

Rating Action: Moody's changes Aker BP's outlook to stable; affirms Ba1 ratings

01 Jul 2020

London, 01 July 2020 -- Moody's Investors Service ("Moody's") today changed the outlook of Aker BP ASA ("Aker BP") to stable from negative. Concurrently, Moody's affirmed Aker BP's Ba1 corporate family rating (CFR) and Ba1-PD probability of default rating (PDR) as well as the Ba1 ratings assigned to its senior unsecured notes.

RATINGS RATIONALE

Today's outlook stabilisation reflects Moody's expectation that Aker BP will continue to demonstrate strong resilience despite the current weaker oil price environment. In the near term, the group's operating profitability will be constrained by lower oil and gas price realisations. However, this should be mitigated by incremental production following the successful ramp-up of the Johan Sverdrup field and Valhall Flank West since October 2019, high production efficiency and low operating costs of around \$8-9/barrel of oil equivalent (boe) based on a US dollar to Norwegian krone exchange rate of 9.5. In addition to management's decision to halve the company's dividend to \$425 million in 2020 amid weak oil market conditions, Aker BP's cash flow and liquidity profiles will benefit from Norway's attractive fiscal regime, that was recently further enhanced by the temporary changes to the petroleum tax agreed by the Norwegian parliament.

Assuming 2020 production averages around 212 thousand boe per day (kboepd) in line with the mid-point of management's guidance, Brent of \$35/bbl and a unit operating cost of around \$8.5/boe, Moody's estimates that Aker BP would post Moody's-adjusted EBITDA of around \$2.2 billion in 2020. After capital and exploration expenditure of around \$1.6 billion, lease debt payments of around \$110 million and annual dividends of \$425 million, Moody's projects that Aker BP would generate moderate negative free cash flow (FCF) of around \$300 million in 2020. However, leverage should remain moderate with Moody's-adjusted total debt to EBITDA rising to 1.7x (v. 1.5x in 2019), while retained cash flow (RCF) to total debt should benefit from the cut in dividends and increase to around 36% at year-end 2020.

The Ba1 rating continues to reflect Aker BP's solid position as a mid-sized oil and gas exploration and production (E&P) company on the Norwegian Continental Shelf (NCS), underpinned by sizeable 2P reserves of 906 million boe (mboe) equivalent to 11.7 years of 2020 production based on the mid-point of management's guidance.

LIQUIDITY

Aker BP's liquidity position is robust. Following a bond issuance of \$1.5 billion in January 2020, the group had \$323 million in cash and cash equivalents and \$3.7 billion available under its \$4 billion revolving credit facility at the end of Q1 2020. This comprises a \$2 billion working capital facility expiring in May 2022 and a \$2 billion liquidity facility expiring in May 2025 (with one 12-month extension option remaining).

This leaves the group with ample liquidity to repay its NOK1.9 billion (\$200 million) bond falling due in July 2020 and cover any potential shortfall in FCF. The group's next bond maturity of \$400 million falls due in July 2022.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The rating could be upgraded to Baa3 if Aker BP demonstrates the ability to: (i) sustain production well in excess of 200 kboepd over the medium-term while maintaining a reserve replacement rate of no less than 100%; (ii) pursue financial policies which ensure that adjusted RCF to total debt is maintained above 40% on a sustained basis; and (iii) materially strengthen its FCF generating capacity amid a constant need to access and develop new hydrocarbon resources. The rating upgrade would also require the group to maintain a strong liquidity profile.

The rating could be downgraded to Ba2 if: (i) average production falls below 150 kboepd on a sustained basis; (ii) Aker BP's financial profile materially deteriorates and leverage increases so that adjusted RCF to total debt

falls below 20% for an extended period of time. The rating could also be downgraded should the group's liquidity profile significantly weaken.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Independent Exploration and Production Industry published in May 2017 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1056808. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Aker BP ASA is a Norwegian oil and gas company primarily involved in the exploration, development and production of petroleum resources on the Norwegian Continental Shelf. Its production assets are entirely located in Norway and the company operates around 78% of its producing fields. In 2019, Aker BP reported an average production (on a working interest basis) of 156 kboepd, revenues of \$3.35 billion and proved plus probable (2P) reserves of 906 million barrels of oil equivalent. Aker BP is owned 40% by Aker ASA, 30% by BP p.l.c. (A1 negative) and the remaining is free float.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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