24-Apr-2024

Aker BP ASA (AKRBP.NO)

Q1 2024 Earnings Call

CORPORATE PARTICIPANTS

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

OTHER PARTICIPANTS

John A. S. Olaisen
Analyst, ABG Sundal Collier Holding ASA

Teodor Sveen-Nilsen
Analyst, SpareBank 1 Markets AS

Sasikanth Chilukuru
Analyst, Morgan Stanley & Co. International Plc

Yoann Charenton
Analyst, Bernstein Autonomous LLP

Mark Wilson
Analyst, Jefferies International Ltd.

Lydia Rainforth
Analyst, Barclays Capital Securities Ltd.

Kate O'Sullivan
Analyst, Citigroup Global Markets Ltd.

Steffen Evjen
Analyst, DNB Bank ASA (Broker)

MANAGEMENT DISCUSSION SECTION

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

Good morning and welcome to this presentation of Aker BP's First Quarter in 2024. The presentation will be given by our CFO, David Tønne and myself. And after the presentation, there will be, as usual, a Q&A session.

Let me start by briefly touching upon the highlights. Aker BP delivered a high operational performance in the first quarter. A production of 448,000 barrels oil equivalents per day was in line with our plans. Furthermore, we continued to demonstrate cost discipline and we maintained our position as a global industry leader within low emissions. I am pleased to report that our projects are on track. Fabrication and construction activities are underway at multiple sites in Norway and abroad, while CapEx estimates remain stable, and some projects are getting close to the finish line. Tyrving is now accelerated into Q4 this year and Hanz started in fact production only three days ago.

On the financial side, we maintain a strong financial position supported by robust cash flow from operations. This means that we are well-equipped to invest in our profitable projects while simultaneously offering attractive dividends. The guidance for 2024 that we presented in February remains unchanged.

Aker BP delivered a high production performance this quarter with marginally higher volumes than the previous quarter. The main positive driver was Alvheim, where production increased by 24,000 barrels per day, recovering from a weak Q4 when we had a long, unplanned shutdown and also helped by contributions from the new wells at [ph] Kobra East & Gekko (00:01:54).

At Johan Sverdrup, the P2 platform was shut down for two weeks in February for maintenance, which resulted in around 8,000 barrels per day lower production compared to previous quarter. At Grieg/Aasen, production also dropped by a similar volume, mainly due to natural decline and in line with our expectations. In summary, the Q1 production was in line with our estimates, and we maintain our 2024 guidance unchanged at 410,000 barrels of oil equivalents per day to 440,000 barrels of oil equivalents per day.

We also delivered strong performance on the cost side. Our production cost ended at $6.1 per barrel, well within our full year guidance of $7. The Q1 numbers was positively impacted by high volume, limited maintenance activity, and currency effects, but still a very strong start of the year. When comparing this number to relevant industry peers, Aker BP holds a strong, competitive position. As illustrated here based on data from [ph] WoodMac (00:03:00), Aker BP boast a lower production cost amongst a group of 20 comparable companies.

Aker BP's greenhouse gas emissions were 3 kilograms of CO2 equivalents per barrel in the first quarter, representing a significant improvement over just a few years. This improvement is driven by enhanced energy efficiency and an increased share of production coming from fields powered from shore. This strong performance solidifies our position as a global industry leader in gas – greenhouse gas emissions intensity, consistently demonstrated in the last – in the recent quarters.

When benchmarked against the approximately 300 largest upstream oil and gas companies worldwide, Aker BP stands out as one of the very best in emissions intensity as illustrated in this chart. This position provides us with an excellent starting point for further reductions, and we are consistently working towards reducing our emissions from our operation, which is a crucial component of our strategy to achieve net zero emissions across our operations by 2030. Beyond that point, we will offset all remaining emissions from nature-based carbon capture.

Keeping people safe is a fundamental goal and a top priority for Aker BP. And as I've said on numerous occasions, we firmly believe that high safety and operational excellence are two sides of the same coin. For the last 12 months, the total recordable injury frequency was 2.5, while the serious incident frequency was 0.4, both in line with previous quarters.

The SIF was impacted by one serious incident in the quarter, as the gas compressor systems on the Alvheim FPSO experienced pressure above [ph] designed – the design level (00:04:53). Fortunately, the incident did not result in any harm to personnel or any hydrocarbon leakage.

[Video Presentation] (00:05:03-00:05:24)

This video showed a load out of three templates from Gdansk, Poland by our alliance partner, OneSubsea. The next stop is the [ph] offshore base information (00:05:33) in northern parts of Norway. And the final destination is Skarv, specifically the [ph] Skarv Satellite Project (00:05:40). We are well underway with the development of a large portfolio and [ph] gas (00:05:45) projects. And alongside our alliance partners, we are eagerly anticipate delivering these significant projects which will unlock approximately 800 million barrels of oil equivalents boosting Aker BP's future production to over 500,000 barrels per day.

This project demonstrates robust economics, maintaining profitability at oil prices as low as $35 to $40 per barrel, and a speedy payback period of one to two years at an oil price level of $65 per barrel. The program consists of three main parts. First is the Yggdrasil project previously known as NOAKA, which includes the Hugin, Fulla, and Munin license groups. Yggdrasil is estimated to contain around 450 million barrels, with investments totaling close to $11 billion net pre-tax to Aker BP.

The second largest project is Valhall PWP and Fenris, where a company investing between $5.5 billion and $6 billion net pre-tax to redevelop the Valhall field and develop the Fenris field as a 50-kilometer tieback to Valhall. The start-up for both Yggdrasil and Valhall/Fenris is scheduled for 2027.

The third category comprises several satellite projects being developed near the operated hubs of Alvheim, Grieg/Aasen, and Skarv. In the current program, there are nine different tie-in project, three of which are already in production. And in total, this project will add approximately $170 million barrels to our reserve base with a pre-tax investment of around $4 billion net to Aker BP.

In total between 2023 and 2028, these developments will require investments of approximately $20 billion, corresponding to roughly $3 billion after tax. This CapEx estimate has remained unchanged since we submitted the PDOs to the Norwegian authorities, a little more than a year ago.

Here you can actually see the ship carrying the three templates bound for Skarv arriving at Sandnessjøen yard just eight days after departing from Gdansk. The entire process, from load out to transportation and unloading, proceeded smoothly. Thanks to thorough planning and the diligent efforts of everyone involved. This serves as an example of the alliance ability to work effectively as one team. The activity level in all our project is really gaining momentum. And as we previously communicated, key milestones have been achieved and contracts have been placed.

Fabrication activities are now underway at most sites where the overall CapEx estimates remain stable. Our focus is gradually shifting from engineering and procurement to ensuring productivity in construction. We are confidently on track to deliver these projects on time, on cost and with the required quality. As one example, the Tyrving tie-in project at Alvheim is progressing well and is ahead of schedule.

The three well drilling campaign for Tyrving is currently ongoing and is expected to be completed this summer. The expected production start, originally planned for the first quarter of 2025, has now been accelerated to the fourth quarter of 2024. And this week we celebrate the start of production from Hanz.

In under 2.5 years since the final investment decision, Hanz began production on the 20th of April. Hanz is developed as a subsea tieback to the Ivar Aasen platform approximately 15 kilometers to the south.

Gross reserves are around 20 million barrels of oil equivalent, and gross CapEx came in approximately at $500 million. But in fact, Hanz is a unique development in two ways. Firstly, it has been developed reusing subsea production systems from the Jette field. This marks the first instance of production equipment being repurposed in a new field development on the NCS. This approach is both cost efficient and environmentally friendly.

Additionally, production from Hanz will be supported by a crossflow well for water injection from an adjacent reservoir. This results in substantially reduction of power consumption, less use of chemicals and less seabed equipment. This innovative solution is more cost efficient and has a smaller environmental footprint than a traditional water injection systems. This fits perfectly with Aker BP's continuous quest for improvement, where the aim is to produce with low cost and low emissions.

Now, a quick look at our exploration activities for the year. We have started the year at full speed and have already made several discoveries and successful appraisals. Of the four wells drilled so far, all have resulted in small but promising discoveries close to existing infrastructure. Currently, we are drilling an appraisal well at Frigg

Gamma Delta in the Yggdrasil area. This is near last year's successful well at this Frigg and will appraise the structure providing information that will be essential to optimizing drilling pounds for the field.

The rest of the year is also set to be busy with the addition of two new prospects to the program, the Bounty and E-prospect. We're having several exciting wells to watch in all major regions of the NCS. However, as always, the timing of each well is indicative and subject to rig arrival. So, it is possible that some of these wells might be postponed until next year.

[Video Presentation] (00:11:44-00:11:55)

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Thank you, Karl, and good morning to all of you. Aker BP continued to deliver strong operational performance in the first quarter with high production and low cost in the market environment where the average liquids price remained at the relative highest level. In combination, this led to another quarter of strong underlying financial results. Although production per day increased, sold volumes were down as we went from an overlift in the last quarter of 2023 to an underlift in the first quarter of 2024. Together with an increase in working capital, this impacted the free cash flow generation in the quarter.

Our financial position continues to remain very strong with a high level of available liquidity, low leverage, and low net debt. Overall, the performance in the first quarter was in line with our expectations and our full year guidance remains unchanged.

Now, let's have a closer look at the main drivers behind the financial results starting with revenues. Our net oil and gas production per day increased slightly in the first quarter. However, as mentioned, we saw a reduction in sold volumes due to underlift in the quarter.

Over time, such lifting differences will even out but for the first quarter isolated, this gave a temporary negative effect on the top line. Average Brent prices were stable at $83 per barrel, only $1 lower than in the fourth quarter. While natural gas prices dropped to 31% due to a weak European spot market. As gas only makes up around 15% of our production, the average realized hydrocarbon price only fell by 5%. The combination of underlift and slightly lower prices led to a reduction in revenues down to $3.1 billion for the quarter.

Moving on to the other items of the income statement. In terms of cost, we continued the strong trend from the previous quarters with operating costs per barrel of only $6.1. This is the combination of several factors, including high production efficiency on our assets, a weak Norwegian kroner, and continued cost discipline and some phasing of activity. Exploration expenses remained stable at $68 million. But in total, we spent $104 million on exploration related activities.

The difference represents the net change in capitalized exploration, mainly driven by the discovery events at Ametyst and Ringhorne in North. Depreciation was marginally down quarter-on-quarter, both in absolute terms and per unit due to normal variation in the production mix. Net financial expenses amounted to $104 million. We saw a weakening of the Norwegian kroner in the quarter and currency gains mainly related to reevaluation of tax payables, more than offset by an opposite change in the fair value of derivatives used for FX hedging.

These derivatives are used both for neutralizing the FX risk on tax payables once revenue is realized, but also to hedge part of the Norwegian Kroner exposure of our CapEx programs in the years ahead. With no impairments in the quarter, the tax rate was back at the more normal level of 75%. This is below the statutory tax rate of 78% due to the additional tax deductions for CapEx under the temporary fiscal regime. The net profit for the quarter then ended at $531 million.

Now, let's have a look at the movements in cash flows. Cash flow from operations totaled $1.5 billion in the quarter, and this is in line with the previous quarter as lower revenues and the increase in working capital were offset by only having to pay one tax installment in the first quarter versus two in the fourth quarter. The build in working capital of almost $500 million is mainly driven by receivables.

In the fourth quarter, we received early payments for some December cargos and we have the similar drop in working capital. But in the first quarter, we had the opposite occurring. The current level of working capital is now in line with the three-year average. Cash to investments increased to $1.1 billion in line with the ramp up of construction activity across our development projects. And overall, this gives a free cash flow of $339 million for the quarter.

The primary contributor in the cash flow from financing was the dividend, which increased from $0.55 in the fourth quarter to $0.60 per share in the first quarter. As a result, this gave a net change in cash of $150 million and we ended the quarter with a cash position of $3.2 billion. When we add the available bank facilities to our cash position of $3.2 billion, total liquidity available at the end of the first quarter was $6.6 billion. Our net interest-bearing debt was $2.6 billion and our leverage ratio remained stable at 0.2 times net debt to EBITDAX for seven quarters in a row.

Maintaining a strong balance sheet and financial flexibility is a top financial priority for Aker BP and we continuously work to optimize the capital structure. This is essential to ensure that we can execute our field development projects and at the same time pay an attractive dividend through the investment period. And while we're on the topic, let me briefly revisit our dividend policy. When establishing the dividend level, a key principle for Aker BP, is that the dividend should be resilient and reflect the financial capacity through the cycle considering our financial outlook and the credit profile.

Our ambition of growing the dividend by at least 5% per year over the coming investment cycle remains firm. For 2024, the plan is to pay a total dividend of $2.4 per share divided into four quarterly payments of $0.60. The next dividend will be paid on the 8th of May.

Now, let's round off with a quick status on our outlook for the rest of this year. In short, as mentioned, we reiterate our full year guidance in all items for 2024 as the development so far this year has been as expected but let me add some color to the different items.

Production for the first quarter of 448,000 barrels of oil equivalents per day was above the top end of the guidance range for the full year, but in line with plan. We do expect to see some natural decline on some fields through the year and we will also have planned maintenance on some installations in the second half of 2024. Hence, we still think that the range of 410,000 to 440,000 barrels of oil equivalents per day represents a fair estimate.

On OpEx, we've also had a good start in 2024 with $6.1 per barrel in the first quarter. This is impacted by strong operations together with currency tailwind and some phasing of activity. On CapEx, we are still gaining momentum as construction activities continue to ramp up. We spent $1 billion in the first quarter, and we still expect to end up around $5 billion for the full year. On exploration, there are some minor movements in the planned activity with the Bounty well entering the rig schedule late in the year. But we see this as having limited impact on total spend and we maintain the guidance at around $500 million. On abandonment, the short version is that we are on plan, and we maintain the guidance at around $250 million.

So to sum up, the message is hopefully clear. We progressed according to plan in the first quarter and make no changes to the full year guidance. And that concludes our presentation for the first quarter performance. And as normal, we will now take a short break before opening the Q&A session. If you wish to participate, please join via the Teams link provided on our web page. And if you prefer to listen only, please stay tuned and we will resume shortly.

[Break] (00:20:27-00:21:03)

QUESTION AND ANSWER SECTION

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Okay. Welcome back. And as already announced, we are now doing a Q&A and I hope people is in the Team's meeting room. And if we are ready, guys, let's do the first question.

A

Yes. Then the first question today comes from John Olaisen from ABG. Go ahead, John.

John A. S. Olaisen
Analyst, ABG Sundal Collier Holding ASA

Q

Yeah. Good morning. Good morning. If I may start off with the exploration. I realize that each well has its value on its own but is it possible to comment on which wells you regard as most important or more important obviously in 2024? For instance, are there any particular that could be opening new place of theories, et cetera, or being high impacts, please. And then finally on exploration, what's the status on the Rondeslottet prospect, which we were supposed to drill last year, please, or the year before.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Excellent. Thank you, John, and good morning. So, there are lots of interesting exploration wells this year. I think one of the more interesting ones is the latest entry into the drilling program, which is Bounty prospect. This is a fascinating well. It is kind of a discovery drilled down there by ConocoPhillips and now we're looking for the up [ph] their (00:22:30) potential. And if this plays out the way we hope, it has a really interesting potential in an area where we have been looking for. Yeah, we've been looking for where the oil has ended up basically for quite some time.

And in Rondeslottet, we are still assessing that prospect and trying to find that optimal slot in the drilling agenda.

John A. S. Olaisen
Analyst, ABG Sundal Collier Holding ASA

Q

And then my second and final question, please, on Johan Sverdrup. You now say you're planning to drill 10 more production wells this year. If I remember correctly, you said 8 at the previous occasion. And this one, those, the two additional wells, are they intentionally drilling more than you had? Is there a particular reason why you're adding two more wells, basically? Is it to prevent depletion or is it just by chance or efficient drilling?

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Well, there's very few things that happens in an industry that happens by chance. But joke aside, the real answer to that question is that we are trying to avoid a drilling pause, and we have faced two more wells into the 2024 program that were supposed to be in the 2025 program just before the turnaround. So that's the, it's basically an optimization of the drilling program.

John A. S. Olaisen
Analyst, ABG Sundal Collier Holding ASA

Q

So can you comment on your view now then on plateau. When should we expect schedule to come off plateau, and what kind of depletion rate should we expect?

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Well, as I think I've stated previously, I think that there, particularly in this quarter, the results that we're seeing from Johan Sverdrup is in line with both our estimates and our guidance. And the water increase is basically in line with what we're expecting. And as you correctly pointed out, there will be several new wells coming in, in addition to the existing [ph] 31 (00:24:27) producers that are already draining in the field. That will slow down the water cut increase.

My expectation is that we will go off plateau. And by plateau, in this case, it's not really a plateau departure. It's more the fact that we are leaving the 120,000 cubic meters of oil production and then going down to a little bit lower level. That will probably happen towards the back end of this year or beginning of next. There are no real changes. There are no real developments in this quarter compared to what we already communicated around Johan Sverdrup.

John A. S. Olaisen
Analyst, ABG Sundal Collier Holding ASA

Q

Thank you.

A

Thank you, John. And the next question today comes from Teodor Sveen-Nilsen from SpareBank 1 Markets.

Teodor Sveen-Nilsen
Analyst, SpareBank 1 Markets AS

Q

Good morning and thanks for taking my questions. Three questions from me. The number of number one is on Sverdrup just want to follow-up on John's questions. For 2025, given the current work program, what should we expect in terms of production? Will it be like 5%, 10% to 15% below the 2024 level? And any kind of indication would be useful.

Second question is on the OpEx in the quarter. That was very low and definitely are a key contributor to the strong earnings. So, I expect that is due to the high OpEx for underlifted barrels. So could you just confirm that and if possible, also provide some sort of colors on which fields that contributed to the low OpEx?

And on third question, on the project portfolio posted to see that it looks like it's proceeding according to plan. Just wonder, what's the biggest risk for the project portfolio, is it costs or is it schedule? Thanks.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Okay. I think on Johan Sverdrup, I think basically the answer I provided to John around production profile is where we are. And then the entire discussion around what kind of decline profile, if you could call it a decline profile, that is a water increase, we will have, we will defer until a bit later in the year to see how the effect on the latest well will actually turn out. And then you asked about OpEx in Q1. You want to do that, David?

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

Yeah. I can do that. So a bit of backdrop, right. So, we have guided production cost per barrel produced at $7 on average for the full year. This quarter we ended at $6.1. That's obviously lower than the average for the full year. Three main drivers. It's production this quarter being above the high end of the guidance range as planned. So of course, that gives a positive effect. So utilization of the assets, it's a weakening of the Norwegian kroner. So that's, of course, also has an effect when we measure our costs in dollars. And then the third one is related to cost discipline. We're happy with where we are in terms of keeping costs under control and some phasing of activity. So, that's the main differentiator between sort of the guidance of $7 versus the $6.1 that we realized this quarter.

And then when it comes to underlift and how that's impacting. So, when we are measuring costs in the P&L, it's the cost of sale – sold volumes, and then you do an adjustment for underlift. And as you were alluding to, of course, the value of that underlift impacts the P&L production costs. And that value is based on the average value of the underlifted barrels in terms of the average production cost of those measured the last 12 months. And then in addition, there's an element of depreciation which is added on to the valuation of that underlift. So, all of these elements impacts then the production cost in the P&L.

So, it's correctly, after inferring through the underlift is impacting, then of course, the net profit in terms of the production cost. Yeah.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Yeah. And then you asked about the biggest risk. That's a good question. I think the biggest focus area right now is on progressing construction on all these sites. As I already said, we've placed the contracts. We've basically stabilized the delivery at the [ph] sub vendor (00:29:09) side, and now it's all about making sure that we're getting the productivity we need at the construction sites as we're ramping up construction on multiple sites in Norway and abroad. So that's, at least that is our main focus area at the moment.

Teodor Sveen-Nilsen
Analyst, SpareBank 1 Markets AS

Q

Yeah. Would you say, is it a positive to say either cost or schedule? What would be the, to be also the main risk?

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Usually on projects, it starts with quality. If you can control quality, you can control schedule. If you can control schedule, you can control costs. So in that kind of logic, schedule is always the ones that we are mostly concerned about.

Teodor Sveen-Nilsen
Analyst, SpareBank 1 Markets AS
Q

Understood. Thank you.

A

Thank you, Teodor. The next question comes from Sasi Chilukuru from Morgan Stanley.

Sasikanth Chilukuru
Analyst, Morgan Stanley & Co. International Plc
Q

Hi. Thanks for taking my questions. The first one was on Tyrving. It's good to see an accelerated start of the year. I was just wondering if you could perhaps isolate the key factors of this positive result. The second was on exploration. Again, a good success rate so far this year. I was just wondering if you could provide some expectations on the Alvheim deep prospect. What's the probability of success here and when can we expect the result?

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA
A

Yeah. That's good questions. On Tyrving, it is basically two factors. Did I said, Tyrving or [ph] Tylving (00:30:40)? Yeah. Doesn't matter. So, one is a relatively efficient field development on the [ph] SBS (00:30:49) side. And then of course, we've had fantastic drilling performance on the back of [ph] Kameleon East/Gekko (00:30:55). We're basically seeing the same kind of drilling performance. So, this is among the top performing wells on the Norwegian Continental Shelf. And as that is progressing right now, that is the two main contributors. Efficient, efficient project execution and then splendid drilling performance.

On exploration, yeah, Alvheim deep. If memory serves me right, the pre-drill chance of success is around about 10% to 20%. So, it is a high risk, high potential prospect. It is placed where it is in the drilling schedule because in a way it is a, it's a rehearsal before we move to Fenris on [ph] HPHG (00:31:40). So it's basically twofold. It's of course, drilling, that the exploration objective, but is also making sure that as we're moving the Fenris, we have a warm rig with a warm crew and have practice on the [ph] HP and HD (00:31:52) practices.

Sasikanth Chilukuru
Analyst, Morgan Stanley & Co. International Plc
Q

Sounds great. Thanks.

A

All right. Thank you, Sasi. The next question comes from Yoann Charenton from Bernstein.

Yoann Charenton
Analyst, Bernstein Autonomous LLP
Q

Yes. Good morning, everyone. I will welcome additional comment you may wish to make on the production outlook at three [ph] hubs (00:32:16) away from Sverdrup. On Alvheim, first, based on early indications from the KEG's well performance, how sustainable is the production level seen in Q1 in the context of 2024? The second [ph] hub and I will ask for the three [ph] hubs, if you don't mind the second [ph] hub is Skarv. Can you discuss the potential for maintaining Skarv production at the level again seen in the first quarter, which looked high? When do you expect the impact of natural decline to show through production? And then the third [ph] hub is Valhall, and I'm thinking about the [ph] RAR (00:32:56) again overall. Do you see the level reported in the first quarter as a good indication of the production potential this year?

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Okay. Again, excellent questions. So Alvheim, obviously in the quarter, has impact on production recovering basically from a relatively poor performance in Q4, mainly due to a big event we had on export gas compressors on that event. And then in addition, we have [ph] Kameleon East/Gekko coming in with fresh barrels and also production efficiency on Alvheim has been really high in the quarter. I think we're touching 97%, 98% on Alvheim.

I think going forward, estimating more than let's say 95% efficiency on average would be, in my mind, a fantastic results, Yoann. So, it is fair to assume and it you could also take it for granted that it's included in our guidance, that we assume a somewhat lower production going forward due to events. And then Alvheim will also be touched by turnaround at SAGE, which have a planned 21-to-28-day turnaround. So that means that we're also doing some maintenance. I think it is end of Q2 on Alvheim.

On Skarv, the story is even better. So, the production performance this year is – this quarter is almost exclusively due to extremely high production efficiency. Here, we're touching almost 100% production efficiency in the quarter. And again, that means that we will be 5% or 6% above or guidance or above our estimation internally. There are certainly no signs that Skarv of – a lower, a lower production efficiency. But again, assuming 100% production efficiency in this kind of assets, it's pretty difficult. And again, we have a turnaround related to the Skarv Satellite Project, this summer of roughly 14 days. So, you should expect a bit more, a bit lower production next quarter.

Valhall is mainly centered around well and well work. We've done quite a bit of intervention. We've put quite a few wells back on stream and the production rates that we're seeing now, I assume to go into Q2, Q3 with the same kind of production level. So three...

Yoann Charenton
Analyst, Bernstein Autonomous LLP

Q

That's great.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

...very different mechanisms.

Yoann Charenton
Analyst, Bernstein Autonomous LLP

Q

Indeed. Thank you again.

A

Thank you, Yoann. The next question comes from Mark Wilson from Jefferies. Go ahead, Mark.

Mark Wilson
Analyst, Jefferies International Ltd.

Q

Okay. Thank you. Good morning, gents. Two questions for me, if I may. The first one is actually on the Alvheim FPSO. It's been a fantastic overall development. It's been on-stream about 16 years now. It looks like it will keep going, frankly, forever. At what point do you have to either refurbish that FPSO or do something to extend field life? Just be interested to know about that. Then the second point, important to see that court injunction you say significantly de-risks project risk. Could you speak to any impact that's been seen so far regarding that? Thank you.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Yeah. So, let's start with Alvheim. Obviously, the technical lifetime at Alvheim has been set to 2040. That's a calculatory type of lifetime, but it's where we our models meet the requirements of the Norwegian Continental Shelf. So certainly, if we are to take Alvheim significantly beyond the current lifetime, we will need to do something. And then that being said, we're actually in the middle of a lifetime upgrade on Alvheim.

Two ways of doing a lifetime upgrade. The first one is during operations where you scale up surface maintenance and replacement proactive maintenance. And the second one is, of course, to take it off station. As we've seen before with Njord and Balder, I'm not really keen on doing the latter one for obvious reasons, and we're now looking at possible remodel of that lifetime extension project to do more of a lifetime extension, because we see that there are more resources in the ground and therefore a probability that we will need to extend the lifetime. So, there will be more on that issue to come in the next couple of years. But you're absolutely right.

And then you asked about the...

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

Court case.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

The court case, obviously. So as we have communicated, the preliminary injunction was suspended. And that means that we've now gotten all the necessary approvals that we needed to move forward, with one exception, which is related to the power from shore project at Yggdrasil, which we're being told is just around the corner.

We've also been informed that the Court of Appeals will deal with the preliminary injunction case sometime quite soon. They've said at earliest in April, and we're hopeful that that will actually reach a verdict in April. And then we've finally got a timeline for the final case, which will be six days, if my memory serves me right from the 26th of August.

And then we are also addressing the claim procedural error and the timeline for that work at the moment is that we will fix that error before the court case in August.

So, that means that we see a significantly reduced risk of any impact on the project. And on a specific of your question, there's been no impact on the project so far. We've been able to mitigate all those all those discussions.

Mark Wilson
Analyst, Jefferies International Ltd.

Q

Okay. Thank you very much. I'll turn it over.

A

All right. Next question is from [ph] Victoria McCulloch (00:39:15). Please go ahead, [ph] Victoria.

Q

Good morning. Thanks, [ph] Karl (00:39:20). Thanks very much for your time. And so first of all, apologies if I missed this, David. Do you have any color that you can share with us on the phasing of CapEx through the remainder of the year? And I just don't see this later in the first quarter, but what we might to expect. And then secondly, I noted, there's been quite a few transactions and licenses further down your Q1 report, maybe it's a good opportunity then to ask how the M&A landscape and how the transactional landscape looks in Norway at the moment. Is it offering sufficient opportunities for you?

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Okay. I'll let you talk about phasing of CapEx.

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

I can do that.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

It's almost like tax is your favorite subject.

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

Yeah. Yeah. No. I can definitely do that. So, we spent roughly $1.1 billion in this quarter, right? And if you take the guidance of roughly $5 billion for the full year, that's obviously a bit below sort of the average and that's in line with planned as we are ramping up construction still across projects. So, in terms of phasing, you should still expect that we would spend the roughly around $5 billion. And then exactly when in the quarters the ramping up will come, I think we will wait and see. But the guidance of $5 billion remains.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Yeah. And on the M&A landscape, I think it's...

Q

[ph] Are there any milestones we might be able to look out for (00:40:43) in terms of seeing when that CapEx might come?

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

Sorry?

Q

Are there any milestones we might be able to look out for in terms of understanding if H1 remains light or you'll see it back end loaded?

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

Yeah. I think, for simplicity, you could probably assume sort of a ramp up throughout the year. I think that's as much detail I can give on that now.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

So, the way to think, the way to think conceptually about this is that the cost that is now kind of on-the-run in Q1, is mostly related to procurement. We're starting to take deliveries of the main packages towards back end of 2024 and then well into 2025. And that's when you have the big payments for the big packages. So, it's basically a phasing thing.

And then you asked about an M&A landscape. Yeah. I think it's a common topic across UKCS and NCS. That seems like everybody is talking to everybody these days. I know enough opportunities for us. Absolutely. Are we engaged? Yeah. Of course. As I previously stated, I haven't been in this job one day for the 10 years I've been here without the live M&A project. But again, as I've also said, we will not do M&A if we do not find that value accretive to our shareholders.

Q

Thanks for your time.

A

All right. Next question is from Lydia Rainforth from Barclays.

Lydia Rainforth
Analyst, Barclays Capital Securities Ltd.

Q

Thanks and good morning, everyone. Thanks for taking the question. Two questions, if I could. The first one is just could you go back for me on the working capital, and the build in the quarter as to how we see that moving over the rest of the year? And then secondly, a more philosophical question. If I think about the Aker BP business, it isn't [indiscernible] (00:42:53) you've got a period where you have declines a bit of few year, and you've got significant growth as far as [ph] 2028 (00:43:01). Is the business and organization set up to be, is the organization right to be the bigger business? [indiscernible] (00:43:08)

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Yeah. Okay.

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

I'll do working capital.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

You can do working capital and I can do the philosophy.

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

Yeah. I can do that. So, working capital is quite easy to explain. Starting point now is that the current level is roughly around the average that we've had over the last three years. In Q4, we had the positive effect of working capital due to phasing of receivables into December for cargos in late December and then this quarter we had the cargos being lifted towards the end of the first quarter which where we have not received or did not receive payments until the second quarter.

So, it's driven by lifting schedules and sort of normal variations in receivables. So, positive effect in Q4 and then a negative effect in Q1.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

And then your discussion around organization, I mean, normally when you develop these kind of projects, you start thinking about operations and how you want to set up the organization as you approach commissioning. This time around, we've already started back in December 2022, when we started the project portfolio, [ph] designing (00:44:30) the organization, that is the to-be organization in 2027. So that accounts for organizational structure, governance mechanisms, manning obviously, competency, but also technology, operational [ph] trends (00:44:43) and all of that stuff that is necessary to operate.

So, we call out actually moving from Aker BP 1.0 to Aker BP 2.0 or future operational model. So, you're absolutely right. It is – It's not a philosophical question. It's an actual question about development of an efficient organization as you go into 2027. And if pitfalls. And you're obviously right, the pitfalls did end up doing what everybody else is doing, and then you just grow the organization as the production grows. And believe me that is not really necessary.

Lydia Rainforth
Analyst, Barclays Capital Securities Ltd.

Q

Thank you.

A

All right. The next question is on the phone line, and it's from Kate O'Sullivan of Citi. Are you there, Kate?

Kate O'Sullivan
Analyst, Citigroup Global Markets Ltd.

Q

Hi [indiscernible] (00:45:38). Hello, everybody. Thanks for taking my question. Firstly, and apologies if I've missed any of these, but on maintenance, you've indicated that maintenance in the second half. Could you be any more specific on the fields and its weighting in 3Q, 4Q? Secondly, on tax, your effective tax rate of 75% benefited from the temporary tax regime in 1Q. If you had any additional color you could provide on expectations in 2Q for P&L and cash tax. Thanks very much.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Yeah. Let's start with maintenance. That's pretty straightforward. During the summer, I believe we started Q1 and may end up in Q2 that is driven actually by SAGE. They have a 21-to-28-day one turnaround. I think the main driver is to repair the inlet valve on the SAGE maiden pipeline. And that will impact, Edvard Grieg and Ivar Aasen, Edvard Grieg, Aasen and Alvheim. Alvheim more than Grieg/Aasen. So, we are planning maintenance on Alvheim in that period.

Also going back to Mark's question around lifetime extension, so we're taking the benefit of the fact that we will have to shut down Alvheim anyway. Then, we will do 14-to-21-day turnaround on Skarv, and that's mainly due to necessary modifications to cater for the Skarv Satellite Projects. And then there are some minor work to be done on Johan Sverdrup. I think that's the main elements on the maintenance schedule for this year.

And then thank you for asking about tax. David is really happy about that.

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

I'll do that. Yeah. So P&L tax rate, 75% this quarter. As mentioned in my presentation, below the statutory rate of 78%. I think in quarters where we don't have impairments of technical goodwill which typically impacts the P&L tax rates, tax rates quite significantly, you should expect that sort of the additional uplift on the CapEx or extra deductions for investments, reduces the tax rates slightly from the statutory rate of 78%.

Then of course, the impairments of technical goodwill, which we will have from time to time on a continuous basis will clutter that a bit. In terms of cash taxes going forward, we do have a slide in in our presentation. I didn't go through it in detail today due to the fact that there are no changes since the fourth quarter presentation. But there you get the firm numbers for installments in the next quarter and also assumptions for or scenarios for the cash tax payments in the second half of the year.

A

Yes. Good. Then just for the sake of good order, when [ph] Karlo (00:48:51) said Q1 and Q2 for the SAGE shutdown, I think you meant the Q2 to Q3.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Absolutely. Correct.

A

Yes.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Sorry about that. Q1 is already behind us. So...

A

It is.

A

...that would have been, that would have been strange.

A

All right, then we have another caller. It's [ph] Anish Kapadia (00:49:08). Please go ahead.

Q

Hi. Good morning. Couple of questions for me, please. Firstly, on the technology side of things, clearly over the last year and year, there seems to be an acceleration in the growth of AI adoption through wider society and the industry. And yet Aker has obviously, always positioned itself as a leader from a technology perspective. I just wanted to kind of get an update or kind of see how kind of this dramatic growth that you're seeing in the wider market is impacting yourselves and where you see kind of the most opportunities to benefit?

And then the second question is on your balance sheet. The leverage ratio has been low and it's been, it has been low for a while now. Very strong liquidity in terms of available cash. So is there any, I'm just trying to think that I wanted to think about how you're kind of positioning that balance sheet. Is it kind of keeping somewhat of a war chest in case there is some M&A opportunities out there or, could we see you kind of relevering, returning more cash to shareholders over the coming year?

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Okay. Excellent questions. I'll start with AI. So, first of all, you're absolutely right. I think AI is going along 5G and other technologies that are out there are going to fundamentally change the way we think about productivity in industries. I think this technology is almost as important as the onset of, let's call, the HTML, the way you think about web today and it's going to have similar impacts. So, the way we think about it is along three main axis.

So, the first one is incorporation of artificial intelligence. And by that, I mean both language models like gen AI and those kind of models, but also synthetics models where machine learning is impacting on gen AI. And then even more advanced where you have simulators and other combined with AI in more autonomous systems. So, we are impacting there. So, we are working on this along three main lines, the first one in collaboration with our vendors.

I think you have seen announcement both from Halliburton and Schlumberger and also Microsoft on big scale collaboration projects with Aker BP and also Cognite along those lines. Second, we are specifically looking use cases using large language models to go from documents to data to basically harvest more data and be more efficient in our data usage. Most of these projects are either in-house using our own tenant on – it's a version of GPT, essentially.

But also with Cognite that's a main supplier since they are supplying CDF, which is our main platform, data platform in the company. And then we're also running a bunch of internal experiments. I think the most publicly known is what we call exploration robot, where we use a combination of machine learning tool, artificial intelligence and what you could call automatic workflow modeling to basically test and experiment on ideas and dig into data.

We actually firmly believe that this tool will be most useful if it's put in the hands of the most amount of engineers and professionals at Aker BP. So, we're thinking about this like a democratic process where we're pushing it out to basically everybody.

And as you said, we were probably the first company out there in the industry world with our own language model inside our tenant that is not exposed to the Internet. And that meant that we could actually use that also on data that is sensitive and we don't want to release to the wider web.

Absolutely stunning developments and the pace is amazing. And I spend about a couple of hours with the team every Friday just to understand and keep on top of topics. Then balance sheet, David.

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

Yeah. I can I can cover that. So, yes, it's true that we have a robust balance sheet, and lot of liquidity available. I think that's a comfortable place to be. And maintaining financial flexibility is a key priority for us also going forward. I think there are several drivers for that. It's of course, the oil and gas industry is volatile. So we are prepared for also volatility in commodity prices over the next couple of years. We have an investment program that we obviously need to fund, and then we have a clear dividend policy where we have a dividend that grows resiliently over time through the investment period. So we don't view it as a war chest, but we view it as a good starting point for delivering on our plans.

Q

Thank you.

A

All right. Then the, well appears to be the last question today comes from Steffen Evjen from the DNB. Please go ahead, Stefan.

Steffen Evjen
Analyst, DNB Bank ASA (Broker)

Q

Thank you, and good morning, guys. Two questions from me. On Hanz, could you share some color on the ramp up of production and how long could you expect peak production or plateau production from that field? And my second question is on the costs or CapEx to David, I guess. So obviously on the OpEx side, we're seeing currency tailwinds. Could we see some impact on the weak NOK also on the CapEx going forward or is the mechanisms there a bit different compared to the OpEx side?

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

Yeah. So Hanz is a relatively small projects. The ramp up is pretty instantaneous. We've already cleaned up the producers. We in fact cleaned up the inject last night. So, now it's all about optimizing the production across the hub that is moving from Hanz and into Ivar Aasen and then optimizing the total production. That will take a week or so to get to a plateau level. And then you asked about what kind of peak production. I think we should assume that the productions levels that we've guided on is a fair estimate of what we're seeing right now. Productivity is pretty spot on our modeling in fact.

And then CapEx and currency. David, that's one of your favorites, too.

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

Yeah.

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

A

You're getting all your favorite questions.

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

A

All my favorite question, yes. Indeed. All good questions. On CapEx and how foreign exchange impacts the CapEx. So, there is a couple of different elements, right? So yes, we do have a portion of our CapEx in Norwegian kroners, which means of course, if you have a weakening of the Norwegian kroner, it means that the cost measured in Norwegian kroner goes up, but then cost measured in dollars typically go down as well. So, there's a balancing factor there.

I think that another element, of course is that with the weak Norwegian kroner, we typically import inflation as well. So even for the Norwegian part of the investments, you could see foreign exchange rates and the weak NOK impacting that as well. So, there's many different elements to it. But in short, yes, we are both on OpEx and CapEx benefiting from a weak Norwegian kroner and we're also actively engaging to lock in some of that upside.

Steffen Evjen
Analyst, DNB Bank ASA (Broker)

Q

Okay. Thank you very much.

A

Yes. There seems to be no further questions. So, I hand it back to you to round it off, [ph] Karlo.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Excellent. Thank you so much. Good questions as always. And thank you to all those following this first quarter presentation, and welcome back on the second quarter.