FitchRatings

RATING ACTION COMMENTARY

# Fitch Affirms Aker BP ASA at 'BBB'; Outlook Stable

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Fitch Ratings - London - 16 May 2024: Fitch Ratings has affirmed Aker BP ASA's Long-Term Issuer Default Rating (IDR) and senior unsecured ratings at 'BBB'. The Outlook on the IDR is Stable.

Aker BP's rating reflects its operational scale with a production guidance of 410-440 thousand barrels of oil equivalent per day (kboepd) for 2024, asset diversification across the Norwegian Continental Shelf (NCS), an adequate reserve life, and a strong project pipeline. Financial flexibility is adequate for 2024-2027 to support growth capex and increasing dividends within its 'BBB' rating.

## KEY RATING DRIVERS

**Norwegian Pureplay Producer**: Aker BP is the largest independent oil and gas producer on the NCS. In 2023 its production averaged 457kboepd, of which 86% were liquids and 14% natural gas. Based on 2024 production guidance, Aker BP's proved reserve life is 7.2 years and 11 years for proved and probable reserves (2P), respectively. Aker BP's business profile is strong, but remains constrained by its single jurisdiction exposure and offshore focus in the north-sea with harsh operating conditions, particularly during the winter months.

**Earnings Remain Above Mid-Cycle:** Hydrocarbon prices remain high amid continued OPEC+ curtailments, geopolitical premium and slowing US production growth, even though demand growth is equally decelerating, albeit still healthy. Fitch estimates EBITDA for Aker BP at around USD10.4 billion for 2024 (after treating leases as operating expense). Based on production guidance and Fitch's oil and gas price assumptions we expect EBITDA to moderate to USD8.6 billion in 2025, closer to USD7.2 billion in 2026 and then rebound above USD8 billion in 2027 (as major projects come online).

**Strong Operating Performance:** Aker BP's production costs further decreased to USD6.2/boe in 2023 from USD8.7/boe in 2022 due to its increased exposure to low-cost, high-quality assets following the Lundin acquisition (Johan Sverdrup), continued cost discipline and production-efficiency measures.

**Low Greenhouse Gas Emissions:** Aker BP reported 2.9kg CO2e operational greenhouse gas emissions/boe for 2023. It wants to reduce operational emissions to net zero by 2030 (through electrification, energy efficiencies and carbon-removal offsets for hard-to-abate emissions) and maintain methane intensity at below 0.05% over time (2023: 0.01%). Scope 3 targets comprise an active involvement with suppliers and evaluation of options for geological storage of CO2 in depleted fields on the NCS.

**Financial Policies Support Rating:** Aker BP's capital-allocation priorities are i) to maintain financial flexibility and an investment-grade credit rating, ii) profitable growth with low break-even oil prices and iii) dividends that are in line with long-term value creation. It aims to maintain company-defined net debt/EBITDAX below 1.5x. If hydrocarbon prices moderate to significantly lower levels over the long term we would expect the company to rebase its dividend to align with value creation of the business.

**Tax Regime Supports Growth:** Our rating forecast incorporates USD18.3 billion of capex over 2024-2027, including major projects Yggdrasil (450 mmboe net recoverable volumes) and Valhall PWP/Fenris (190 mmboe). The expenditure is tax-deductible at a rate above 80% (on average), leading to a tax deferral effect that will reverse when the assets start producing. As a result, Aker BP is able to fund the growth mostly with internally generated cash flow.

**Adequate Funding for Dividends:** Net debt and financial leverage will increase over time, given that the company pays absolute dividends that are rising by at least 5% per annum. However, EBITDA net leverage of 0.2x at end-2023 leaves adequate financial flexibility for those distributions to 2027.

**Focused Project Management:** Aker BP has been successful in recent years in delivering projects on time and on budget through its alliance structure, where suppliers are closely integrated, collaborate in the design stage and which seeks to align partners' incentives in project delivery. Aker BP is also progressing with digitalisation across the business. Broad availability of real-time data allows for operating efficiencies through early interventions, more needs-based maintenance and increasing use of alternative intelligence to spot patterns and take over some monitoring functions.

## DERIVATION SUMMARY

Aker BP is well-positioned versus other independent exploration and production investment-grade peers such as Continental Resources Inc. (BBB/Stable). Our assumption of production at midpoint of Aker BP's guidance for 2024 compares well with Continental's 440kboepd. Aker BP's assets are offshore and concentrated on the NCS, whereas Continental's are onshore and diversified among several basins.

Our forecast for Aker BP indicates negative free cash flow (FCF) over the next four years, whereas for Continental we assume neutral-to-positive FCF. The American peer has more conservative forecast leverage metrics and a higher proven reserve life of around 11 years.

Aker BP's scale is comparable with Harbour Energy PLC's (BB/RWP) post acquisition profile (purchase of assets from Wintershall DEA AG). Harbour's future business profile will be more geographically diversified than that of Aker BP (focused on Norway). However, Harbour's pro-forma reserve life will be weaker (2P reserve life of eight years, compared with Aker BP's 11 years), predominantly in view of Harbour's depleted reserves in the United Kingdom Continental Shelf (UKCS). Also, the combined business will have higher operating costs at around USD11/boe and leverage. We assume Harbour should be able to maintain funds from operation (FFO) net leverage at around or below 2x through the cycle, though temporary deviations are possible. Our base case forecasts suggest that Harbour's credit profile would likely be commensurate with the 'BBB-' level after completion of the acquisition.

## KEY ASSUMPTIONS

**Fitch's Key Assumptions Within Our Rating Case for the Issuer**

- Base-case assumptions for Brent at USD80/bbl in 2024, USD70/bbl in 2025, USD65/bbl in 2026 and 2027, and USD60/bbl over the long term

- TTF (title transfer facility) gas price at USD10/mcf in 2024 and 2025, USD8/mcf in 2026, USD7/mcf in 2027, and USD5/mcf over the long term

- Fitch-estimated upstream production in line with guided production profile to average around 445kboe/d over 2024-2028

- Capex, excluding exploration and decommissioning, averaging around USD4.6 billion per year over 2024-2027; at or above USD5 billion over 2024-2026 and reducing in 2027 when large-scale projects linked to plans for development and operations submitted in December 2022 are progressing to production

- Dividends of around USD1.52 billion in 2024, rising 5% per annum

## RATING SENSITIVITIES

**Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- Material improvement in the business profile, including scale and diversification

- Financial policies that support a more conservative financial profile through the cycle, including a more flexible dividend policy

- FFO net leverage below 1.0x or EBITDA net leverage below 0.5x on a sustained basis

**Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- FFO net leverage well above 2.0x or EBITDA net leverage well above 1.5x on a sustained basis

- Aggressive M&A, dividend payments or other policies materially affecting the credit profile and leading to consistently negative FCF

## LIQUIDITY AND DEBT STRUCTURE

**Strong Liquidity:** At end-1Q24 Aker BP had available USD3.2 billion of cash and cash equivalents plus USD3.4 billion in an undrawn credit facility (RCF) with a maturity in May 2026 (the company has already entered into a forward start facility for USD1.8 billion available from May 2026 until May 2028, with two extension options at banks' discretion until 2030). Aker BP has only small debt maturities in 2024 and 2025 and around USD840 million in 2026, which we expect the company to refinance well in advance.

Fitch's rating case indicates negative FCF over the medium term linked to sizeable capex and increasing dividends. Aker BP targets to maintain a minimum liquidity buffer of USD3 billion at all times. As a result, we would expect the company to raise additional funding by early 2025.

## ISSUER PROFILE

Aker BP is the largest independent exploration and production company operating on the NCS.

## 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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

## RATING ACTIONS

| ENTITY / DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| Aker BP ASA | LT IDR | BBB Rating Outlook Stable | Affirmed | BBB Rating Outlook Stable |
| senior unsecured | LT | BBB | Affirmed | BBB |

VIEW ADDITIONAL RATING DETAILS

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## APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 13 Oct 2023) (including rating assumption sensitivity)

Corporate Rating Criteria (pub. 03 Nov 2023) (including rating assumption sensitivity)

Sector Navigators – Addendum to the Corporate Rating Criteria (pub. 03 Nov 2023)

## APPLICABLE MODELS

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

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

## ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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| | |
|---|---|
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