



# Chris Karlin

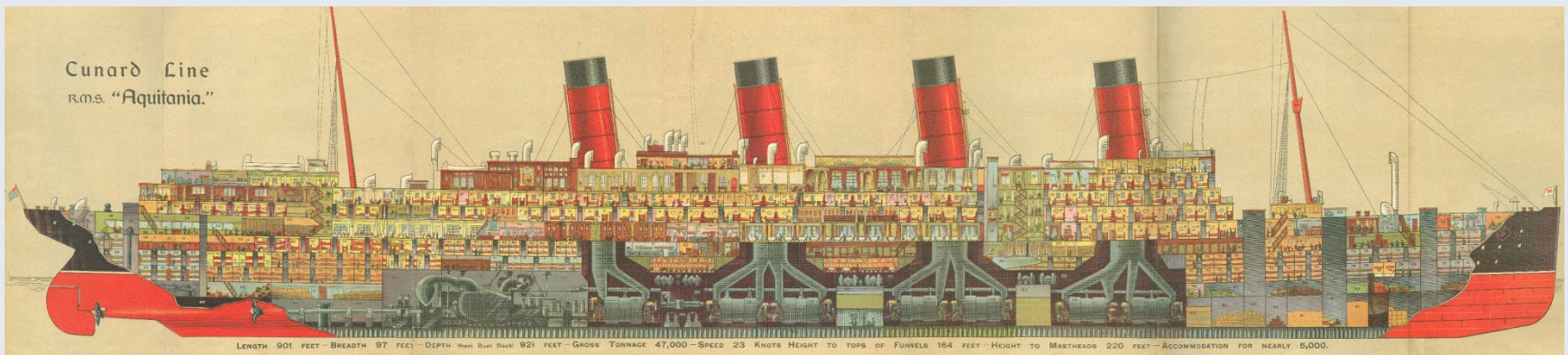
Chief Investment Officer, Aquitania Capital Management



# BP (BP)

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# Aquitania Capital Management

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- Long-Biased, global investor across the capital structure
- Blended Quality and Opportunistic Value manager
- Identifying companies with the potential to compound capital at exceptional rates over long periods of time.
- Asymmetric reward-to-risk situations with high conviction in a variant thesis through intensive independent research
- Securities that are either being **accidentally overlooked or actively avoided** by most investors

# BP

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More Than a Barrel of Value

# BP (BP) \$25.01

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- Legacy oil company transitioning to carbon net zero by 2050
  - Substantial oil reserves on low end of global cost curve
  - Global retail distribution presence
  - Large emerging markets presence
  - Significant low carbon investments
- \$84b market capitalization, \$150b TEV
- Value Drivers
  - Deleveraging balance sheet
  - Transition to low carbon will improve & stabilize returns
  - Sustainability deserves a premium

# Short-Term Opportunity

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- BP is particularly attractive in the near term as an inexpensive portfolio hedge in an exuberant market.
- “So, I *own* assets that I would never *buy* at their current prices, but I am quite comfortable *holding* them.” Charlie Munger
- Rising oil prices
  - Reopening trade
  - Dollar weakness
  - Sharp decline in oil production capital during 2020
- Sector rotation
  - Unloved and actively avoided industry
  - Valuation compressed and attractively priced

# Long-Term Opportunity

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- The long-term opportunity is driven by a transition to an energy provider earning stable (and likely regulated) returns from an oil company highly exposed to commodity risk
- Stable returns warrant a premium
  - Electricity providers trade at 10x EBITDA vs. 6x for Oil
- Sustainability warrants a premium
  - “The stone age didn’t end for lack of stone and the oil age will end long before the world runs out of oil.” Ahmed Zaki Yamani (Minister of Oil, Saudi Arabia)
- BP is one of the lowest risk ways to invest in a sustainable energy future

# Why BP?

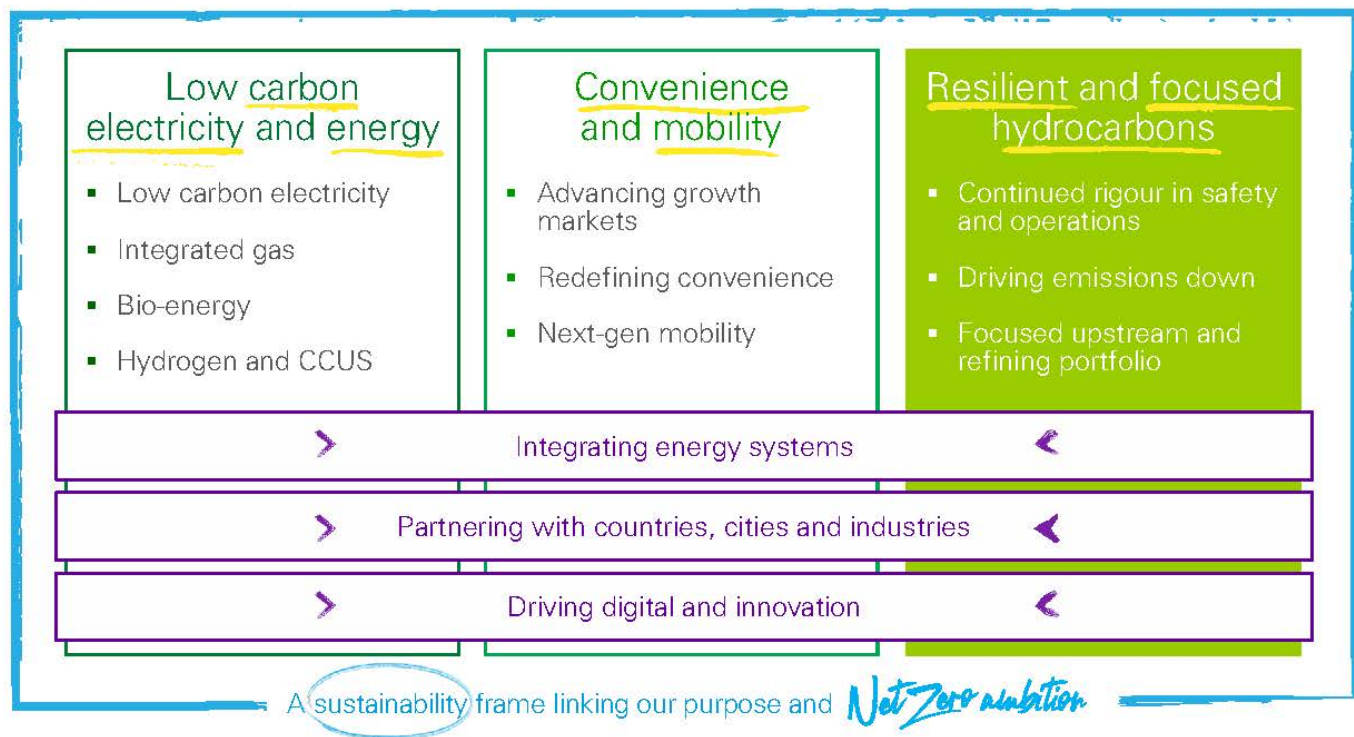
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- European Majors (BP, Shell, ENI) focused on transitioning to a low carbon future
- BP has the global scale to effectuate change
  - Low-cost reserves
  - Global distribution network
  - Large trading operations
  - Significant government & corporate relationships
  - Material emerging market exposure
- Unique to BP:
  - BP owns 19.75% of Rosneft (\$14b market value)
  - Substantial cash flow (~\$500MM - \$1b/yr) in dividends

# Net Zero by 2050

- Expanding on current capabilities is rel. low risk

Our strategy – an IEC delivering solutions for customers



# Low Carbon Growth

## Low carbon electricity and energy – disciplined growth



Advancing  
low carbon  
solutions



	2019	2025	2030
Developed renewables <sup>1</sup> (GW)	2.5	20	50
Traded electricity <sup>2</sup> (TWh)	250	350	500
LNG portfolio (Mtpa)	14.9	25	30
Bioenergy <sup>3</sup> (Kbd)	22 <sup>1</sup>	50	>100

(1) Developed to FID

(2) Traded electricity may include electricity sourced from the grid

(3) Includes bp's 2019 net equity ethanol equivalent production for sugarcane ethanol & biopower production and bp's 2019 refining bio co-processing production

# 2020 – 2025 Transformation



## Financial frame



**Strong growth in EBIDA<sup>1</sup>  
per share<sup>2</sup>  
7-9% CAGR<sup>3</sup>**

**Strong and  
improving ROACE<sup>4</sup>  
12-14%<sup>5</sup>**

**Investing at scale in the  
energy transition  
>20% capital employed<sup>5</sup>**

(1) EBIDA: Underlying replacement cost profit before interest and tax, add back depreciation, depletion and amortization and exploration expenditure written-off (net of non-operating items), less taxation on an underlying replacement cost basis

(2) Buyback modelled across a range of share prices; EBIDA after impact of planned divestments

(3) CAGR: compound annual growth rate, 2H19/1H20 to 2025; \$50-60/bbl (2020, real)

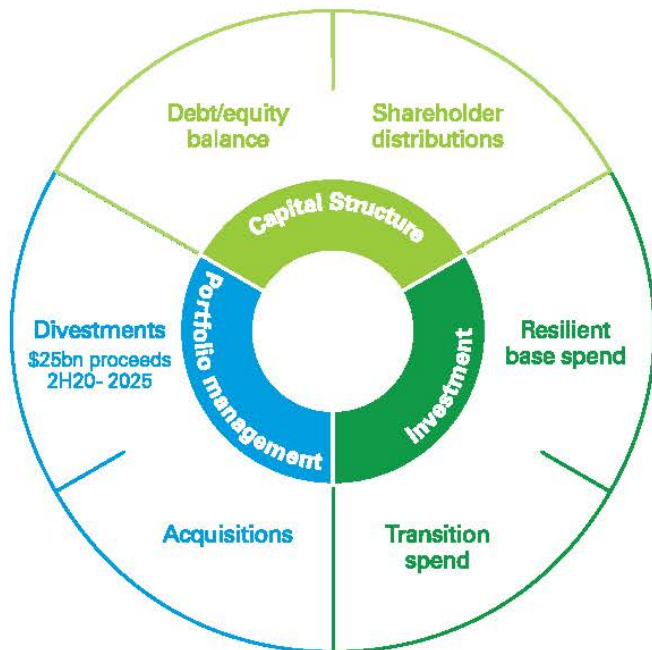
(4) ROACE: return on average capital employed as defined in bp's 2019 annual report; \$50-60/bbl (2020, real)

(5) By 2025

# 2020-2025 Plan



## Coherent approach to capital allocation



### Clear priorities

	Phase 1	Phase 2
1	Resilient dividend of 5.25 cents per share <sup>1</sup> per quarter	Resilient dividend of 5.25 cents per share <sup>1</sup> per quarter
2	Deleverage to \$35bn	Strong investment grade credit rating
3	Low carbon <sup>2</sup> and convenience and mobility spend ~\$4-6bn per year	Low carbon <sup>2</sup> and convenience and mobility spend ~\$5-7bn per year
4	Resilient hydrocarbons spend ~\$9bn per year	Resilient hydrocarbons spend ~\$9bn per year
5		At least 60% of surplus <sup>3</sup> as buybacks <sup>4</sup>

(1) Dividend per ordinary share per quarter, intended to remain fixed at this level, subject to board discretion each quarter

(2) Low carbon electricity and energy

(3) Surplus refers to surplus of sources of cash including operating cash flow, JV loan repayments and divestment proceeds, over uses, including leases, Gulf of Mexico oil spill payments, hybrid servicing costs, dividend payments and cash capital expenditure

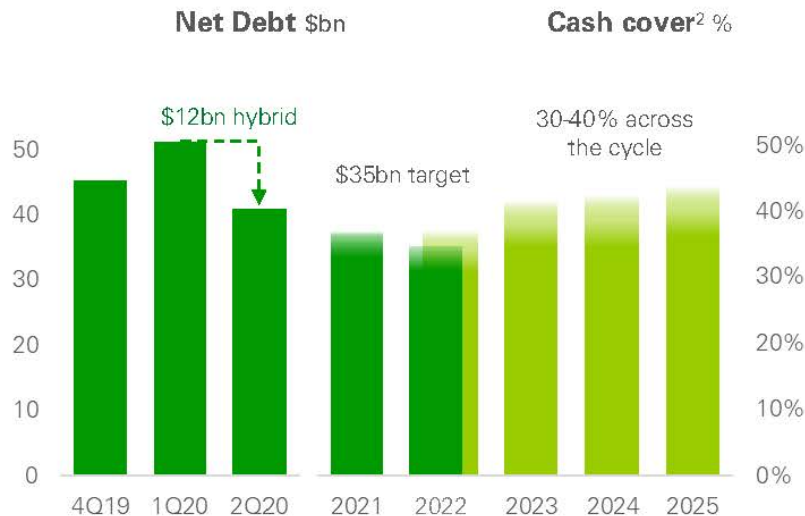
(4) At least 60% of surplus cash as buyback once net debt has reduced to \$35bn and subject to maintaining a strong investment grade credit rating

# Strong Balance Sheet



Maintaining a strong investment grade credit rating

## Clear objectives<sup>1</sup>



## Strong progress

- ~\$12bn hybrid bond issue
- \$1.8bn 1H20 divestment proceeds

## Delivery underpinned

- 2021-25 cash balance point ~\$40/bbl<sup>3</sup>
- \$25bn 2H20-2025 divestment proceeds

(1) Chart presented at \$50/bbl Brent (2020 real) and bp planning assumptions

(2) Cash cover ratio: funds from operating activities over expanded debt, including leases, Gulf of Mexico oil spill liabilities and decommissioning liabilities

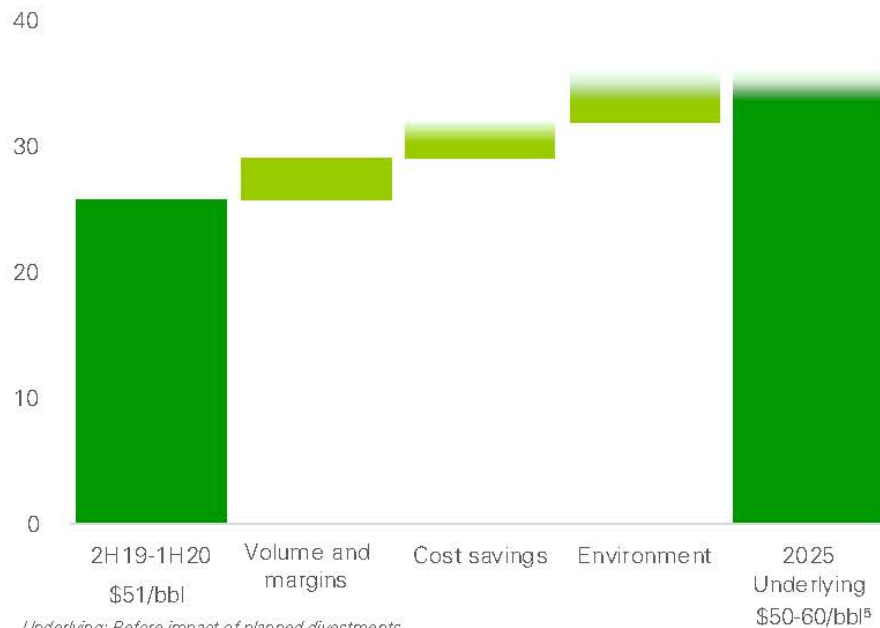
(3) Operating cash flow excluding post-tax DWH payments, adding JV loan repayments, deducting lease payments, organic and inorganic cash capex at the low end of the \$14-16bn capital frame dividend and hybrid coupon. Assuming an average of around \$11/bbl RMIM and \$3.00/mmBtu Henry Hub (2020 real)

# EBIDA Growth



## Managing the financial transition

Underlying<sup>1</sup> EBIDA<sup>2</sup> \$bn



- 5-6% underlying<sup>1</sup> EBIDA<sup>2</sup> CAGR<sup>3</sup>
- Reinvent bp delivering \$3-4bn reduction in cash costs by 2023<sup>4</sup>
- Growing EBIDA<sup>2</sup> after the impact of portfolio choices

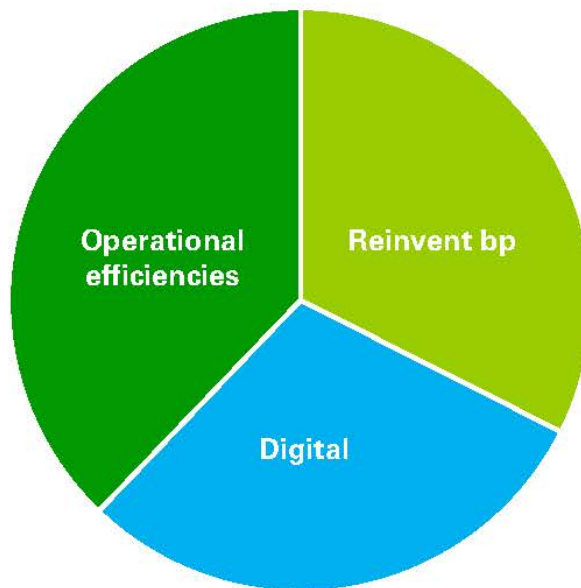
(1) Underlying: Before impact of planned divestments  
 (2) EBIDA: Underlying replacement cost profit before interest and tax, add back depreciation, depletion and amortization and exploration expenditure written-off (net of non-operating items), less taxation on an underlying replacement cost basis  
 (3) CAGR: compound annual growth rate; 2H19/1H20 to 2025, at \$50-60/bbl (2020, real)  
 (4) Relative to 2019  
 (5) 2020, real

# Cost Savings



Reinventing bp – \$3-4bn cash cost savings by 2023<sup>1</sup>

Cash cost savings



- Reinvest bp
  - Restructuring
  - Agile working practices
- Efficiency through digital
- Operational efficiencies
  - Strategic approach to supply chain
  - Single operating entity
  - Zero based budgeting

(1) Relative to 2019

# Self-Financing Transition



## Clear priorities for uses of cash

2021-25 sources of cash<sup>1</sup>



Resilient dividend

5.25 c/share<sup>2</sup>  
per quarter

Deleverage

To \$35bn  
net debt

Investment<sup>3</sup>

Phase 1 ~\$13-15bn per year  
Phase 2 ~\$14-16bn per year

Buybacks

At least 60%  
of surplus<sup>4</sup>

Surplus after buybacks

(1) Sources of cash includes operating cash flow at \$50-60/bbl Brent (2020 real) and bp planning assumptions plus JV loan repayments and divestment proceeds, deducting leases, Gulf of Mexico oil spill payments and hybrid servicing costs

(2) Dividend per ordinary share per quarter, intended to remain fixed at this level, subject to board discretion each quarter

(3) Investment refers to organic and inorganic capital expenditure

(4) At least 60% of surplus cash as buyback after having reached \$35bn Net Debt and subject to maintaining a strong investment grade credit rating

# Distributions

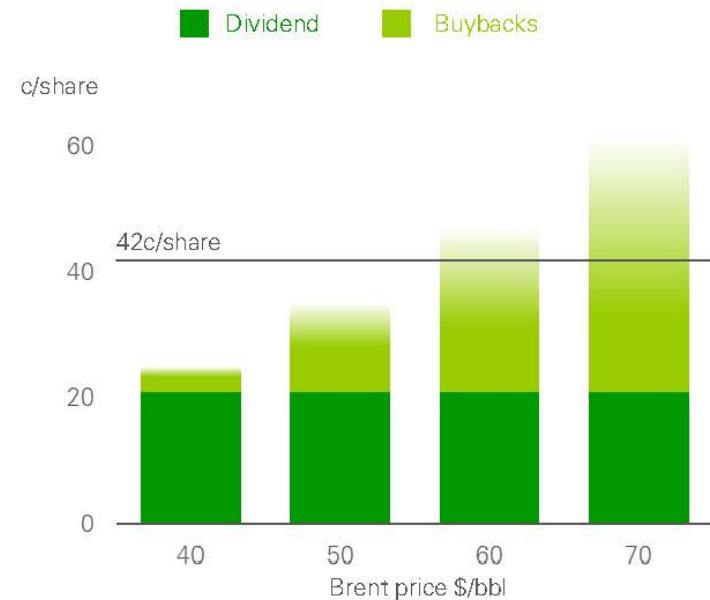


## Committed distributions

### Clear policy

- Resilient dividend intended to stay fixed at 5.25 cents per share per quarter<sup>1</sup>
- Commitment to return at least 60% of surplus<sup>2</sup> cash flow via buybacks
  - once net debt target achieved; and
  - subject to maintaining a strong investment grade credit rating
- Remainder of surplus at board discretion

### Per share<sup>3</sup> distributions<sup>4</sup>



(1) Dividend per ordinary share per quarter, intended to remain fixed at this level, subject to board discretion each quarter

(2) Surplus refers to surplus of sources of cash including operating cash flow, JV loan repayments and divestment proceeds, over uses, including leases, Gulf of Mexico oil spill payments, hybrid servicing costs, dividend payments and cash capital expenditure

(3) Per share distributions: dividend per share plus total buyback expenditure divided by projected share count

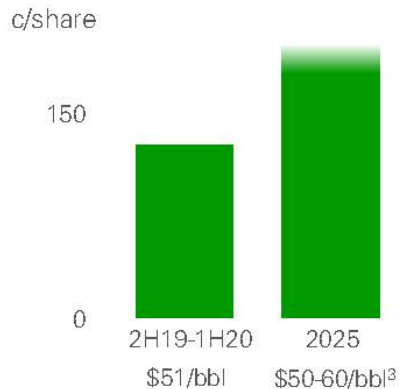
(4) 2021-25 average

# Financial Targets



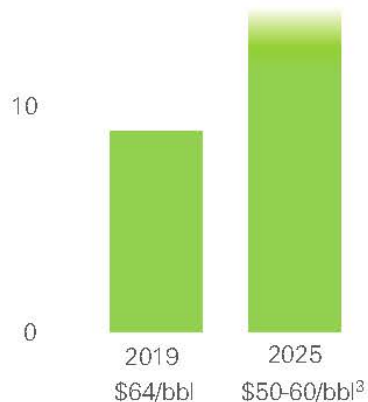
## 2021-25 key financial performance measures

### EBIDA<sup>1</sup> per share<sup>2</sup>



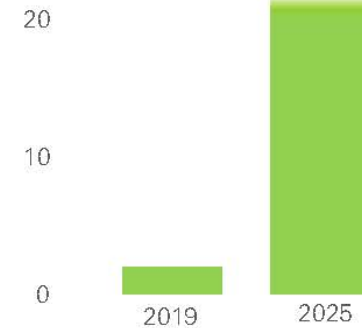
- 7-9% EBIDA<sup>1</sup> per share<sup>2</sup> CAGR<sup>4</sup>

### ROACE<sup>5</sup> %



- 12-14% group ROACE<sup>5</sup> in 2025

### Capital employed in the energy transition %



- >20% of capital employed in energy transition by 2025

(1) EBIDA: underlying replacement cost profit before interest and tax, add back depreciation, depletion and amortization and exploration expenditure written-off (net of non-operating items), less taxation on an underlying replacement cost basis  
 (2) Buyback modelled across a range of share prices; EBIDA after impact of planned divestments  
 (3) 2020, real  
 (4) CAGR: compound annual growth rate  
 (5) ROACE: return on average capital employed as defined in bp's 2019 annual report

# Increased Transparency



## Translating our strategic themes to reporting

	Production & operations <sup>2</sup>	Customers & products <sup>2</sup>	Gas & low carbon energy <sup>2</sup>	Other business & corporate <sup>2</sup> including Innovation & engineering
<b>Resilient and focused hydrocarbons<sup>1</sup></b>	<ul style="list-style-type: none"> <li>Oil production</li> </ul>	<ul style="list-style-type: none"> <li>Refining</li> </ul>	<ul style="list-style-type: none"> <li>Gas production</li> </ul>	
<b>Convenience and mobility</b>		<ul style="list-style-type: none"> <li>Fuels (developed markets)</li> <li>Fuels (growth markets)</li> <li>Lubes</li> <li>Convenience</li> <li>Electrification</li> <li>Future mobility solutions</li> </ul>		
<b>Low carbon electricity and energy</b>			<ul style="list-style-type: none"> <li>Integrated gas &amp; power</li> <li>Low carbon electricity</li> <li>Bioenergy</li> <li>CCUS</li> <li>Hydrogen</li> </ul>	
<b>Integrators</b>		<ul style="list-style-type: none"> <li>Trading (oil)</li> </ul>	<ul style="list-style-type: none"> <li>Trading (gas)</li> <li>Trading (low carbon)</li> </ul>	<ul style="list-style-type: none"> <li>Regions Cities &amp; Solutions</li> <li>Digital adjacencies                             <ul style="list-style-type: none"> <li>— Ventures</li> <li>— Launchpad</li> </ul> </li> </ul>
				<ul style="list-style-type: none"> <li>Corporate &amp; functions</li> </ul>

(1) Rosneft will continue to be reported separately.  
 (2) IFRS8 segment names to be determined.

# Financial Summary



## Our investor proposition



Resilient dividend  
of 5.25 cents per  
share per quarter<sup>1</sup>

**Committed  
distributions**

>60% surplus  
cash as share  
buybacks<sup>2</sup>

**Profitable  
growth**

7-9% EBIDA<sup>3</sup>  
per share  
CAGR<sup>4</sup>

Growing  
ROACE to  
12-14%<sup>5</sup>

**Sustainable  
value**

>20% capital  
employed  
in transition<sup>6</sup>

delivering  
long-term  
shareholder  
value

(1) Dividend per ordinary share per quarter, intended to remain fixed at this level, subject to board discretion each quarter

(2) At least 60% of surplus cash as buyback after having reached \$35bn Net Debt and subject to maintaining a strong investment grade credit rating

(3) EBIDA: underlying replacement cost profit before interest and tax, add back depreciation, depletion and amortization and exploration expenditure written-off (net of non-operating items), less taxation on an underlying RC basis

(4) 2H19/1H20-2025, \$50-60/bbl Brent (2020 real), at bp planning assumptions

(5) ROACE: return on average capital employed as defined in bp's 2019 annual report, by 2025, \$50-60/bbl (2020 real), at bp planning assumptions

(6) By 2025

# Valuation

BP ADR Price	\$25.01	1/12/2021
Share o/s (MM)	3,376	
Market cap (MM)	\$ 84,427	
Cash	\$ (30,749)	
ST Debt + Leases	12,920	
LT Debt	61,796	
LT Leases	7,375	
Non-Controlling int	14,200	
Net Debt	65,542	

Enterprise Value \$ 149,969

Rosneft Stake	
ROSN.RU Price	474.4
RUBUSD	0.014
USD Price	\$ 6.64
Shares o/s	10,598
BP stake	19.75%
BP held shares	2,093
Value	\$ 13,902
BP ROSN shs/ADR	0.62

Consensus Expectations:  
December Year End

	F2015A	F2016A	F2017A	F2018A	F2019A	F2020E	F2021E	F2022E	F2023E
Revenues	\$ 222,894	\$ 183,008	\$ 240,208	\$ 298,756	\$ 278,397	\$ 197,791	\$ 222,805	\$ 257,938	\$ 270,407
EBITDA	\$ 24,010	\$ 18,730	\$ 27,442	\$ 38,537	\$ 36,571	\$ 17,840	\$ 27,898	\$ 34,246	\$ 29,328
EBITDA - CapEx	\$ 5,362	\$ 2,029	\$ 10,880	\$ 21,830	\$ 21,153	\$ 4,840	\$ 13,898	\$ 19,246	\$ 13,328
EBIT	\$ 8,791	\$ 4,225	\$ 11,858	\$ 23,080	\$ 18,791	\$ (756)	\$ 10,948	\$ 17,289	\$ 19,637
EPS	\$ 1.93	\$ 0.84	\$ 1.86	\$ 3.84	\$ 2.95	\$ (1.12)	\$ 1.43	\$ 2.65	\$ 2.90
FCF/Share	\$ 0.16	\$ 1.85	\$ 0.72	\$ 1.84	\$ 3.07	\$ 0.24	\$ 1.13	\$ 2.34	\$ 1.08
EV/Revenues						0.8x	0.7x	0.6x	0.6x
EV/EBITDA						8.4x	5.4x	4.4x	5.1x
EV/EBITDA-CapEx						31.0x	10.8x	7.8x	11.3x
EV/EBIT						nm	13.7x	8.7x	7.6x
P/E						nm	17.5x	9.4x	8.6x
P/FCF						104.2x	22.1x	10.7x	23.2x
Revenue growth		-18%	31%	24%	-7%	-29%	13%	16%	5%
EBIT growth		-52%	181%	95%	-19%	nm	nm	58%	14%
EV/EBITDA							6.0x	6.0x	6.0x
Implied EV							\$ 167,388	\$ 205,476	\$ 175,968
less; Net Debt							65,542	65,542	65,542
Equity Value							\$ 101,846	\$ 139,934	\$ 110,426
Shares o/s							3,376	3,376	3,376
Target price							\$ 30.17	\$ 41.45	\$ 32.71
Upside							21%	66%	31%

# Summary

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- Short-Term: Attractive hedge
- Long-Term: Opportunity for significant rerating
  - Renewables should earn higher, more stable return
  - Stable returns + Sustainability = higher multiple
  - BP can self finance the transition
  - Large emerging markets presence supports growth
  - BP is one of the few players that has the scale to accomplish this and at much lower risk than new entrants

# CONTACT

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