



BP (BP)

Updated November 12th, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	10.8%	Market Cap:	\$92.6 B
Fair Value Price:	\$42	5 Year Growth Estimate:	-2.0%	Ex-Dividend Date:	11/10/2021
% Fair Value:	64%	5 Year Valuation Multiple Estimate:	9.2%	Dividend Payment Date:	12/17/2021
Dividend Yield:	4.9%	5 Year Price Target	\$38	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	N/A

Overview & Current Events

BP is one of the largest oil and gas corporations in the world based on its \$92.6 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 about \$70 billion for that accident so far. This amount is almost equal to all its earnings since. Even in 2019, nine years after the accident, BP paid \$2.4 billion (24% of its earnings) for it. The company expects to pay \$1.5 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.

In early November, BP reported (11/2/21) financial results for the third quarter of fiscal 2021. BP greatly benefited from the rally of the prices of oil and gas to multi-year highs and improved refining margins thanks to the recovery of the energy market from the pandemic. As a result, BP grew its earnings-per-share from \$0.83 in the second quarter to \$0.99. This level of earnings-per-share, which is one of the highest of BP in the last seven years, is impressive amid the pandemic, and exceeded analysts' consensus by \$0.07. Given the impressive results, we have raised our earnings-per-share forecast for the year from \$3.20 to \$3.50. Moreover, BP reduced its debt for a sixth consecutive quarter and reiterated that it expects to keep raising its dividend by 4% per year if the price of oil remains around \$60. In such a scenario, BP also expects to repurchase \$1 billion of shares per quarter (~4% per year). The only point of concern is the sustained decrease in the production of BP, though this is in line with BP's efforts to shift towards renewable energy.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$8.06	\$5.56	\$4.26	\$3.96	-\$1.22	\$0.04	\$1.03	\$3.71	\$2.95	-\$1.69	\$3.50	\$3.16
DPS	\$1.68	\$1.98	\$2.19	\$2.34	\$2.40	\$2.40	\$2.40	\$2.43	\$2.46	\$1.89	\$1.31	\$1.52
Shares¹	3162.9	3186.6	3101.9	3033.3	3068.7	3239.2	3302.9	3350.3	3392	3388	3380	3400

BP has greatly improved its portfolio in recent years via the addition of low-cost reserves. BP grew its output by 10% in 2017, 8% in 2018 and 4% in 2019. This year, BP completed its 6-year growth program, which delivered 900,000 barrels of oil equivalent per day. However, it announced a major shift in its strategy last year. BP will boost its investment in renewable energy sources 10-fold, and it will simultaneously reduce its investment in oil and gas projects so much that it expects to reduce its oil and gas production by -42% over the next decade, from 2.6 million barrels per day now to 1.5 million barrels per day in 2030.

This historical strategic shift from its core business has greatly raised the uncertainty of future performance of BP. It also led the stock to trade at levels not seen in 25 years last year. A shift from the core business is always a red flag for any stock, particularly for BP, which has always been infamous for its aversion of renewable energy projects. Due to high uncertainty and the high comparison base formed this year, we expect the earnings-per-share of BP to decline at a -2% average annual rate over the next five years. If the oil major achieves high returns from its renewable energy projects, it may exceed our expectations but it is in uncharted waters right now and hence it is prudent to be conservative.

¹ In millions.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	5.4	7.6	10.1	11.8	---	---	35.5	11.5	13.6	---	7.7	12.0
Avg. Yld.	3.9%	4.7%	5.1%	5.0%	6.4%	7.3%	6.6%	5.7%	6.1%	5.2%	4.9%	4.0%

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 10.0 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. We believe that a fair earnings multiple for the stock is around 12.0. BP is now trading at a price-to-earnings ratio of 7.7. If it reaches our assumed fair valuation level over the next five years, it will enjoy a 9.2% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

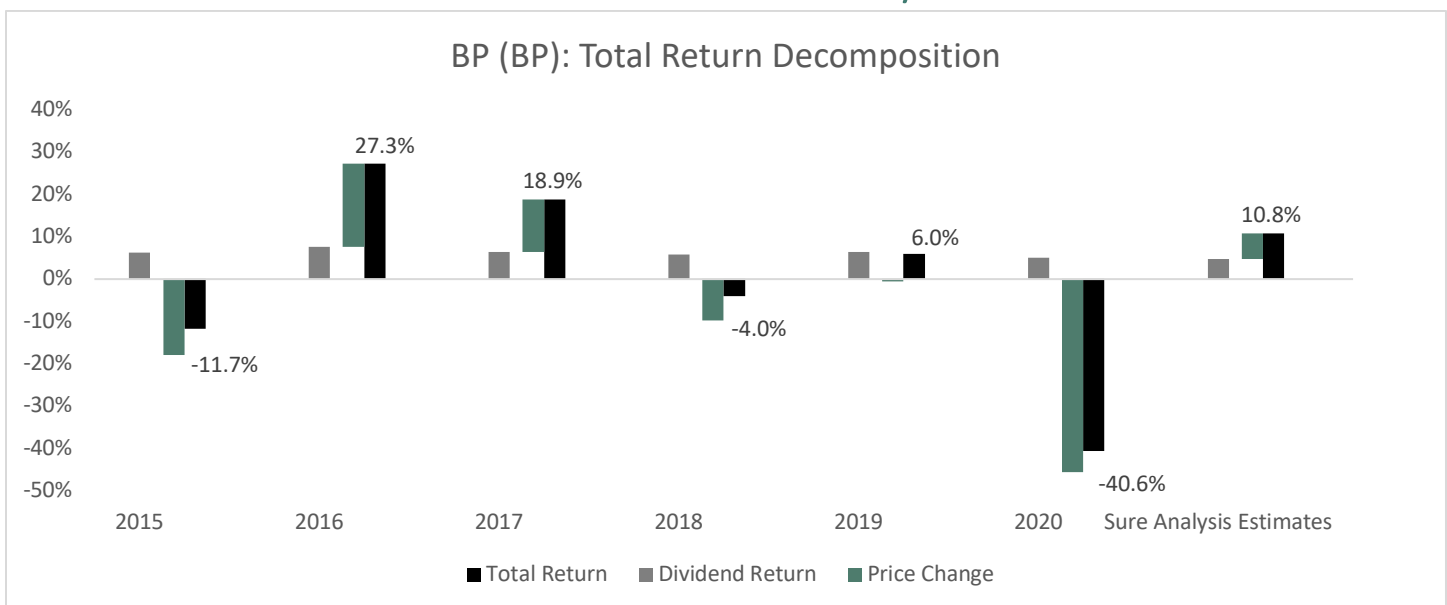
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	20.8%	35.6%	51.4%	47.2%	---	---	233%	65.5%	83.4%	---	37.4%	48.0%

After several years of a superior dividend yield, BP cut its dividend in 2020. Nevertheless, the management of BP 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, 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, but the -50% cut last year was warranted due to the debt load of the company. We view the current 4.9% dividend as safe in the absence of a prolonged pandemic.

Final Thoughts & Recommendation

After having incurred two fierce downturns, its accident in the Gulf of Mexico and the 2014-2017 downturn, BP faced another downturn last year due to the pandemic. However, the oil major is recovering strongly right now. BP has rallied 57% off its bottom last year but it remains attractive, as it could still offer a 10.8% average annual return over the next five years. We thus maintain our buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue (\$B)	375.52	375.77	379.14	353.57	222.89	183.01	240.21	298.76	278.4	180.4
Gross Profit	46339	28220	32701	26165	4809	6524	18904	28880	27,583	10,184
Gross Margin	12.3%	7.5%	8.6%	7.4%	2.2%	3.6%	7.9%	9.7%	9.9%	5.6%
SG&A Exp.	13958	13357	13070	12266	11553	10495	10508	12179	11,057	10,397
D&A Exp.	11135	12687	13510	15163	15219	14505	15584	16542	18,411	24,809
Operating Profit	32285	15491	18900	13881	-6883	-4095	8288	15256	15,562	-10,493
Op. Margin	8.6%	4.1%	5.0%	3.9%	-3.1%	-2.2%	3.5%	5.1%	5.6%	-5.8%
Net Profit	25700	11017	23451	3780	-6482	115	3389	9383	4,026	-20,305
Net Margin	6.8%	2.9%	6.2%	1.1%	-2.9%	0.1%	1.4%	3.1%	1.4%	-11.3%
Free Cash Flow	4309	-2743	-3420	10208	485	-6010	2369	6166	10,352	-144
Income Tax	12737	6880	6463	947	-3171	-2467	3712	7145	3,964	-4,159

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets (\$B)	293.07	300.47	305.69	284.31	261.83	263.32	276.52	282.18	295.2	267.7
Cash & Equivalents	14067	18091	20894	27499	26389	23484	25586	22468	22,472	31,111
Acc. Receivable	27929	26485	28868	19671	13682	13393	18912	24478	24,442	17,948
Inventories	25661	28203	29231	18373	14142	17655	19011	17988	20,880	16,873
Goodwill & Int.	13315	13388	13355	13431	13001	12417	12880	29488	27,407	18,573
Total Liab. (\$B)	180.59	180.71	175.28	171.66	163.45	166.47	176.11	180.63	194.5	182.1
Accounts Payable	29830	29920	28926	23074	16838	21575	26983	46265	46,829	36,014
Long-Term Debt	43521	48416	47657	52071	52465	57666	62574	65799	67,724	72,664
Total Equity (\$B)	111.47	118.53	129.28	111.42	97.20	95.27	98.47	99.44	98,412	71,250
D/E Ratio	0.39	0.41	0.37	0.47	0.54	0.61	0.64	0.66	0.69	1.02

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	9.1%	3.7%	7.7%	1.3%	-2.4%	0.0%	1.3%	3.4%	1.4%	-7.2%
Return on Equity	24.9%	9.6%	18.9%	3.1%	-6.2%	0.1%	3.5%	9.5%	4.1%	-23.9%
ROIC	17.3%	6.8%	13.5%	2.2%	-4.1%	0.1%	2.1%	5.7%	2.4%	-12.4%
Shares Out.	3162.9	3186.6	3101.9	3033.3	3068.7	3239.2	3302.9	3350.3	3392	3388
Revenue/Share	117.74	117.68	119.44	114.69	72.99	58.24	72.73	89.17	81.88	53.17
FCF/Share	1.35	-0.86	-1.08	3.31	0.16	-1.91	0.72	1.84	3.04	(0.04)

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

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