BP (BP)

Updated February 24th, 2025 by Aristofanis Papadatos

Key Metrics

Current Price:	$34	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$88 B
Fair Value Price:	$40	**5 Year Growth Estimate:**	1.0%	**Ex-Dividend Date:**	2/21/2025
% Fair Value:	86%	**5 Year Valuation Multiple Estimate:**	3.1%	**Dividend Payment Date:**	3/28/2025
Dividend Yield:	5.6%	**5 Year Price Target**	$42	**Years Of Dividend Growth:**	3
Dividend Risk Score:	F	**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 $88 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.

In mid-February, BP reported (2/11/25) financial results for the fourth quarter of fiscal 2024. Refining margins contracted sharply off abnormally high levels in the prior year's quarter, as the tailwind from the Ukrainian crisis faded. In addition, results were hurt by significant turnaround activity. As a result, earnings-per-share declined -59%, from $1.07 to $0.44, and missed the analysts' consensus by $0.01. BP has beaten the analysts' consensus in 11 of the last 16 quarters and has reduced its debt in 16 of the last 19 quarters. BP has stated that its dividend is sustainable even at a Brent price of $40. Unfortunately, after two years of sky-high refining margins amid the war in Ukraine, refining margins have deflated to normal levels in recent months. As a result, BP posted its worst results in the last four years. We expect essentially flat performance in 2025 vs. 2024. Notably, there are some rumors that BP may be acquired by Shell. We find such a scenario possible, given the stagnation of the two companies and the huge synergies that will arise. Nevertheless, there have been similar rumors in the past about a potential takeover of BP by Exxon but they proved wrong.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	-$1.22	$0.04	$1.03	$3.71	$2.95	-$1.69	$3.82	$8.74	$4.78	$3.26	***$3.30***	***$3.47***
DPS	$2.40	$2.40	$2.40	$2.43	$2.46	$1.89	$1.29	$1.38	$1.67	$1.83	***$1.92***	***$2.02***
Shares[1]	3068.7	3239.2	3302.9	3350.3	3392	3388	3274	3083	2804	2648	***2600***	***2500***

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, in 2023, 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 has posted above average earnings in 2021-2024 thanks to favorable oil prices. Oil prices have been supported by deep production cuts of OPEC and Russia, but we expect them to deflate in the upcoming years, given the growing production of non-OPEC members, namely the U.S., Canada and Brazil. We expect the earnings-per-share of BP to grow at a 1% average annual rate until 2030. If BP 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.

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[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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	---	---	35.5	11.5	13.6	---	6.8	3.5	7.7	10.5	***10.3***	***12.0***
Avg. Yld.	6.4%	7.3%	6.6%	5.7%	6.1%	5.2%	5.0%	4.5%	4.5%	5.3%	***5.6%***	***4.8%***

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 8.9 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 10.3. If it trades at our assumed fair valuation in five years, it will enjoy a 3.1% annualized valuation gain.

Safety, Quality, Competitive Advantage, & Recession Resiliency

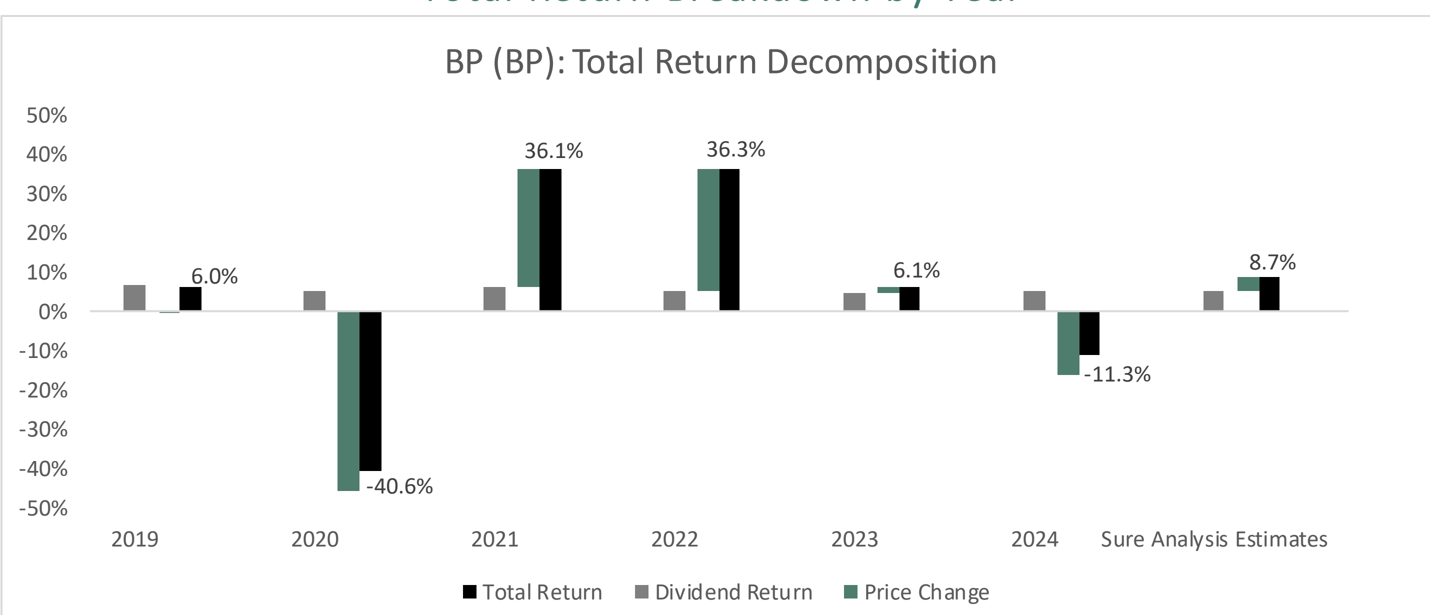
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	---	---	233%	65.5%	83.4%	---	33.8%	15.8%	34.9%	56.1%	***58.2%***	***58.2%***

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 5.6% dividend as fairly safe, particularly given the drastic reduction of the debt of BP in the last four 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 has recovered thanks to above average oil prices. The stock has rallied 17% since our last research report, in November, but it could still offer an 8.7% average annual return over the next five years thanks to its 5.6% dividend, 1% growth of earnings-per-share and a 3.1% valuation tailwind. We lower our rating from "buy" to "hold".

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue ($B)	222.89	183.01	240.21	298.76	278.4	180.4	157.7	241.4	210.1	189.2
Gross Profit	4809	6524	18904	28880	27,583	10,184	22,860	55,096	48,072	30,239
Gross Margin	2.2%	3.6%	7.9%	9.7%	9.9%	5.6%	14.5%	22.8%	22.9%	16.0%
SG&A Exp.	11553	10495	10508	12179	11,057	10,397	11,931	13,449	16,772	16,417
D&A Exp.	15219	14505	15584	16542	18,411	24,809	14,972	14,703	16,674	17,389
Operating Profit	-6883	-4095	8288	15256	15,562	-10,493	10,505	41,062	30,303	12,848
Op. Margin	-3.1%	-2.2%	3.5%	5.1%	5.6%	-5.8%	6.7%	17.0%	14.4%	6.8%
Net Profit	-6482	115	3389	9383	4,026	-20,305	7,565	-2,487	15,239	381
Net Margin	-2.9%	0.1%	1.4%	3.1%	1.4%	-11.3%	4.8%	-1.0%	7.3%	0.2%
Free Cash Flow	485	-6010	2369	6166	10,352	-144	12,725	28,863	17,754	12,000
Income Tax	-3171	-2467	3712	7145	3,964	-4,159	6,740	16,762	7,869	5,553

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets ($B)	261.83	263.32	276.52	282.18	295.2	267.7	287.3	288.1	280.3	282.2
Cash & Equivalents	26389	23484	25586	22468	22,472	31,111	30,681	29,195	33,030	39,204
Acc. Receivable	13682	13393	18912	24478	24,442	17,948	27,139	34,010	31,123	27,127
Inventories	14142	17655	19011	17988	20,880	16,873	23,711	28,081	22,819	23,232
Goodwill & Int.	13001	12417	12880	29488	27,407	18,573	18,824	22,160	22,463	24,534
Total Liab. ($B)	163.45	166.47	176.11	180.63	194.5	182.1	196.8	205.1	194.8	203.9
Accounts Payable	16838	21575	26983	46265	46,829	36,014	52,611	63,984	61,155	58,411
Long-Term Debt	52465	57666	62574	65799	67,724	72,664	61,176	46,944	51,954	59,547
Total Equity ($B)	97.20	95.27	98.47	99.44	98.4	71.3	75.5	67.6	70.3	59,246
LTD/E Ratio	0.54	0.61	0.64	0.66	0.69	1.02	0.81	0.69	0.74	1.01

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	-2.4%	0.0%	1.3%	3.4%	1.4%	-7.2%	2.7%	-0.9%	5.4%	0.1%
Return on Equity	-6.2%	0.1%	3.5%	9.5%	4.1%	-23.9%	10.3%	-3.5%	18.1%	0.5%
ROIC	-4.1%	0.1%	2.1%	5.7%	2.4%	-12.4%	4.9%	-1.8%	11.4%	0.3%
Shares Out.	3068.7	3239.2	3302.9	3350.3	3392	3388	3274	3165	2958	2803
Revenue/Share	72.99	58.24	72.73	89.17	81.88	53.17	46.71	76.28	71.03	67.50
FCF/Share	0.16	-1.91	0.72	1.84	3.04	-0.04	3.77	9.12	6.00	4.28

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