovery in the crude price and is pursuing cost cuts. This “rebalancing” was still work-in-progress but BP is happy with the progress of cost cuts. Suppliers enjoyed far more of the boom oil price than they did and Industry “deflation must be shared.

BP expects supply and demand in the oil market to move into balance by the end of 2016 although there are substantial inventories to be cleared. There was a sense that the 50% rebound in the crude price over

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the past few weeks might have "over-anticipated" market fundamentals. Maintaining the dividend is a major priority although there was no hard-and-fast statement. The Chairman's observation was open-ended: "whilst we believe that our current financial framework can support the dividend, the Board will keep this under regular review and make adjustments to the financial framework as circumstances require."

The fall in the crude price during 2015 was not reason in itself for a cut. The company states that the dividend was not increased fully to reflect the surges in the oil price in 2007-2011, implying that the full pain of the current weakness will not automatically be passed on to shareholders. There is no philosophical problem with paying a dividend from reserves given the cyclical nature of the business. However it was repeated that "growth opportunities should not be compromised." Gearing is low at 20% although this will rise at current oil price levels.

The Chairman personally fielded the questions from members which ranged over a wide area, especially covering regional uncertainties, and showed an impressive grasp of the key issues for BP.

- **Because the Rouble has been allowed to devalue in line with the crude price Rosneft's operations are untouched although it suffers from the hard currency debt taken on to fund foreign acquisitions. BP has begun to develop projects independently in Russia.**

- **There is some prospect of contracts to operate existing fields in Iran as has happened in Iraq.**

- **Even the most stable countries in the Middle East are not stable in the absolute. Saudi Arabia has a large budget deficit after the social programmes inspired by the Arab Spring.**

- **Long term real growth will be around 0.5% per annum.**

- **The OPEC attempt to kill off US shale was an error. Output is**
- **falling but technical maturity is bringing cost gains. There is a core of mature and viable operations.**

After the formal proceedings a large team from BP fielded individual questions from members over an ample buffet lunch. The applause at the end was heartfelt and well deserved by a company which is a model for the attention it devotes to the private investor. ***Adrian Phillips***