BP (BP)

Updated May 6th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	10.3%	**Volatility Percentile:**	29.9%
Fair Value Price:	$42	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	36.2%
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.5%	**Growth Percentile:**	36.0%
Dividend Yield:	5.8%	**5 Year Price Target**	$54	**Valuation Percentile:**	52.3%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	62.6%

Overview & Current Events

BP is one of the largest oil and gas corporations in the world based on its $146 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 $65 billion for this accident so far. This amount is almost equal to all its earnings since. Even in 2018, eight years after the accident, BP paid $3.2 billion (25% of its earnings) for it. The company expects to pay another $2.0 billion for that accident this year. 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 2017.

However, the worst is behind BP. Thanks to the efforts of OPEC and Russia, the price of oil has doubled off the bottom it recorded in early 2016. In addition, BP has greatly improved its portfolio via the addition of low-cost reserves and has markedly increased its production in recent years.

In late April, BP reported (4/30/19) financial results for the first quarter of fiscal 2019. As it was a challenging quarter, the earnings of BP fell from $3.5 billion in previous quarter to $2.4 billion ($0.70 per share). The average price of Brent fell from $69 in previous quarter to $63 while the average price of Henry Hub natural gas dropped from $3.70 to $3.20. As a result, the operating profit of the upstream segment fell 26%. In addition, the downstream segment was affected by much lower refining margins worldwide, the collapse of the discount of North American heavy crude oil to WTI and lower marketing earnings. All these headwinds more than offset the improved results of supply and trading.

Thanks to favorable seasonality for the downstream segment and the rally of the oil price this year, we expect improved results in the next two quarters. As a result, we have kept our forecast for this year's earnings intact.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$4.47	-$1.18	$8.06	$5.56	$4.26	$3.96	-$1.22	$0.04	$1.03	$3.71	***$3.50***	***$4.47***
DPS	$3.36	$0.84	$1.68	$1.98	$2.19	$2.34	$2.40	$2.40	$2.40	$2.43	***$2.49***	***$2.80***
Shares	3125.9	3132.8	3162.9	3186.6	3101.9	3033.3	3068.7	3239.2	3302.9	3350.3	***3400***	***3400***

BP has a solid growth trajectory. It increased its output by 10% in 2017 and 8% in 2018 and is on track to grow its output by 5% per year for at least the next three years. It launched 7 major oil and gas fields in 2017, more than in any other year in its history, and another 6 major projects last year. Since 2016, it has brought 22 major projects online and has another 13 major projects until the end of 2021. Thanks to the ramp-up of recent projects and the upcoming new projects, the company expects to add 0.9 million barrels per day in its production base until the end of 2021. Management also expects the free cash flow to more than double, from $6.5 billion in 2018 to $14-$15 billion in 2021.

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, earnings-per-share could also grow by at least 5% per year if the price of oil does not decrease from its current level. Overall, BP has some of the strongest growth prospects of the major integrated oil and gas corporations.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	10.9	---	5.4	7.6	10.1	11.8	---	---	35.5	11.5	***12.3***	***12.0***
Avg. Yld.	6.9%	1.9%	3.9%	4.7%	5.1%	5.0%	6.4%	7.3%	6.6%	5.7%	***5.8%***	***5.2%***

Excluding the outlier year 2017, in which the depressed earnings resulted in an abnormally high price-to-earnings ratio, BP has traded at an average price-to-earnings ratio of 9.6 during the last decade. The stock has traded at such a cheap valuation mostly due to the excessive liabilities that resulted from its accident in 2010. BP is now trading at an earnings multiple of 12.3. If the stock reaches our assumed fair price-to-earnings of 12.0, it will incur a modest 0.5% annualized drag due to contraction of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

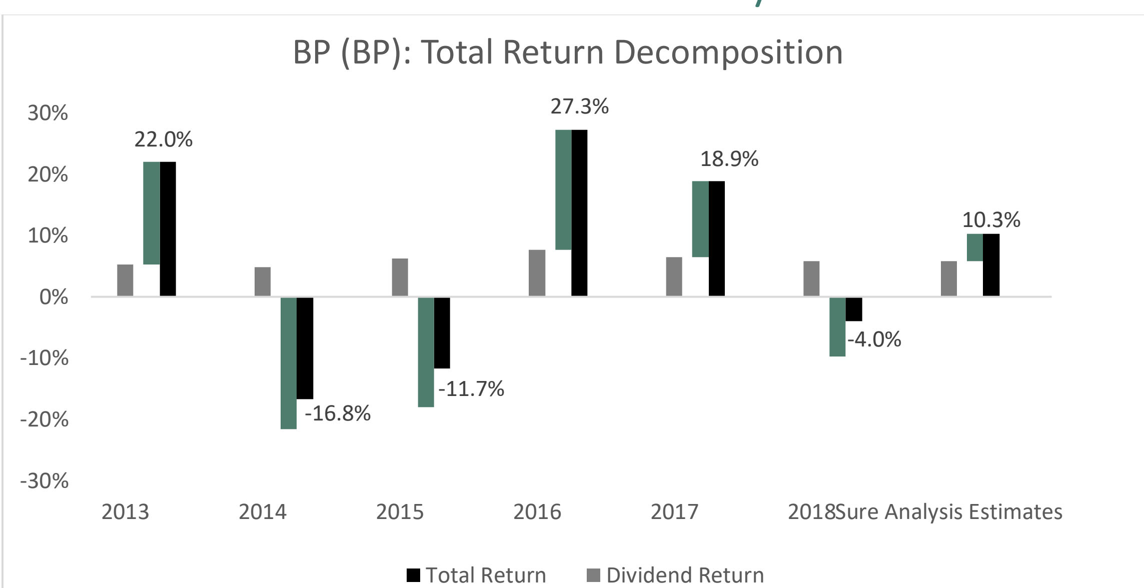
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	75.2%	---	20.8%	35.6%	51.4%	47.2%	---	---	233%	65.5%	***71.1%***	***62.6%***

BP is currently offering a 5.8% dividend yield, which is much higher than the 4.5% yield of Exxon Mobil and the 4.1% 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 during 2015-2017, when the company incurred aggregate losses, it continued to pay its dividend, which amounted to about $6 billion per year. The dividend is clearly a top 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 has greatly improved its portfolio, with low-cost reserves. As a result, the stock could now offer a 10.3% 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% yield will compensate investors.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue ($B)	241.45	297.11	375.52	375.77	379.14	353.57	222.89	183.01	240.21	298.76
Gross Profit	50719	-127	46339	28220	32701	26165	4809	6524	18904	28880
Gross Margin	21.0%	0.0%	12.3%	7.5%	8.6%	7.4%	2.2%	3.6%	7.9%	9.7%
SG&A Exp.	14038	12555	13958	13357	13070	12266	11553	10495	10508	12179
D&A Exp.	12106	11164	11135	12687	13510	15163	15219	14505	15584	16542
Operating Profit	23459	-12744	32285	15491	18900	13881	-6883	-4095	8288	15256
Op. Margin	9.7%	-4.3%	8.6%	4.1%	5.0%	3.9%	-3.1%	-2.2%	3.5%	5.1%
Net Profit	16578	-3719	25700	11017	23451	3780	-6482	115	3389	9383
Net Margin	6.9%	-1.3%	6.8%	2.9%	6.2%	1.1%	-2.9%	0.1%	1.4%	3.1%
Free Cash Flow	7066	-4805	4309	-2743	-3420	10208	485	-6010	2369	6166
Income Tax	8365	-1501	12737	6880	6463	947	-3171	-2467	3712	7145

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	235.97	272.26	293.07	300.47	305.69	284.31	261.83	263.32	276.52	282.18
Cash & Equivalents	8339	18556	14067	18091	20894	27499	26389	23484	25586	22468
Acc. Receivable	29531	36549	27929	26485	28868	19671	13682	13393	18912	24478
Inventories	22605	26218	25661	28203	29231	18373	14142	17655	19011	17988
Goodwill & Int.	20168	22896	13315	13388	13355	13431	13001	12417	12880	29488
Total Liab. ($B)	133.86	176.37	180.59	180.71	175.28	171.66	163.45	166.47	176.11	180.63
Accounts Payable	35204	46329	29830	29920	28926	23074	16838	21575	26983	46265
Long-Term Debt	34627	45336	43521	48416	47657	52071	52465	57666	62574	65799
Total Equity ($B)	101.61	94.99	111.47	118.53	129.28	111.42	97.20	95.27	98.47	99.44
D/E Ratio	0.34	0.48	0.39	0.41	0.37	0.47	0.54	0.61	0.64	0.66

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	7.1%	-1.5%	9.1%	3.7%	7.7%	1.3%	-2.4%	0.0%	1.3%	3.4%
Return on Equity	17.2%	-3.8%	24.9%	9.6%	18.9%	3.1%	-6.2%	0.1%	3.5%	9.5%
ROIC	12.7%	-2.7%	17.3%	6.8%	13.5%	2.2%	-4.1%	0.1%	2.1%	5.7%
Shares Out.	3125.9	3132.8	3162.9	3186.6	3101.9	3033.3	3068.7	3239.2	3302.9	3350.3
Revenue/Share	76.50	93.83	117.74	117.68	119.44	114.69	72.99	58.24	72.73	89.17
FCF/Share	2.24	-1.52	1.35	-0.86	-1.08	3.31	0.16	-1.91	0.72	1.84

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

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