

Tear Sheet:

Aker BP ASA

July 31, 2024

S&P Global Ratings thinks that Aker BP ASA's solid performance, fueled by high commodity prices, supports continued high cash flow generation. During second-quarter 2024, sustained high production of 444,000 barrels of oil equivalent per day (boepd) continued to be supported by Johan Sverdrup (54% of group production) and a generally high production efficiency. We expect that production will sustain at about 435,000 boepd-450,000 boepd through 2024-2025, 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 per barrel (/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 \$10 billion and funds from operations (FFO) of \$6 billion per year in 2024-2025, supporting very strong credit metrics.

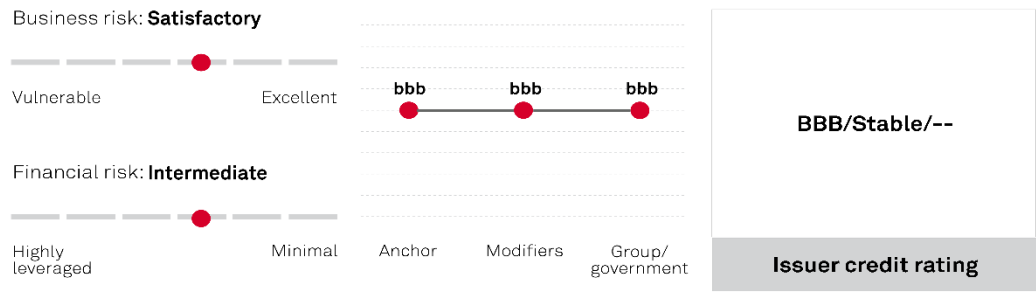
High capital expenditure (capex) is likely to weigh on free operating cash flow (FOCF) generation. We estimate that Aker BP will invest approximately \$19 billion-\$20 billion in 2024-2028 in both current producing fields and new greenfield projects in Norway. This translates into annual capex of \$5 billion in 2024 and 2025, 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. Still, in our base case we expect positive FOCF of at least \$1 billion in the next three years, which should cover shareholder distributions, resulting in broadly neutral discretionary cash flow.

Aker BP's credit metrics should remain very strong in 2024-2026, 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. In our base case, we forecast FFO to debt will remain above 100% so long as oil prices are close to our assumptions (\$80 Brent in 2025 and thereafter). 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 inorganic growth opportunities. This corresponds to about 60% S&P Global Ratings-adjusted FFO to debt, which we view commensurate with the current rating.

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Ratings Score Snapshot



Recent Research

- Aker BP ASA, June 7, 2023

Company Description

Aker BP is a midsize oil and gas exploration and production company by global standards operating in the North Sea. However, with production of about 420,000-440,000 boepd projected in 2024, 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 through Nemesia (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 168 billion (about \$15.6 billion).

Outlook

The stable outlook reflects our expectation that Aker BP will maintain strong credit metrics in 2024-2025, 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%.

Key Metrics

Aker BP ASA--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. \$)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	2,981	5,674	13,019	13,670	13,506	11,585	11,206	12,500
Gross profit	2,353	4,929	12,086	12,610	11,887	9,969	9,615	10,821
EBITDA (reported)	2,128	4,541	11,782	12,286	11,567	9,694	9,349	10,525
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	176	358	251	267	266	750	750	750
EBITDA	2,304	4,900	12,033	12,552	11,833	10,444	10,099	11,275
Less: Cash interest paid	(184)	(151)	(156)	(379)	(401)	(419)	(411)	(405)
Less: Cash taxes paid	181	(223)	(5,332)	(7,455)	(5,252)	(2,946)	(2,835)	(4,498)
Plus/(less): Other	(174)	(353)	(242)	(266)	(266)	(750)	(750)	(750)
Funds from operations (FFO)	2,126	4,172	6,303	4,452	5,914	6,329	6,103	5,622
EBIT	1,011	3,585	10,032	10,013	9,409	7,845	7,552	8,515
Interest expense	338	293	313	455	566	584	576	570
Cash flow from operations (CFO)	1,857	4,131	5,573	5,028	5,950	6,363	6,127	5,643
Capital expenditure (capex)	1,405	1,554	1,832	3,283	4,873	5,373	4,873	2,873
Free operating cash flow (FOCF)	452	2,577	3,741	1,745	1,077	990	1,254	2,770
Dividends	425	488	1,006	1,390	1,517	1,593	1,672	1,756
Share repurchases (reported)	0	9	--	11	--	--	--	--
Discretionary cash flow (DCF)	27	2,081	2,735	344	(440)	(603)	(419)	1,014
Debt (reported)	3,969	3,577	5,279	5,798	6,621	6,527	5,738	5,738
Plus: Lease liabilities debt	216	136	134	704	739	776	815	856
Plus: Pension and other postretirement debt	--	--	--	--	--	--	--	--
Less: Accessible cash and liquid investments	(538)	(1,971)	(2,756)	(3,367)	(3,658)	(2,848)	(1,532)	(2,439)
Plus/(less): Other	617	607	916	1,002	1,002	1,002	1,002	1,002
Debt	4,264	2,349	3,574	4,138	4,705	5,457	6,024	5,157
Equity	1,987	2,342	12,428	12,362	12,855	12,925	12,851	12,908
FOCF (adjusted for lease capex)	435	2,571	3,673	1,041	928	841	1,105	2,622
Interest expense (reported)	182	140	108	162	273	290	283	277
Capex (reported)	1,405	1,554	1,832	3,410	5,000	5,500	5,000	3,000
Cash and short-term investments (reported)	538	1,971	2,756	3,388	3,658	2,848	1,532	2,439
Adjusted ratios								
Debt/EBITDA (x)	1.9	0.5	0.3	0.3	0.4	0.5	0.6	0.5

Aker BP ASA--Forecast summary

FFO/debt (%)	49.9	177.6	176.3	107.6	125.7	116.0	101.3	109.0
FFO cash interest coverage (x)	12.6	28.6	41.3	12.7	15.7	16.1	15.8	14.9
EBITDA interest coverage (x)	6.8	16.7	38.4	27.6	20.9	17.9	17.5	19.8
CFO/debt (%)	43.6	175.9	155.9	121.5	126.5	116.6	101.7	109.4
FOCF/debt (%)	10.6	109.7	104.7	42.2	22.9	18.1	20.8	53.7
DCF/debt (%)	0.6	88.6	76.5	8.3	(9.3)	(11.0)	(7.0)	19.7
Lease capex-adjusted FOCF/debt (%)	10.2	109.5	102.8	25.2	19.7	15.4	18.4	50.8
Annual revenue growth (%)	(11.4)	90.3	129.4	5.0	(1.2)	(14.2)	(3.3)	11.6
Gross margin (%)	78.9	86.9	92.8	92.2	88.0	86.0	85.8	86.6
EBITDA margin (%)	77.3	86.3	92.4	91.8	87.6	90.1	90.1	90.2
Return on capital (%)	15.9	65.5	97.0	61.6	55.2	43.7	40.5	46.1
Return on total assets (%)	8.2	26.7	38.6	26.1	23.1	17.9	16.3	17.6
EBITDA/cash interest (x)	12.5	32.4	76.9	33.1	29.5	24.9	24.6	27.8
EBIT interest coverage (x)	3.0	12.2	32.0	22.0	16.6	13.4	13.1	14.9
Debt/debt and equity (%)	68.2	50.1	22.3	25.1	26.8	29.7	31.9	28.5
Debt fixed-charge coverage (x)	6.8	16.7	38.4	27.6	20.9	17.9	17.5	19.8
Debt/debt and undepreciated equity (%)	68.2	50.1	22.3	25.1	26.8	29.7	31.9	28.5

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. \$--U.S. dollar.

Financial Summary

Aker BP ASA--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023
Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	\$	\$	\$	\$	\$	\$
Revenues	3,725	3,366	2,981	5,674	13,019	13,670
EBITDA	3,369	2,610	2,304	4,900	12,033	12,552
Funds from operations (FFO)	2,102	1,492	2,126	4,172	6,303	4,452
Interest expense	418	343	338	293	313	455
Cash interest paid	365	194	184	151	156	379
Operating cash flow (OCF)	3,980	1,885	1,857	4,131	5,573	5,028
Capital expenditure	1,331	2,073	1,405	1,554	1,832	3,283
Free operating cash flow (FOCF)	2,649	(188)	452	2,577	3,741	1,745
Discretionary cash flow (DCF)	2,199	(938)	27	2,081	2,735	344
Cash and short-term investments	45	107	538	1,971	2,756	3,367
Gross available cash	45	107	538	1,971	2,756	3,367
Debt	3,413	4,106	4,264	2,349	3,574	4,138
Common equity	2,990	2,368	1,987	2,342	12,428	12,362
Adjusted ratios						

Aker BP ASA--Financial Summary

EBITDA margin (%)	90.4	77.6	77.3	86.3	92.4	91.8
Return on capital (%)	30.7	22.7	15.9	65.5	97.0	61.6
EBITDA interest coverage (x)	8.1	7.6	6.8	16.7	38.4	27.6
FFO cash interest coverage (x)	6.8	8.7	12.6	28.6	41.3	12.7
Debt/EBITDA (x)	1.0	1.6	1.9	0.5	0.3	0.3
FFO/debt (%)	61.6	36.3	49.9	177.6	176.3	107.6
OCF/debt (%)	116.6	45.9	43.6	175.9	155.9	121.5
FOCF/debt (%)	77.6	(4.6)	10.6	109.7	104.7	42.2
DCF/debt (%)	64.4	(22.8)	0.6	88.6	76.5	8.3

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	2023-12-31	2023-12-31	2023-12-31
Mil.	\$	\$	\$
Revenue	13,670	107,175	6,816
EBITDA	12,552	47,860	5,541
Funds from operations (FFO)	4,452	17,226	2,525
Interest	455	2,180	369
Cash interest paid	379	1,510	466
Operating cash flow (OCF)	5,028	24,233	2,954
Capital expenditure	3,283	10,107	2,389
Free operating cash flow (FOCF)	1,745	14,126	565
Discretionary cash flow (DCF)	344	(2,369)	(545)
Cash and short-term investments	3,367	37,293	735
Gross available cash	3,367	36,835	735
Debt	4,138	803	3,362
Equity	12,362	48,500	1,768
EBITDA margin (%)	91.8	44.7	81.3
Return on capital (%)	61.6	74.6	69.1
EBITDA interest coverage (x)	27.6	22.0	15.0
FFO cash interest coverage (x)	12.7	12.4	6.4
Debt/EBITDA (x)	0.3	0.0	0.6
FFO/debt (%)	107.6	2145.8	75.1
OCF/debt (%)	121.5	3018.6	87.8

Aker BP ASA--Peer Comparisons

FOCF/debt (%)	42.2	1759.6	16.8
DCF/debt (%)	8.3	(295.1)	(16.2)

Environmental, Social, And Governance

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 bbl 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.

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	Neutral (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: Methodology: Industry Risk, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- ARCHIVE | Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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