FitchRatings

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Fitch Affirms Aker BP ASA at 'BBB-', Outlook Stable

Fitch Ratings - Moscow - 30 Apr 2021: Fitch Ratings has affirmed Aker BP ASA's Long-Term Issuer Default Rating (IDR) at 'BBB-', with a Stable Outlook.

The ratings reflect Aker BP's conservative financial policies, moderate production and costs and a supportive tax regime in Norway. The pipeline of new projects, most importantly, the North of Alvheim Krafla Askja (NOAKA) area, should enable the company to replenish proved reserves and increase production over time. Aker BP significantly cut dividends after oil prices collapsed in 2Q20, its leverage is low and liquidity is strong.

The rating is constrained by Aker BP's moderate scale, focus on offshore operations and concentration of reserves in a single country.

Aker BP is an upstream oil and gas producer focusing on the Norwegian Continental Shelf (NCS); in 2020 it produced 211kboe/d and generated USD2.1 billion in EBITDA. Aker BP is 40%-owned by Aker ASA and 30% by BP plc (A/Stable), with the rest of shares being free float.

Key Rating Drivers

Large Independent Producer in Norway: Aker BP is one of the largest independent exploration and production (E&P) companies in Norway. It holds 9% of oil reserves and 5% of hydrocarbon reserves in the country, according to the Norwegian Petroleum Directorate. Aker BP operates most of its projects, unlike some of its peers. It has significant production growth potential, based on management's guidance and large contingent (2C) resources. Aker BP's operations are focused on offshore developments, which imply a higher operational risk than onshore operations.

Tax Relief Credit-Positive: Aker BP should benefit from Norway's decision to make temporary adjustments to the oil tax regime, including making capex immediately tax-deductible. While an average effective tax rate over the medium-to-long term will not change materially as a result of the introduced changes, the new temporary regime has prompted Aker BP and its partners to accelerate some projects, including reaching an agreement-in-principle over NOAKA, which should result in additional operating cash flows over the medium- to-long term.

Production Growth Potential: The agreement-in-principle with Equinor ASA to proceed with the development of NOAKA should help Aker BP increase production to above 300kboe/d by 2027, when management expects the project to be operational. While the increase may be substantial, it is outside our forecast horizon but could have a positive impact on the credit profile in the medium term. The project is capital-intensive but we believe Aker BP would have the capacity to maintain leverage in line with our rating sensitivity, particularly given recent tax adjustments.

New Dividend Policy Credit-Positive: Aker BP has cut its total cash dividends for 2020 by 50% compared with the original guidance, and is planning to only moderately increase dividends by 5% p.a. provided oil prices are above USD40/bbl. The change in dividend policy is credit-positive as it gives the company more financial flexibility and reflects its commitment to an investment-grade rating, in our view.

Moderate Production Costs: Aker BP's production costs, which the management estimates at USD8.3/boe in 2020 and is planning to reduce further to below USD7/boe, are relatively low for a company focusing predominantly on liquids and operating in the North Sea. Aker BP targets a full-cycle project break-even oil price at or below USD30/boe and planned projects are in line with this level.

Large Reserves: Based on 2020 production, Aker BP's reserve life is adequate at eight years for proved reserves (1P) and 11 years for proved and probable reserves (2P). Aker BP's large 2C resources, the largest part of which is represented by NOAKA, should enable the company to significantly increase its booked reserves after the project has been sanctioned for development, which we expect in 2022.

Conservative Financial Profile: We view Aker BP's target of maintaining net debt-to-EBITDAX below 1.5x as reasonably conservative. Our base case forecasts funds from operations (FFO) net leverage to fall to 1.2x at end-2021 from 1.6x at end-2020 before increasing towards 1.6x by 2024 on the back of negative free cash flow (FCF) after dividends in 2023-2024. While we recognise that leverage may be negatively affected by the timing of potential projects, such as NOAKA, we expect it should remain well below our 2.7x negative sensitivity. Also, new projects could enhance Aker BP's business profile, if they result in sustainably higher production.

Stable Operating Environment: The operating environment in Norway (AAA/Stable) is strong. The tax rate is high (78%) but the effective tax rate paid is lower given deductions for decommissioning, exploration and additional capital allowances. Aker BP's focus on a single country makes the company vulnerable to potential regulatory change, and we see a risk that the state may become less supportive in the long term, due to pressure for greener energy.

Derivation Summary

Aker BP is one of the largest European E&P companies by production and reserves and focuses exclusively on the NCS. Its production (211kboe/d) is lower than that of Wintershall Dea GmbH (BBB/Stable; 623kboe/d) and Diamondback Energy, Inc. (BBB/Stable, 300kboe/d) but higher than that of Neptune Energy Group Midco Limited (BB/Stable, 142kboe/d), although Aker BP has the potential to significantly increase production from non-sanctioned projects, including NOAKA.

By 2022, we expect Aker BP's leverage to be broadly similar to those of Diamondback and Marathon Oil Corporation (BBB-/Stable), but lower than that of Apache Corporation (BB+/Stable). Unlike Wintershall Dea and Neptune Energy, Aker BP's production is focused on oil, which generates stronger unit margins.

Key Assumptions

- Base-case assumptions for Brent: USD58/bbl in 2021, and USD53/bbl thereafter

- Upstream production increasing to around 230kboe/d by 2023-2024 from 214kboe/d in 2021

- Capex, excluding exploration and decommissioning, averaging around USD2 billion over 2021-2024

- Dividends of around USD450 million in 2021, increasing 5% yearly in line with management guidance, over the forecast period

- Cash taxes of around USD200 million in 2021, and increasing from 2022 following a reversal of the new tax regime

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Production above 300kboe/d on a sustained basis while keeping FFO net leverage below 2.0x could lead to an upgrade.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- FFO net leverage consistently above 2.7x.

- Production falling consistently below 175kboe/d, e.g. due to larger-than-expected production declines at brownfield sites.

- Inability to replenish reserves or proved reserves falling consistently below 600MMboe.

Best/Worst Case Rating Scenario

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

Liquidity and Debt Structure

Strong Liquidity: Aker BP has a strong liquidity position. It has no maturities until 2024. Our base case projects the company would have more than USD3.6 billion of available liquidity at end-2021 and USD3.9 billion end-2022, mainly consisting of unutilised balance under its revolving credit facilities.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Aker BP ASA	LT IDR	BBB- (Stable)	Affirmed		BBB- (Stable)
• senior unsecured	LT	BBB-	Affirmed		BBB-

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	◆
NEGATIVE	⊖	◆
EVOLVING	◇	◆
STABLE	◎	

Applicable Criteria

Corporate Rating Criteria (pub.21 Dec 2020) (including rating assumption sensitivity)

Corporates Recovery Ratings and Instrument Ratings Criteria (pub.09 Apr 2021) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub.26 Aug 2020)

Sector Navigators - Addendum to the Corporate Rating Criteria (pub.21 Dec 2020)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Aker BP ASA	UK Issued, EU Endorsed

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