

**Rating Action: Moody's upgrades Aker BP to Baa3; stable outlook**

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04 Feb 2021

London, 04 February 2021 -- Moody's Investors Service ("Moody's") has today assigned a new long-term issuer rating of Baa3 to Aker BP ASA (Aker BP). Concurrently, Moody's has upgraded the senior unsecured notes due 2024, 2025, 2026, 2030 and 2031 ratings of Aker BP to Baa3 from Ba1. The outlook is stable.

**RATINGS RATIONALE**

Moody's has withdrawn Aker BP's corporate family rating (CFR) of Ba1 and probability of default rating (PDR) of Ba1-PD following its upgrade to Baa3, as per the rating agency's practice for corporates with investment grade ratings. Please refer to the Moody's Policy for Withdrawal of Credit Ratings available on its website [www.moody's.com](http://www.moody's.com). Today's rating action reflects recent improvements in production profile, cash flow generation, more prudent financial policy and stronger liquidity position, coupled with a more supportive regulatory environment, enhancing the credit profile of Aker BP.

The recent change in financial policy and the new guidance of a minimum level of dividends of \$450 million is more prudent than previous expectations, allowing the company to allocate its free cash flow generation to the development of its resources to be turned in production while keeping its leverage moderate.

The temporary Norwegian petroleum tax regime enacted in June 2020 also supports the significant growth plans of the company, while allowing it to maintain its leverage moderate and cash flow generation broadly positive until 2024. The growth plans of the company are quite ambitious but, if executed fully, will lead to a significantly more robust production profile well above 350 kboepd towards the end of the decade.

In 2020, the ramp-up of Johan Sverdrup field led to an increase in the company's production to 211 kboepd (from 156 kboepd in 2019) and coupled with a decline in operating costs per barrel by a third to \$8.3/boe, allowed the company to have a Moody's adjusted EBITDA of approximately \$2.3 billion, broadly stable compared to 2019, notwithstanding the low price environment for oil and gas companies.

In 2021, Moody's expects the production to be slightly higher at around 215 kboepd and assuming a Brent price of \$45/bbl and a unit operating cost of around \$9.0/boe, Moody's estimates that Aker BP would post Moody's-adjusted EBITDA of around \$2.7 billion in 2021. After capital and exploration expenditure of around \$2 billion, and annual dividends of \$450 million, Moody's projects that Aker BP would have broadly neutral free cash flow (FCF) after dividends in 2021, on an improving trend compared to previous years. Leverage should remain moderate with Moody's-adjusted total debt to EBITDA declining to 1.6x in 2021 (v. 1.8x in 2020), while retained cash flow (RCF) to total debt should benefit from the growth in EBITDA and low level in dividends and increase to above 50% at year-end 2021.

After 2021, Moody's expects the production to gradually grow towards 230-240 kboepd and assuming a Brent price of \$55/bbl, that should lead to higher EBITDA and operating cash flow generation, compared to 2021 levels.

The Baa3 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 842 million boe (mmboe) equivalent to 10.9 years of 2020 production based on the mid-point of management's guidance.

**LIQUIDITY**

Aker BP's liquidity position is robust. At the end of 2020, the group had \$538 million in cash and cash equivalents and the group had access to a fully undrawn \$4 billion revolving credit facility (RCF). The RCF 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). The RCF is subject to a 3.5x net leverage covenant and to a 3.5x interest coverage, under which the company has substantial capacity that Moody's expects to be maintained in the future. The next bond maturity occurs in June 2024 when a \$750 million bond falls due.

## ESG CONSIDERATIONS

While not driving today's action, environmental considerations are a material factor in Aker BP's ratings. However, while there are significant uncertainties relating to the estimated costs for decommissioning, Moody's does not expect environmental issues (including decommissioning liabilities) to have a significant adverse effect on the group's operating and financial performance in the next few years in the context of its overall cash generating capacity. Moody's positively notes that Aker BP has low emissions and it has a target to keep its emissions below 5kg/boe (less than a third of global average for the industry) from 2020 onwards. This is driven by the fact Johan Sverdrup field has CO<sub>2</sub> emission of 0.67kg/boe, less than 4% of the global average, as it is powered from shore through hydroelectric power.

## RATINGS OUTLOOK

The stable outlook reflects Moody's expectation that Aker BP will continue to gradually increase its production profile, underpinned by low cost production and a favourable tax regime supporting the development of its pipeline of growth projects. This should allow the group to gradually grow its production profile and operating cash flow while keeping leverage to moderate levels through the cycle.

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

While unlikely in the near to medium term, the rating could be upgraded if Aker BP demonstrates the ability to: (i) materially enhance the diversification of its production profile; (ii) sustain production towards 350 kboepd, while maintaining a reserve replacement rate of no less than 100% ; (iii) pursue financial policies which ensure that adjusted RCF to total debt is maintained above 60% on a sustained basis; and (iv) 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 good liquidity profile and continue to demonstrate strong financial discipline.

The rating could be downgraded to Ba1 if: (i) average production falls below 200 kboepd on a sustained basis or reserve replacement falls considerably below 100%; (ii) Aker BP's financial profile materially deteriorates and net adjusted leverage increased sustainably above 1.75x or (iii) adjusted RCF to total debt fall below 40% 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](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1056808). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## CORPORATE PROFILE

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 2020, Aker BP reported an average production (on a working interest basis) of 210.7 kboepd, revenues of \$2.9 billion and proved plus probable (2P) reserves of 842 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](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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