FocusRisparmio
L'Informazione sul Gestito

| | | |
|---|---|---|
| Date | 11-03-2020 |
| Page | |
| Sheet | 1/2 |

# The oil war is threatening the dividends of the oil majors

The price per barrel will fall below 30 dollars, to return to the 40-50 range by the end of 2021. And RDSA, ENI, Total and BP will be compelled to cut their payouts. Banor Sim's view

A collapse in the price of oil to values below 30 dollars, a progressive rise that should bring the barrel price back to the current levels by the end of the next year, with the major oil companies forced to revise their accounts and cut their dividends, even significantly. These are the consequences of the price war that broke out in the oil market, according to Angelo Meda, Head of Equities at Banor Sim.

The trigger, which also caused agitation on the market, was the failure to reach an OPEC agreement between Russia and Saudi Arabia during the weekend. The two countries did not succeed in reaching an agreement on a possible cut in the production of oil, a requirement that emerges in response to the weak market demand as a result of the coronavirus epidemic. The split in the cartel, explained Meda, has already caused a 25% drop in the price of oil, now quoted at 33 dollars per barrel. The 12-60 month future price is not yet quoted but it is likely to settle around 35-40 dollars per barrel.

“It is obviously not a purely economic issue", noted the expert. "Granted, Russia will earn more by selling 10 million barrels at 50 dollars a barrel than 12 million barrels at 30 dollars. Politics is also involved. At the moment, there are 20,000 American soldiers undergoing training in Lithuania, Estonia... America is imposing heavy sanctions on Russia. Could this be a move by Putin to make life difficult for Trump? All of this means that, in a short time, approximately 12 months, Saudi Arabia and Russia will place all the barrels of crude oil on the market that they can, an event that has not been witnessed since the 2015-2016 two year period”.

And if that were not enough, there is then the current problem of the double-edged crisis from the demand side and from the supply side. “Expectations are for an excess supply of over three million barrels, which will probably cause a significant drop in the price of oil down to levels that are much lower than 30 dollars in order to push small suppliers out of the market”, Meda clarifies

Of course it is impossible to rule out an OPEC+ agreement in the next few months (in 2015, it took 9 months from the announcement of the organisation of producing countries), but the expert emphasised the absence of an agreement on production cuts in today’s scenario. “After a price collapse below 30 dollars per barrel and the exit from the market of small producers of shale oil, the market will stabilise again by the end of the year and stock depletion will again bring the price of oil back to the 40-50 range by the end of 2021”, he assured.

According to Meda, we can therefore expect a three phase evolution: survival (sell-off by investors and collapse of investments from companies), inflation (capital restructuring of indebted companies and perhaps of some countries), recovery. “This time, however, recovery will be different, with blocked or optimised assets”, he warned. “The weak points are the high yield American market (with

12% energy stocks in the index), indebted oil services (especially drilling) and shale oil producers (many small-medium sized American companies). Conversely, the sectors that will benefit from a similar scenario are the refining industry (thanks to the steep price drops) and the heavy consumers of fuel (airline companies, transportation)".

What will happen to the dividends of integrated companies? Meda has a few doubts: "Starting from 2021 it is almost certain that there will be a cut", he affirmed. "The companies most at risk are ENI and RDSA, which could reduce them by 40%—or by paying temporary securities—with BP and Total closer to 30%. The pre-dividend break-even after company investments, which could be stopped, is at 25-30 dollars per barrel. The oil majors can, therefore, pull through the survival phase and, in a world of zero interest rates, when oil prices stabilise, they will automatically rebound on the markets".

In the light of what is in store for us, Meda therefore concluded, saying that the ideal time to buy will be when the price collapse is at its worst, "when the cost per barrel is below 35 dollars—it is now about 40 dollars—a significant 15% less than the current price".