BP (BP)

Updated October 31st, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$42	**5 Year CAGR Estimate:**	13.0%	**Volatility Percentile:**	35.3%
Fair Value Price:	$47	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	72.2%
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.2%	**Growth Percentile:**	30.2%
Dividend Yield:	5.8%	**5 Year Price Target**	$60	**Valuation Percentile:**	68.4%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	76.2%

Overview & Current Events

BP is one of the largest oil corporations in the world based on its $141 billion market cap. It is a fully integrated company and operates in two segments: upstream and downstream (mostly refining). BP has gone through extreme challenges since its major accident in 2010. It has paid $62 billion for this accident so far. Even worse, when the oil giant began to recover in 2014, the price of oil collapsed and oil producers incurred a fierce downturn, which persisted until last year.

However, the worst is behind BP. Thanks to the efforts of OPEC and Russia, the sanctions on Iran and the supply disruptions in Venezuela and Libya, the supply glut in the oil market has disappeared and the price of oil has rallied to an almost 4-year high. Thanks to the strong fundamentals, the oil price is likely to remain elevated in the upcoming years.

In late October, BP reported (10/30/18) its financial results for the third quarter of fiscal 2018. The company doubled its earnings over last year and exceeded the earnings-per-share analysts' estimates by 34%. The impressive performance resulted from the rally of the oil price, which boosted the earnings of the upstream segment by 119%. The most surprising fact was the 35% increase in the earnings over the previous quarter, as the price of Brent remained essentially flat over the last two quarters ($75 in Q3 vs. $74 in Q2). This surprise resulted from higher earnings from trading and strong operating performance in refining and petrochemicals.

BP also provided an update on its $10.5 billion purchase of BHP's assets in the Permian basin. This investment is likely to prove highly profitable, as the purchase price was based on a WTI price of $55, which is 17% lower than the current WTI price. Moreover, BP initially intended to fund half of the investment via equity issuance but its cash flows have strengthened so much that it now intends to pay the full amount in cash. This is a strong signal for the prospects of BP.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$8.17	$4.47	-$1.18	$8.06	$5.56	$4.26	$3.96	-$1.22	$0.04	$1.03	***$3.70***	***$4.72***
DPS	$3.30	$3.36	$0.84	$1.68	$1.98	$2.19	$2.34	$2.40	$2.40	$2.40	***$2.43***	***$2.80***
Shares	3119.4	3125.9	3132.8	3162.9	3186.6	3101.9	3033.3	3068.7	3239.2	3301.0	***3335.0***	***3400.0***

BP now has a solid growth trajectory. It increased its output by 10% last year and expects to grow it by 5% per year for at least the next four years. It launched 7 major oil and gas fields last year, more than in any other year in its history, and also expects to start another 7 major projects this year. The company expects to restore its output to 4.0 M barrels/day, the same as before its accident in the Gulf of Mexico.

Moreover, BP drastically reduced its operating expenses in the recent downturn and now invests only in projects that are profitable even below $40 per barrel. As a result, it has reduced its breakeven point to $50 and expects to further reduce it to $35-$40 by 2021. BP will thus enjoy greater earnings at a given oil price compared to a few years ago.

As BP is likely to grow its output by about 5% per year in the upcoming years and the price of oil is likely to remain strong, this oil major is likely to grow its earnings-per-share by at least 5.0% per year over the next five years. We have lowered our assumed growth rate due to the impressive results of this year, which will form a high base for the future results. Overall, BP has some of the strongest growth prospects of the major integrated oil and gas corporations.

Disclosure: This analyst is long BP.

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Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	7.3	10.9	---	5.4	7.6	10.1	11.8	---	---	35.5	***11.4***	***12.7***
Avg. Yld.	5.5%	6.9%	1.9%	3.9%	4.7%	5.1%	5.0%	6.4%	7.3%	6.6%	***5.8%***	***4.7%***

BP is now trading at a P/E ratio of 11.4, which is lower than its 10-year average P/E of 12.7. As we expect the stock to revert towards its average P/E ratio in the next five years, it will enjoy a 2.2% annualized gain thanks to P/E expansion.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	28.2%	21.5%	-0.4%	15.5%	8.9%	9.6%	7.9%	0.9%	8.0%	12.5%	***13.0%***	***16.0%***
Debt/A	59.6%	56.7%	64.8%	61.6%	60.1%	57.3%	60.4%	62.4%	63.2%	63.7%	***64.0%***	***62.0%***
Int. Cov.	162.9	51.4	-2.2	30.7	17.5	26.1	6.6	-4.8	-0.8	4.3	***8.0***	***12.0***
Payout	40.4%	75.2%	N/A	20.8%	35.6%	51.4%	47.2%	N/A	NMF	233%	***65.7%***	***59.3%***
Std. Dev.	32.8%	30.7%	53.0%	27.3%	18.9%	15.4%	17.8%	29.9%	19.2%	16.1%	***18.2%***	***19.0%***

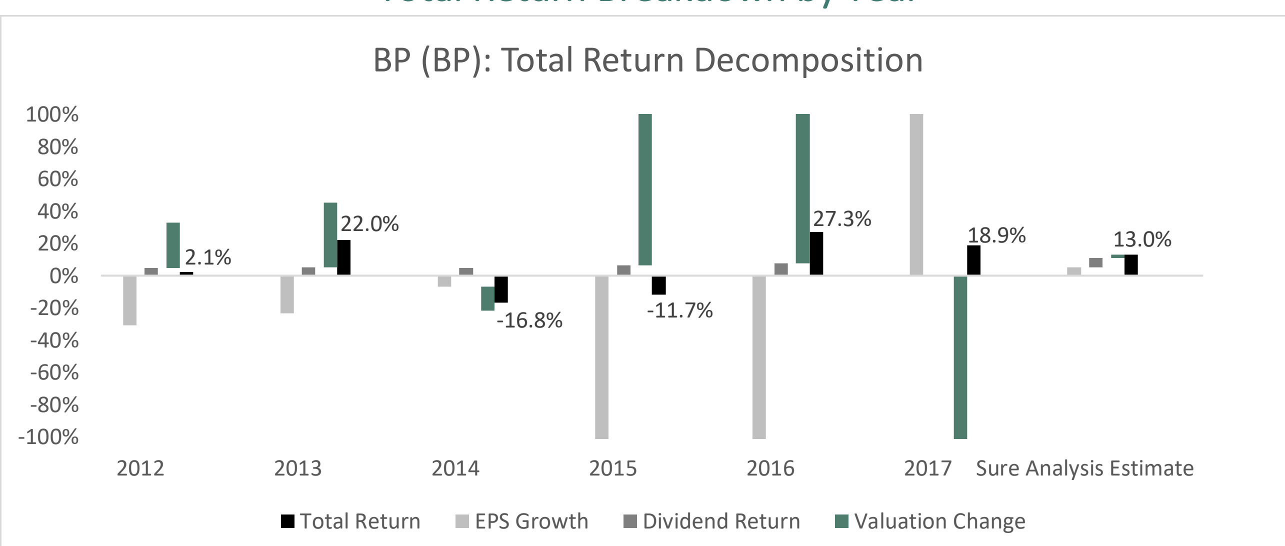
BP is currently offering a 5.8% dividend yield, which is much higher than the 4.2% yield of Exxon Mobil and the 4.0% yield of Chevron. In addition, its management is very shareholder friendly. Even when BP was forced to suspend its dividend after its Macondo blowout amid public outrage, it resumed its dividend payments after just three quarters. Moreover, even in the last three years, in which the company incurred aggregate losses, it continued to pay its dividend, which amounted to about $6 billion per year. The dividend is a priority for BP's management team.

Final Thoughts & Recommendation

After having incurred two fierce downturns, its accident in the Gulf of Mexico and the collapse of oil prices since 2014, BP has returned to growth. It is growing its output at a fast pace while it greatly benefits from the strength in oil prices.

Its recent 10% correction, along with the oil price and the stock market, has resulted in an attractive valuation and yield. As a result, the stock can now offer a 13.0% average annual return over the next five years and thus earns a buy rating. Even if the stock price does not rise as much as we expect, the reliable 5.8% dividend will compensate investors.

Total Return Breakdown by Year



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Disclosure: This analyst is long BP.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue ($B)	367.05	241.45	297.11	379.65	375.77	379.14	353.57	222.89	183.01	240.21
Gross Profit	64362	50719	-970	61604	28220	32701	26165	4809	6524	18904
Gross Margin	17.5%	21.0%	-0.3%	16.2%	7.5%	8.6%	7.4%	2.2%	3.6%	7.9%
SG&A Exp.	15412	14038	12555	13958	13357	13070	12266	11553	10495	10508
D&A Exp.	10985	12106	11164	11135	12687	13510	15163	15219	14505	
Operating Profit	36972	23459	-135B	34991	15491	18900	13881	-6883	-4095	8288
Op. Margin	10.1%	9.7%	-4.6%	9.2%	4.1%	5.0%	3.9%	-3.1%	-2.2%	3.5%
Net Profit	21157	16578	-3719	25700	11017	23451	3780	-6482	115	3389
Net Margin	5.8%	6.9%	-1.3%	6.8%	2.9%	6.2%	1.1%	-2.9%	0.1%	1.4%
Free Cash Flow	15437	7066	-4805	4309	-2743	-3420	10208	485	-6010	
Income Tax	12617	8365	-1501	12737	6880	6463	947	-3171	-2467	3712

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	228.24	235.97	272.26	293.07	300.47	305.69	284.31	261.83	263.32	N/A
Cash & Equivalents	8197	8339	18556	14067	18091	20894	27499	26389	23484	N/A
Acc. Receivable	29261	29531	36549	43526	26485	28868	19671	13682	13393	N/A
Inventories	16821	22605	26218	25661	28203	29231	18373	14142	17655	N/A
Goodwill & Int.	20138	20168	22896	33202	36822	34220	32775	30287	29377	N/A
Total Liab. ($B)	136.13	133.86	176.37	180.59	180.71	175.28	171.66	163.45	166.47	N/A
Accounts Payable	33644	35204	46329	52405	29920	28926	23074	16838	21575	N/A
Long-Term Debt	33204	34627	45336	44213	48416	47657	52071	52465	57666	N/A
Total Equity	91.28	101.61	94.99	111.47	118.53	129.28	111.42	97.20	95.27	N/A
D/E Ratio	0.36	0.34	0.48	0.40	0.41	0.37	0.47	0.54	0.61	N/A

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	9.1%	7.1%	-1.5%	9.1%	3.7%	7.7%	1.3%	-2.4%	0.0%	N/A
Return on Equity	22.9%	17.2%	-3.8%	24.9%	9.6%	18.9%	3.1%	-6.2%	0.1%	N/A
ROIC	16.9%	12.7%	-2.7%	17.3%	6.8%	13.5%	2.2%	-4.1%	0.1%	N/A
Shares Out.	3119	3125.9	3132.8	3162.9	3186.6	3101.9	3033.3	3068.7	3239.2	3301.0
Revenue/Share	116.1	76.50	93.83	119.04	117.82	119.44	114.69	72.99	56.39	72.73
FCF/Share	4.88	2.24	-1.52	1.35	-0.86	-1.08	3.31	0.16	-1.85	N/A

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.