BP (BP)

Updated October 31st, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$37	**5 Year CAGR Estimate:**	7.5%	**Market Cap:**	$106 B
Fair Value Price:	$66	**5 Year Growth Estimate:**	-8.0%	**Ex-Dividend Date:**	11/9/2023
% Fair Value:	56%	**5 Year Valuation Multiple Estimate:**	12.3%	**Dividend Payment Date:**	12/19/2023
Dividend Yield:	4.7%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	2
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Hold

Overview & Current Events

BP is one of the largest oil and gas corporations in the world based on its $106 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 $1.3 billion for that accident in 2023.

In late October, BP reported (10/31/23) financial results for the third quarter of fiscal 2023. The prices of oil and gas rallied over the previous quarter thanks to the latest round of production cuts of OPEC and Russia. In addition, refining margins improved. As a result, earnings-per-share grew 29%, from $0.89 to $1.15, though they missed the analysts' consensus by $0.19. BP has beaten the analysts' consensus in 8 of the last 11 quarters and has reduced its debt in 13 of the last 14 quarters. It also reiterated that it can fund $4 billion of annual share repurchases and keep raising the dividend by 4% per year at a Brent price of at least $60. Earlier this year, BP announced that it will slow its transition towards renewable energy sources and will keep investing significant amounts on oil and gas projects. Given the steep rally of the prices of oil and gas during the third quarter, we were expecting higher earnings-per-share from BP in the third quarter. As a result, we have lowered our forecast for earnings-per-share in 2023 from $6.00 to $5.50.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$4.26	$3.96	-$1.22	$0.04	$1.03	$3.71	$2.95	-$1.69	$3.82	$8.74	***$5.50***	***$3.62***
DPS	$2.19	$2.34	$2.40	$2.40	$2.40	$2.43	$2.46	$1.89	$1.29	$1.38	***$1.74***	***$2.02***
Shares[1]	3101.9	3033.3	3068.7	3239.2	3302.9	3350.3	3392	3388	3274	3083	***3000***	***2900***

BP has greatly improved its portfolio in recent years via the addition of low-cost reserves. In 2020, it announced a major shift in its strategy. BP announced that it would boost its investment in renewable energy sources 10-fold, and it would simultaneously reduce its investment in oil and gas projects so much that it expected to reduce its oil and gas production by -42%, from 2.6 million barrels per day now to 1.5 million barrels per day in 2030. However, early this year, the company announced that it will implement this transition much more slowly than it initially planned.

Nevertheless, the historical shift from its core business has greatly raised the uncertainty of future performance of BP. 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. On the bright side, BP is thriving right now thanks to favorable oil prices. Oil producers are reluctant to boost their output amid fears over the secular shift from oil to clean energy sources but we expect them to eventually boost their output and drive oil prices lower, just like in all previous cycles. Due to the high base formed by the nearly 10-year high earnings this year, we expect the earnings-per-share of BP to decline at an -8% 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 unchartered waters right now and hence it is prudent to be conservative.

---

[1] In millions.

BP (BP)

Updated October 31st, 2023 by Aristofanis Papadatos

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.1	11.8	---	---	35.5	11.5	13.6	---	6.8	3.5	***6.7***	***12.0***
Avg. Yld.	5.1%	5.0%	6.4%	7.3%	6.6%	5.7%	6.1%	5.2%	5.0%	4.5%	***4.7%***	***4.6%***

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 over the last decade. It 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 BP is around 12.0. BP is now trading at a price-to-earnings ratio of 6.7 due to the abnormally high earnings expected this year. If it trades at our assumed fair valuation in five years, it will enjoy a 12.3% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

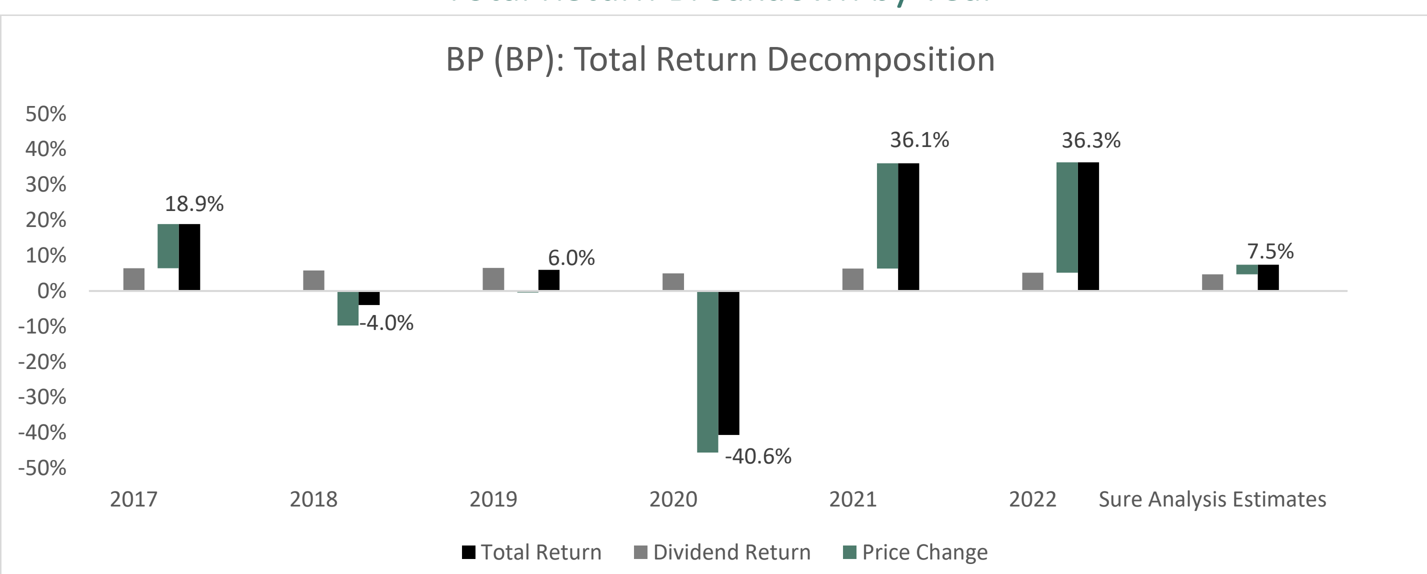
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	51.4%	47.2%	---	---	233%	65.5%	83.4%	---	33.8%	15.8%	***31.6%***	***55.6%***

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 material 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 in 2020 was warranted due to the debt load of BP. We view the current 4.7% dividend as safe, particularly given the drastic reduction of the debt of BP in the last three years.

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 in 2020 due to the pandemic. However, the oil major is thriving right now thanks to high oil prices. BP has more than doubled off its bottom in 2020. The stock could offer a 7.5% average annual return over the next five years thanks to its 4.7% dividend and a 12.3% annualized valuation tailwind, partly offset by an -8% annual decline of earnings-per-share. The stock maintains its hold rating.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

BP (BP)

Updated October 31st, 2023 by Aristofanis Papadatos

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue ($B)	379.14	353.57	222.89	183.01	240.21	298.76	278.4	180.4	157.7	241.4
Gross Profit	32701	26165	4809	6524	18904	28880	27,583	10,184	22,860	55,096
Gross Margin	8.6%	7.4%	2.2%	3.6%	7.9%	9.7%	9.9%	5.6%	14.5%	22.8%
SG&A Exp.	13070	12266	11553	10495	10508	12179	11,057	10,397	11,931	13,449
D&A Exp.	13510	15163	15219	14505	15584	16542	18,411	24,809	14,972	14,703
Operating Profit	18900	13881	-6883	-4095	8288	15256	15,562	-10,493	10,505	41,062
Op. Margin	5.0%	3.9%	-3.1%	-2.2%	3.5%	5.1%	5.6%	-5.8%	6.7%	17.0%
Net Profit	23451	3780	-6482	115	3389	9383	4,026	-20,305	7,565	-2,487
Net Margin	6.2%	1.1%	-2.9%	0.1%	1.4%	3.1%	1.4%	-11.3%	4.8%	-1.0%
Free Cash Flow	-3420	10208	485	-6010	2369	6166	10,352	-144	12,725	28,863
Income Tax	6463	947	-3171	-2467	3712	7145	3,964	-4,159	6,740	16,762

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets ($B)	305.69	284.31	261.83	263.32	276.52	282.18	295.2	267.7	287.3	288.1
Cash & Equivalents	20894	27499	26389	23484	25586	22468	22,472	31,111	30,681	29,195
Acc. Receivable	28868	19671	13682	13393	18912	24478	24,442	17,948	27,139	34,010
Inventories	29231	18373	14142	17655	19011	17988	20,880	16,873	23,711	28,081
Goodwill & Int.	13355	13431	13001	12417	12880	29488	27,407	18,573	18,824	22,160
Total Liab. ($B)	175.28	171.66	163.45	166.47	176.11	180.63	194.5	182.1	196.8	205.1
Accounts Payable	28926	23074	16838	21575	26983	46265	46,829	36,014	52,611	63,984
Long-Term Debt	47657	52071	52465	57666	62574	65799	67,724	72,664	61,176	46,944
Total Equity ($B)	129.28	111.42	97.20	95.27	98.47	99.44	98.4	71.3	75.5	67.6
LTD/E Ratio	0.37	0.47	0.54	0.61	0.64	0.66	0.69	1.02	0.81	0.6949

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.7%	1.3%	-2.4%	0.0%	1.3%	3.4%	1.4%	-7.2%	2.7%	-0.9%
Return on Equity	18.9%	3.1%	-6.2%	0.1%	3.5%	9.5%	4.1%	-23.9%	10.3%	-3.5%
ROIC	13.5%	2.2%	-4.1%	0.1%	2.1%	5.7%	2.4%	-12.4%	4.9%	-1.8%
Shares Out.	3101.9	3033.3	3068.7	3239.2	3302.9	3350.3	3392	3388	3274	3165
Revenue/Share	119.44	114.69	72.99	58.24	72.73	89.17	81.88	53.17	46.71	76.28
FCF/Share	-1.08	3.31	0.16	-1.91	0.72	1.84	3.04	-0.04	3.77	9.12

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