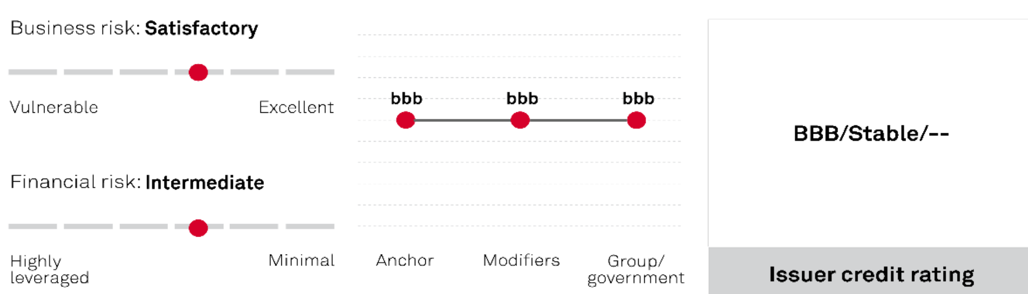
Aker BP ASA

June 7, 2023

Ratings Score Snapshot



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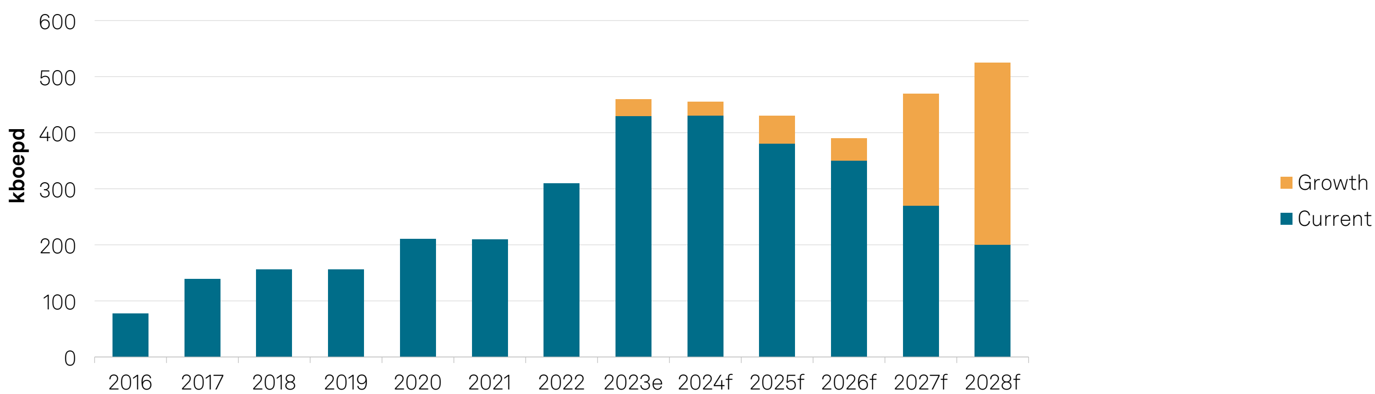
Credit Highlights

Overview

Key strengths	Key risks
One of the lowest offshore production costs globally at $7 per barrel (/bbl)-$8/bbl.	Exposure to the volatile, capital-intensive oil and gas industry.
Strong growth ahead in projects that have relatively low execution risks.	Concentration in Norway, even if it is a low-risk country.
Solid underlying cash flow generating capacity with increased flexibility for shareholder returns.	No diversification outside upstream.

Aker BP ASA's solid performance, fueled by high commodity prices, supports record high cash flow generation. During first-quarter 2023, production soared to a record high of 450,000 barrels of oil equivalent per day (boepd) primarily due to the startup of Johan Sverdrup phase 2 from the fourth quarter of 2022 and swift integration of the Lundin acquisition made in 2022. We expect that production will sustain at about 425,000 boepd-450,000 boepd through 2023-2024, potentially expand toward 500,000 boepd, in line with the company's strategy. At the same time, the company's low cost position will remain a key competitive advantage at about $7.0/bbl-$7.5/bbl during the same period. This, coupled with ongoing elevated oil prices should support record-high EBITDA and cash flow generation. We expect EBITDA to remain at about $12 billion-$13 billion and funds from operations (FFO) of $6 billion-$8 billion per year in 2023-2025, supporting very strong credit metrics.

Aker BP average daily production



kboepd- -Thousand barrels of oil equivalent per day. E- -Estimate. f- -Forecast. Source: Company presentation.

High capital expenditure (capex) is likely to weigh on free operating cash flow (FOCF) generation. We estimate that Aker BP will invest approximately $19 billion over 2023–2028 in new greenfield projects in Norway. This translates into annual capex of $3.5 billion-$4.5 billion in 2023 and 2024, versus $1.8 billion in 2022. The most prominent among these investments will be the Yggdrasil and Valhall developments, which, along with other smaller developments, should increase the company's production to above 500,000 boepd by 2028 from 309,000 boepd in 2022. Still, in our base case we expect positive FOCF of at least $2 billion, which should cover shareholder distributions, resulting in at least neutral discretionary cash flow.

Aker BP's credit metrics should remain very strong in 2023-2025, commensurate with our 'BBB' rating. With FFO to debt of more than 100% at the end of 2023, Aker BP has meaningful headroom to withstand volatility in prices and continue increasing the dividend. We expect the company to increase dividends to about $1.2 billion-$1.4 billion in 2023 and $1.2 billion-$1.6 billion in 2024, compared with $1.0 billion in 2022. In our base case, we forecast FFO to debt will remain above 100% so long as oil prices are close to our assumptions. That said, the company's financial policy allows for somewhat higher leverage of 1.5x debt to earnings before interest, taxes, depreciation (or depletion), amortization, and exploration expense (EBITDAX), incorporating flexibility for organic and nonorganic growth opportunities. This corresponds to about 45% S&P Global Ratings-adjusted FFO to debt, which we view commensurate with the current rating.

Outlook

The stable outlook reflects our expectation that Aker BP will maintain strong credit metrics in 2023-2024, with FFO to debt of well above 60%. We think the company will continue to generate meaningful positive FOCF and its dividends will reflect market conditions.

Downside scenario

We could lower the rating if the company prioritizes heavy investment and shareholder remuneration even in case of a significant drop in prices, resulting in FFO to debt falling below 60% in current market conditions or below 50% in a downturn. A meaningful revision of Norway's very supportive tax regime could also result in rating downside, but we assess the likelihood as low.

Upside scenario

Ratings upside is remote, given higher-rated peers generally have much larger scale and diversity. Aker BP plans meaningful investments that could allow increased production to 500,000 boepd. Generally, 'BBB+' rated companies have not only larger production, but also exposure to several countries and other business lines, such as refining, chemicals, retail, or renewables. Therefore, a higher rating could be achieved only if the business growth is combined with maintenance of a very conservative balance sheet, with a clear commitment to maintain strong metrics at all times, such as FFO to debt of more than 60%.

Our Base-Case Scenario

Assumptions

- Oil prices at $90/bbl for the rest of 2023, $85/bbl for 2024 and subsequent years, according to our latest price assumptions. The current Brent spot price is about $75/bbl.
- A production rise in 2023 to about 430,000 boepd, increasing marginally in 2024, reflecting the full contribution from acquisitions and Johan Sverdrup phase 2, and continued investment in assets.
- Production costs of about $7.5/bbl-$7.5/bbl in 2023, and $7.0/bbl in 2024.
- Capex of about $3.0 billion-$3.5 billion in 2023, increasing to about $ 4.5 billion in 2024, as the company progresses with Valhall and Yggdrasil (formerly NOAKA) expansion projects.
- Tax payments, set according to the Norwegian tax regime. This also implies that capex and the associated approximately 86.9% tax deduction will markedly affect future tax payments, because capex is relatively high.
- Dividends of $1.2 billion-$1.4 billion in 2023. We anticipate the company will increase this amount by 5% each year thereafter as per its dividend policy.

Key metrics

Aker BP ASA--Key Metrics*

Mil. $	2021a	2022a	2023e	2024f	2025f
EBITDA	4.8	12.0	13.1	12.8	12.0
Adj. funds from operations (FFO)	4.1	6.3	6.2	7.8	7.2
Capital expenditure	1.5	1.8	3.5	4.5	5.5
Free operating cash flow (FOCF)	2.5	3.7	2.8	3.3	1.8

Dividends	0.4	1.0	1.3	1.4	1.0
FFO to debt (%)	177.6	176.3	282.8	NM	NM

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Company Description

Aker BP is a midsize oil and gas exploration and production company operating in the North Sea. With production of about 309,000 boepd in 2022, it is one of the most important players on the Norwegian continental shelf. Aker BP is primarily owned by the Norwegian Aker Group (21.16%), BP PLC (15.87%), and Lundin family (14.38%), with the remaining shares held by other shareholders. The company is listed on the Oslo Stock Exchange and has a market capitalization of about Norwegian krone (NOK) 153 billion (about $14.33 billion).

Peer Comparison

Aker BP ASA--Peer Comparisons

	Aker BP ASA	Equinor ASA	Var Energi ASA
Foreign currency issuer credit rating	BBB/Stable/--	AA-/Stable/A-1+	BBB/Stable/--
Local currency issuer credit rating	BBB/Stable/--	AA-/Stable/A-1+	BBB/Stable/--
Period	Annual	Annual	Annual
Period ending	2022-12-31	2022-12-31	2022-12-31
Mil.	$	$	$
Revenue	13,019	150,186	9,781
EBITDA	12,033	86,148	8,538
Funds from operations (FFO)	6,303	40,300	5,487
Interest	313	1,760	251
Cash interest paid	156	1,129	292
Operating cash flow (OCF)	5,573	34,754	5,390
Capital expenditure	1,832	8,229	2,462
Free operating cash flow (FOCF)	3,741	26,525	2,928
Discretionary cash flow (DCF)	2,735	17,830	2,153
Cash and short-term investments	2,756	39,315	445
Gross available cash	2,756	38,905	445
Debt	3,574	0	3,551
Equity	12,428	53,989	1,482

Aker BP ASA--Peer Comparisons

EBITDA margin (%)	92.4	57.4	87.3
Return on capital (%)	97.0	156.1	114.2
EBITDA interest coverage (x)	38.4	48.9	34.0
FFO cash interest coverage (x)	41.3	36.7	19.8
Debt/EBITDA (x)	0.3	0.0	0.4
FFO/debt (%)	176.3	NM	154.5
OCF/debt (%)	155.9	NM	151.8
FOCF/debt (%)	104.7	NM	82.5
DCF/debt (%)	76.5	NM	60.6

Business Risk

Our assessment of Aker BP's business risk reflects the company's position as a midsize low-cost oil and gas producer. The main constraints are those generally associated with the oil and gas sector, including exposure to volatile prices and the need to maintain high capex, especially to limit cash taxes.

The company has access to high-quality oil and gas reserves on the Norwegian continental shelf, demonstrating a strong track record of launching and operating large-scale projects. Since its acquisition of Lundin, Aker BP has doubled its proven reserve size, which now stands at 1.251 billion boe. Considering the company’s current production as of the end of the first quarter of 2023 of 452,600 boepd, the reserve life is about 7.5 years, in line with similarly sized players. The company has a portfolio of growth projects, including the very large, $11 billion Yggdrasil (formerly NOAKA) that should further increase production to more than 500,000 boepd by 2028.

Most importantly, with an average production cost of about $7/bbl-$8/bbl, Aker BP is one of lowest-cost producers among rated oil and gas companies globally. This translates into full breakeven costs of about $35/boe-$40/boe, supporting cash flow generation even in a low-price environment. The exposure to prices is also lower than for global peers because of the natural hedge due to the fiscal regime in Norway.

Aker BP's strengths are somewhat offset by its significant geographical and upstream concentration. We view Aker BP's scale and diversification as weaker than that of most peers rated 'BBB’ or higher. All the company’s assets are located in Norway, which is a low-risk country, but still exposure to one tax regime in Norway is an area of weakness compared with more diversified players. Furthermore, despite a strong business position in Norwegian upstream, Aker BP has no diversification into downstream or other businesses. We consider this lack of meaningful downstream operations to be a relative weakness compared with integrated oil majors, which are less exposed to commodity price cycles.

Financial Risk

Our intermediate financial risk assessment is underpinned by our expectation of strong credit metrics, which we believe the company can maintain through the commodity price cycle, consistent with its financial policy.

We think Aker BP can sustain FFO to debt of above 45% through the cycle, including at our assumed long-term oil price of $55/bbl. The current metrics are materially stronger (FFO to debt of more than 100%), the same as for other Norwegian and many global peers, because of high oil and gas prices. That said, even if oil prices weaken, we think the company has sufficient leeway to finance its large capex of about $4.5 billion per year until 2026. The company currently has meaningful capacity to maintain high shareholder remuneration, but we expect dividends to be adjusted in case of a major price drop, as was the case in 2020.

We think Aker BP's financial policy is supportive of the current rating, since the company maintains large headroom over its target of net debt to EBITDAX below 1.5x. That said, any potential upside would require formal commitment to support an even more conservative balance sheet, with FFO to debt consistently above 60%.

Debt maturities

As of year-end 2022:

- 2023-2024: Nil
- 2025: Approximately $500 million
- 2026: $1.5 billion
- 2027: Zero
- 2028 and beyond: $3.5 billion

Aker BP ASA--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	$	$	$	$	$
Revenues	2,569	3,725	3,366	2,981	5,674
EBITDA	2,248	3,369	2,610	2,304	4,900
Funds from operations (FFO)	2,042	2,102	1,492	2,126	4,172
Interest expense	371	418	343	338	293
Cash interest paid	284	365	194	184	151
Operating cash flow (OCF)	2,247	3,980	1,885	1,857	4,131
Capital expenditure	999	1,331	2,073	1,405	1,554
Free operating cash flow (FOCF)	1,247	2,649	(188)	452	2,577
Discretionary cash flow (DCF)	997	2,199	(938)	27	2,081
Cash and short-term investments	232	45	107	538	1,971
Gross available cash	232	45	107	538	1,971
Debt	4,646	3,413	4,106	4,264	2,349
Common equity	2,989	2,990	2,368	1,987	2,342
Adjusted ratios					
EBITDA margin (%)	87.5	90.4	77.6	77.3	86.3
Return on capital (%)	16.7	30.7	22.7	15.9	65.5
EBITDA interest coverage (x)	6.1	8.1	7.6	6.8	16.7

Aker BP ASA--Financial Summary

FFO cash interest coverage (x)	8.2	6.8	8.7	12.6	28.6
Debt/EBITDA (x)	2.1	1.0	1.6	1.9	0.5
FFO/debt (%)	43.9	61.6	36.3	49.9	177.6
OCF/debt (%)	48.4	116.6	45.9	43.6	175.9
FOCF/debt (%)	26.9	77.6	(4.6)	10.6	109.7
DCF/debt (%)	21.5	64.4	(22.8)	0.6	88.6

Reconciliation Of Aker BP ASA Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	3,577	2,342	5,669	4,541	3,315	140	4,900	4,282	488	1,554
Cash taxes paid	-	-	-	-	-	-	(223)	-	-	-
Cash interest paid	-	-	-	-	-	-	(151)	-	-	-
Lease liabilities	136	-	-	-	-	-	-	-	-	-
Accessible cash and liquid investments	(1,971)	-	-	-	-	-	-	-	-	-
Capitalized interest	-	-	-	-	-	40	-	-	-	-
Asset-retirement obligations	607	-	-	-	-	114	-	-	-	-
Exploration costs	-	-	-	353	-	-	(353)	-	-	-
Nonoperating income (expense)	-	-	-	-	2	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(151)	-	-
Revenue: Derivatives	-	-	5	5	5	-	-	-	-	-
D&A: Impairment charges/ (reversals)	-	-	-	-	263	-	-	-	-	-
Total adjustments	(1,228)	-	5	358	270	154	(727)	(151)	-	-

Reconciliation Of Aker BP ASA Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
S&P Global Ratings adjusted	Debt	Equity	Revenue	EBITDA	EBIT	Interest expense	Funds from Operations	Operating cash flow	Dividends	Capital expenditure
	2,349	2,342	5,674	4,900	3,585	293	4,172	4,131	488	1,554

Liquidity

We assess Aker BP's liquidity as strong. We project that its cash sources will cover cash uses by more than 2x over the next 24 months. This ample headroom allows for potential further growth initiatives, supporting the rating. We do not assess liquidity as exceptional, despite the strong ratio, because the company has not committed to maintain liquidity at this level at all times.

Principal liquidity sources

- Cash availability of about $3.2 billion.
- Undrawn lines of about $3.4 billion, pro forma extension/reduction; and
- FFO of about $6.6 billion in the next 12 months and about $7.4 billion-$7.7 billion in the subsequent 12 months.

Principal liquidity uses

- No debt maturities in the next 12 months.
- Capex of about $3.5 billion in 2023, then increasing to about $4.5 billion in 2024; and
- Dividends of about $1.2 billion-$1.4 billion in the next 12 months and $1.2 billion-$1.5 billion in the subsequent 12 months.

Covenant Analysis

Requirements

The major covenants requires net debt to EBITDA below 3.5x and EBITDA interest coverage of a minimum of 3.5x.

Compliance expectations

We anticipate that the company will be able to maintain considerable headroom under its covenants.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	**E-4**	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

- Climate transition risks	- N/A	- N/A

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Environmental factors are a negative consideration in our credit rating analysis of Aker BP, similar to its peers, since the upstream energy sector faces high energy transitions risks. Having low cash breakeven and being one of the lowest carbon dioxide emitters per barrel produced, Aker BP is well positioned compared with the majority of exploration and production peers. However, the group will need to find and invest in similar low-cost and low-emitting assets in the future to meet its own ESG targets.

Issue Ratings--Subordination Risk Analysis

Capital structure

The capital structure mostly comprises various bonds issued by Aker BP and the bond originally issued by Lundin, now transferred to Aker BP's hierarchy, which ranks pari passu with Aker BP's bonds because of the guarantee. The revolving credit facilities are undrawn.

Analytical conclusions

We rate the senior unsecured debt issued by Aker BP 'BBB', in line with the issuer credit rating, since there is no significant subordination risk.

Rating Component Scores

Foreign currency issuer credit rating	**BBB/Stable/--**
Local currency issuer credit rating	**BBB/Stable/--**
Business risk	**Satisfactory**
Country risk	Very Low
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of June 07, 2023)*

Aker BP ASA	
Issuer Credit Rating	BBB/Stable/--
Senior Unsecured	BBB
Issuer Credit Ratings History	
08-Apr-2022	BBB/Stable/--
30-Apr-2021	BBB-/Positive/--
29-Jun-2020	BBB-/Stable/--
25-Mar-2020	BBB-/Negative/--
11-Nov-2019	BBB-/Stable/--
27-Jun-2018	BB+/Positive/--

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.