Initiating Coverage:

British Petroleum PLC

Green Gamble Drives Bright Progress

Consortium Equity Research
Energy | Oil & Gas
January 5th, 2024

Stock Rating:	Overweight
Price Target:	$35.00
Price:	$29.93
Potential Upside:	17%
Ticker:	$BP
Market Cap:	$77.4b
Shares Outstanding:	2696mm
Free Float (%):	97.3%
Dividend Yield:	1.06%

Energy and Sustainability Coverage Team

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Key Take-away: BP is under significant pressure as it aggressively sells off oil and gas assets to meet its ambitious net-zero targets. Through strategic partnerships and acquisitions, the company is investing heavily in renewable energy, but these projects have yet to produce strong financial results. However, BP's growing diversified portfolio can give it a competitive edge, and the company is poised to outperform its peers in the long run. The company's steadfast commitment to sustainability and renewables is only temporarily underperforming due to both macro headwinds and natural lulls in revenue during transitioning phases.

Renewable Energy and a Diversified Portfolio: BP is aggressively expanding into various renewable energy sectors, including offshore wind, solar, and green hydrogen, in response to increasing pressure from ESG initiatives. With ambitious targets to reduce its carbon footprint in 2030, 2040, and 2050, BP is moving away from traditional oil and gas assets, reinvesting in emerging technologies and energy solutions. These initiatives are part of BP's broader strategy to adapt to global energy transitions and meet the growing demand for sustainable solutions.

Underperformance Amidst Macro Headwinds: BP's stock has struggled recently. While oil prices have seen volatility, BP has not been able to fully capitalize on price gains, partly due to its shift away from fossil fuels. BP's performance has been further impacted by stronger results from its competitors, who continue to focus more heavily on traditional energy production. Although there is certainly idiosyncratic issues, the vast majority of the company's current struggles can be attributed to factors outside of its control. The company continues to bet on long-term profitability from its renewable energy sources, which are being heavily invested in.

Valuation: We initiate coverage with a $35 PT.

Peer Comparisons

Comparable Companies					
$mm					
Company Name	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Exxon Mobil Corp	$ 465,309	$ 489,680	13.2x	$ 344,582	$ 53,739
Shell plc	$ 377,440	$ 227,361	24.6x	$ 323,183	$ 19,359
Chevron	$ 256,714	$ 284,715	15.7x	$ 200,949	$ 47,379
Valero	$ 37,544	$ 45,866	10.4x	$ 136,200	$ 14,506
BP plc	$ 92,517	$ 150,623	28.7x	$ 211,397	$ 40,166

Company Name	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Exxon Mobil Corp	6.51	26.7%	15.6%	13.3%	5.5%
Shell plc	3.46	25.3%	6.0%	10.4%	(1.2%)
Chevron	6.67	40.7%	23.6%	10.9%	5.3%
Valero	5.23	17.1%	10.7%	1.7%	11.2%
BP plc	3.75	30.9%	19.0%	7.8%	2.5%
High	6.67x	40.7%	23.6%	13.3%	11.2%
75th Percentile	6.51x	30.9%	19.0%	10.9%	5.5%
Average	5.12x	28.1%	15.0%	8.8%	4.7%
Median	5.23x	26.7%	15.6%	10.4%	5.3%
25th Percentile	3.75x	25.3%	10.7%	7.8%	2.5%
Low	3.46x	17.1%	6.0%	1.7%	-1.2%

BP plcValuation		
Implied Enterprise Value (25th Percentile)	$	150,623
Implied Enterprise Value (Median)	**$**	**210,068**
Implied Enterprise Value (75th Percentile)	$	261,481
Implied Share Price (25th Percentile)		48.81918864
Implied Share Price (Median)	**$**	**70.86**
Implied Share Price (75th Percentile)		89.91309196

Source: Mergent

Company Overview

Diversified International Portfolio: BP's main operations are the production and sale of oil. It produces millions of barrels of oil equivalent daily through its extensive upstream and downstream operations, including significant assets in the Gulf of Mexico, North Sea, and Middle East. Alongside oil and gas, BP has committed billions of dollars to expanding its renewable energy ventures, including offshore wind farms, solar projects, and hydrogen technologies. This dual approach allows BP to remain competitive in a carbon-conscious world while generating substantial revenues from legacy energy sources.

Strong Focus on Sustainability: BP has embraced sustainability as a core business strategy, committing to a reduction in carbon emissions and a shift toward low-carbon energy solutions. The company's "Reimagine Energy" initiative outlines bold plans to reduce its oil and gas production by 40% by 2030 while significantly growing its renewable energy capacity. In addition to clean energy investments, BP is prioritizing carbon capture and storage (CCS) technologies and exploring sustainable fuels for aviation and transportation. These efforts are part of BP's goal to lead the industry in the fight against climate change while meeting the world's growing energy demands.

Industry Overview

Ongoing Conflict: The ongoing conflict in Ukraine has significantly disrupted global oil markets, causing volatility and impacting supply chains. Sanctions on Russian oil exports have reduced supply to Western markets, forcing countries to seek alternatives. This has driven oil prices to historic highs, benefiting major producers like BP but straining economies reliant on imports. Europe's push to reduce dependency on Russian energy has accelerated renewable energy projects. However, uncertainty around the conflict's duration continues to create challenges for market stability, impacting pricing and long-term planning for oil and gas companies.

Changing US Landscape: Under the incoming Trump administration, American oil corporations are set to focus their efforts primarily on traditional energy sources. With significant cuts to tax credits and foreign tariffs, investment in renewable plants is likely to experience a sharp decline in 2025. Non-American companies investing in renewables, such as BP, stand to benefit from a less restrictive political climate.

ESG and Renewable Energy: The energy industry is undergoing a major transformation as companies embrace Environmental, Social, and Governance (ESG) principles and transition toward renewable energy. Investors and regulators are pressuring companies to reduce carbon emissions and disclose detailed sustainability strategies or receive negative ESG ratings. In response, oil supermajors like BP are diversifying their portfolios, committing to investments in offshore wind, solar energy, and hydrogen technologies.

Investment Theses

Diversified transition to renewable energy: BP's commitment to investing in a diversified portfolio of renewable energy sources positions the company to capture substantial growth as the global energy landscape evolves. While revenue from traditional oil and gas sources may decline in the short term, BP's strategic pivot towards low-carbon energy is poised to deliver sustainable growth over the long term. The company has many exclusive international partnerships in the Middle East, Japan, and more. This strategy mitigates regulatory and climate-related risks (such as ESG regulations) and aligns itself with a growing market of eco-conscious investors. Additionally, many American competitors are being pressured to double down on traditional oil production under the new Trump administration. BP's diversified strategy provides a strong foundation for differentiation and long-term profitability whilst its competitors struggle to thrive in the changing political environment.

Strategic partnerships and acquisitions remain main focus: BP is currently facing a period of significant transition as it balances its investments in traditional oil and gas with its aggressive expansion into renewables. While the company is currently under some pressure, management is continuously building on its already strong network of partnerships and acquisitions. In order to capitalize on the growing wind power market, BP recently acquired 50% of Equinor's, a major competitor, US offshore wind leases, allowing it to dominate the US offshore wind market. It also operates heavily in the UK's North Sea, where it faces minimal competition. In Q4 2024, BP also fully acquired Lighthouse BP, a leading solar developer. Despite facing macro headwinds and poor recent earnings, management is continuing to focus on positioning BP for a future in renewables. Once these green energy projects begin to scale, BP will be uniquely positioned to capitalize on the growing demand for sustainable energy, unlike other legacy oil producers.

Price Target & Valuation

Our analysis gives ($BP) a price target of $35 and an overweight weight rating.

Potential Downsides to Our Rating

Overambition in Transition: BP generally struggled this past fiscal year and holds a relatively weak balance sheet compared to its peers. Management has outlined aggressive goals, such as cutting hydrocarbon production by 40% by 2030. If the company's new strategic direction doesn't play out favorably and fails to meet its ambitious targets, BP will continue to struggle.

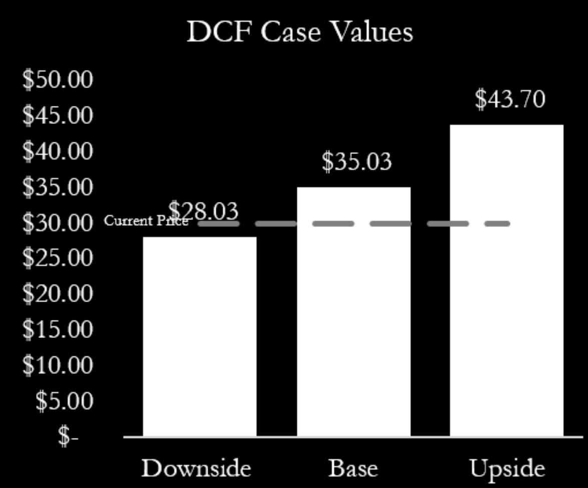
Taxation in Limbo: Windfall taxes were exacted on European oil corporations in response to the Russo-Ukrainian war. Although they are expected to be lifted in early 2025, there remains a possibility that the British government continues to levy these hefty taxes on BP and other oil conglomerates. This could adversely impact BP, whose effective tax rate of 42% sits above many of its American competitors (Exxon's tax rate is about 30%).

Management Uncertainty: Ongoing political and environmental pressures could cause management to change its strategic positioning once again. With ongoing conflict between Russia and Ukraine, it is possible that these macro tailwinds will not falter anytime soon. With the aforementioned risk of persistent windfall taxes and the looming threat of stricter ESG regulations, it is uncertain whether or not BP's current climate pledges will need to be expanded upon in the near future or not.

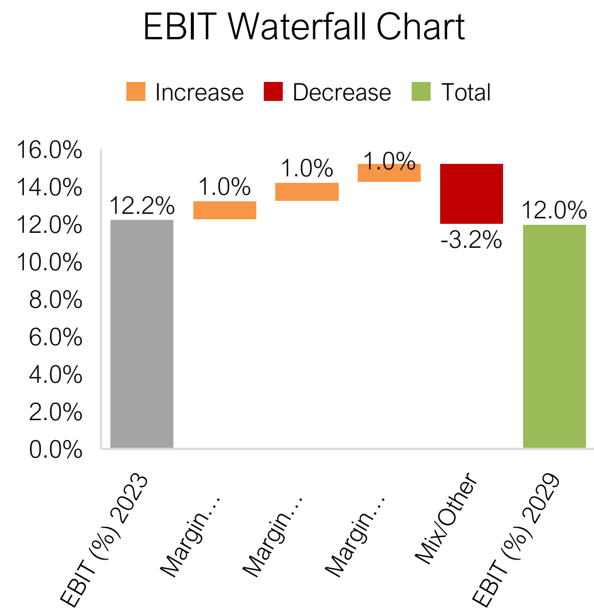
<u>Our Price Target: $35.00</u>
Our PT assumes that BP will suffer losses temporarily while it transitions to a more diversified portfolio with renewable energy.

<u>Our Upside Case: $44.00</u>
Our upside case assumes that BP's new renewable energy production will not hinder its traditional oil and gas production, which will grow revenues at the industry rate.

<u>Our Downside Case: $28.00</u>
Our downside case assumes that BP's renewable energy bet flops, and it continues to lag behind industry standards as it did this past year.



Projections



Income Statement ($mm)	2023A	2024E	2025E	2026E	2027E	CAGR%
Revenue	211,397	179,900	159,685	148,722	145,006	-9.0%
EBITDA	41,797	32,500	29,146	27,423	27,009	-10.3%
EBIT	25,869	18,000	16,295	15,472	15,374	-12.2%
EBIAT	8,908	(19,774)	9,696	9,592	18,000	19.2%

Margin & Growth Data	2023A	2024E	2025E	2026E	2027E	AVG%
EBITDA Margin	19.8%	18.1%	18.3%	18.4%	18.6%	18.6%
EBIT Margin	12.2%	10.0%	10.2%	10.4%	10.6%	10.7%
Revenue Growth	-13.7%	-14.9%	-11.2%	-6.9%	-2.5%	-9.8%
EBIT Growth	-1.8%	-30.4%	-9.5%	-5.1%	-0.6%	-9.5%

Valuation Metrics	2023A	2024E	2025E	2026E	2027E	AVG%
P/FCF	12.9x	-3.9x	8.5x	23.3x	5.3x	9.2x
EV/Sales	0.5x	0.5x	0.6x	0.6x	0.7x	0.6x
EV/EBITDA	6.0x	6.6x	7.5x	8.1x	8.3x	7.3x
FCF Yield	7.7%	-25.7%	11.7%	4.3%	18.9%	3.4%

About $BP

BP plc ($BP), founded in 1909 and headquartered in London, United Kingdom, is a global energy company operating in over 70 countries. The multinational oil and gas company is a vertically integrated company operating in all areas of the oil and gas industry. These include exploration and extraction, refining, distribution and marketing, power generation, and trading. BP is one of the world's largest companies by revenues and profits.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (Energy and Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

Appendix

BP plc

Discounted Cash Flow

Active Case:	**2 Base**
Current Share Price	$28.79

DCF Analysis ($mm)	FY2019 12/31/2019	FY2020 12/31/2020	FY2021 12/31/2021	FY2022 12/31/2022	FY2023 12/31/2023	FY2024 12/31/2024	FY2025 12/31/2025	FY2026 12/31/2026	FY2027 12/31/2027	FY2028 12/31/2028	FY2029 12/31/2029
Stub						0.02	0.02	0.02	0.02	0.02	0.02
Discount Period						0.01	0.52	1.52	2.52	3.52	4.52
Revenue	282,423.00	180,626.00	162,319.00	245,025.00	211,397.00	174,600.00	154,061.16	141,089.47	133,910.55	131,547.04	133,590.17
Revenue Growth	*0%*	*-36%*	*-10%*	*51%*	*-14%*	*-17%*	*-12%*	*-8%*	*-5%*	*-2%*	*2%*
Revenue Breakdown 1	217,465.71	139,082.02	124,985.63	188,669.25	162,775.69	133,000.00	116,375.00	105,901.25	100,076.68	98,075.15	99,546.27
Revenue Breakdown 2	59,308.83	37,931.46	34,086.99	51,455.25	44,393.37	38,000.00	34,390.00	32,085.87	30,834.52	30,495.34	31,013.76
Other Revenue	5,648.46	3,612.52	3,246.38	4,900.50	4,227.94	3,600.00	3,296.16	3,102.35	2,999.35	2,976.55	3,030.13
EBIT	12,872.00	(23,933.00)	16,436.00	26,354.00	25,869.00	18,000.00	16,515.36	15,576.28	15,212.24	15,364.69	16,030.82
EBIT Margin	*5%*	*-13%*	*10%*	*11%*	*12%*	*10%*	*11%*	*11%*	*11%*	*12%*	*12%*
Tax Expense	3,964.00	(4,159.00)	6,740.00	16,762.00	7,869.00	12,000.00	7,266.76	6,853.56	6,693.38	6,760.47	7,053.56
Effective Tax Rate	*31%*	*17%*	*41%*	*64%*	*30%*	*67%*	*44%*	*44%*	*44%*	*44%*	*44%*
NOPAT	8,908.00	(19,774.00)	9,696.00	9,592.00	18,000.00	6,000.00	9,248.60	8,722.72	8,518.85	8,604.23	8,977.26
D&A	17,780.00	14,889.00	14,805.00	14,318.00	15,928.00	14,500.00	12,700.43	11,545.09	10,876.05	10,603.93	10,687.21
Capex	0.00	0.00	0.00	0.00	0.00	11,500.00	(5,960.91)	(1,625.20)	2,096.24	5,633.77	9,351.31
Changes in NWC	(2,918.00)	(85.00)	(626.00)	(6,270.00)	(3,338.00)	4,000.00	3,131.69	2,503.73	2,030.59	1,655.11	1,335.90
UFCF	5,990.00	(19,859.00)	9,070.00	3,322.00	14,662.00	5,000.00	24,778.25	19,389.27	15,268.07	11,919.27	8,977.26
PV of FCF						4,997.80	24,194.77	18,083.35	13,600.91	10,141.46	7,295.60

Terminal Value	
Exit Multiple Method	
2029 EBIT	$16,031
EV/EBIT Exit Multiple	3x
Terminal Value	$43,283
PV of Terminal Value	35175.1952
PV of Projection Period	$78,314
PV of Terminal Value	$35,175
Implied TEV	$113,489
(-) Debt	$51,954
(+) Cash	$33,030
Implied Equity Value	$94,565
Diluted Shares Outstanding	2697
Implied Share Price	$35.07
Upside/Downside	22%

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.24%
Beta	0.63
Risk Free Rate	4.59%
Cost of Equity	3.93%
Weighted Average Cost of Debt	3.00%
Tax Rate	44.00%
Cost of Debt	0.77%
Total Equity	$77,420
Total Debt	$18,924
Equity/Total Capitalization	54.20%
Debt/Total Capitalization	45.80%
WACC	4.70%