

# OPERATING UNDER COVID-19: IOCS' COST EFFICIENCY STRATEGIES

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The spread of the COVID-19 pandemic crippled global oil demand and led many petroleum companies to suffer significant losses. Accordingly, they were forced to slash spending and cancel projects. As per a press release by Rystad Energy published in April, before the outbreak, the expected total revenues of exploration and production (E&P) companies were \$2.35 trillion in 2020 and \$2.52 trillion in 2021. Post the outbreak, the revenues are expected to fall to \$1.47 trillion in 2020, and to \$1.79 trillion in 2021. Consequently, the companies cut their spending by an average of 20% in early 2020. The spending is expected to further fall by 25%, from \$530 billion in 2019 to \$410 billion in 2020, with most of the projects being delayed.

In this regard, this report reflects the status of international oil companies (IOCs) in Q1 2020 and identifies their strategies to efficiently reduce their costs and minimize exposure to losses during the outbreak. The report embraces 13 IOCs which clearly identify their position and plans.

## 1. ENI

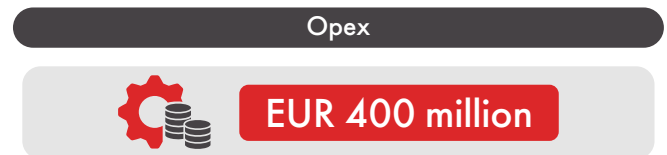
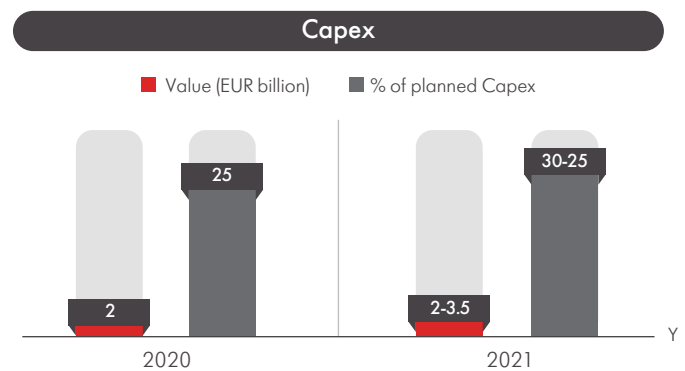
In Q1 2020, the Italian company Eni recorded a net loss of EUR 2.93 billion as opposed to a net profit of EUR 1.1 billion in the same period of 2019. The E&P adjusted operating profit particularly decreased by 55% on an annual basis, reaching EUR 1.04 billion, mainly driven by a deteriorated trading environment and lower production volumes. Eni has instantly responded to the outbreak by revising the industrial plan for 2020 and 2021 to keep a solid balance sheet and lower costs, according to Eni's Q1 2020 results report.

The company's report showed that Eni implemented widespread initiatives to save about EUR 600 million of expenses in 2020. Furthermore, with capital expenditure (Capex) revisions focused on the E&P segment, Eni's production level in 2020 is expected to decline to 1.75-1.8 million barrels of oil equivalent per day (mmbob/d), a drop of 4-6% from 2019.

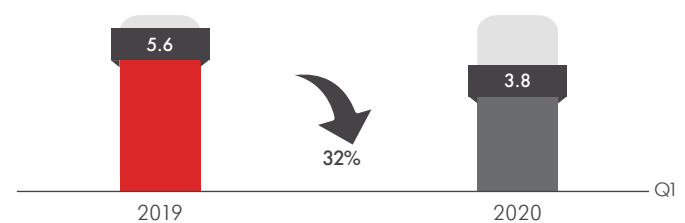
## 2. BP

In April, the UK giant BP announced spending cuts plans to combat COVID-19 effects on their financial status. The outbreak caused BP to lose \$628 million in Q1 2020, compared to a \$2 billion profit in Q1 2019, according to the company's Q1 2020 results report.

### Eni's Expenditure Cuts



### BP's Capex (\$ billion) (YoY)



For BP to protect its financial health, spending was announced to record \$12 billion in 2020, a 20% less than planned. This will include a \$1 billion cut in spending on its US shale projects, which coincided with the major decline in West Texas Intermediate (WTI) crude price, when it recorded a historical level of \$-37 per barrel on April 20.

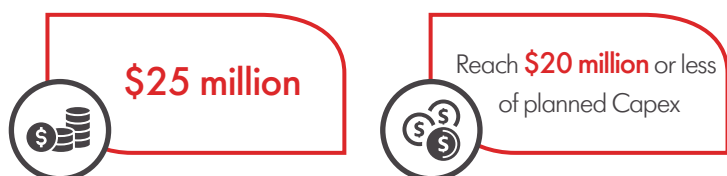
BP further expects to save \$2.5 billion by the end of 2021, compared to 2019. This will be achieved through digitization and increased integration across the group, according to the company's website.

### 3. SHELL

In April, the Dutch-British oil and gas company cut its dividend for the first time since the 1940s after a net loss of \$24 million in Q1 2020. Shell then declared a series of operational and financial initiatives which targets a reduction in the operating cost by \$3-4 billion per annum over 2020 in comparison to 2019, according to Shell's Q1 2020 results report.

These initiatives are expected to contribute \$8-9 billion of free cash flow on a pre-tax basis. The initiatives are mainly represented in Capex reduction, material reduction in the working capital, and suspension of the next tranche of the share buyback program.

#### Shell's Cuts in Capex for 2020



### 4. APACHE

In Q1 2020, the US company Apache announced a loss of \$4.5 billion, while the net cash provided by operating activities declined to \$502 million, about 16% lower in comparison to Q1 2019. However, the company still has a strong liquidity position which is supported by a \$4 billion revolving credit facility with a maturity date in March 2024, according to Apache's Q1 2020 results report.

To strengthen its financial position, the company reduced dividends by 90% and set plans to use \$340 million of cash retained from the dividend reduction.



For upstream, Apache also revised the 2020 upstream capital budget to reach \$1.1 billion, 55% lower from 2019. The company planned to reduce activities in Egypt and the North Sea as well and to eliminate all US drilling activities, driving upstream investments to decline by \$650 million, from the company's initial budget announced in late February which ranged between \$1.6-1.9 billion.

### 5. SDX ENERGY

During Q1 2020, SDX Energy, the UK-based company, announced that its net revenues jumped to \$16 million, an increase of 26% compared to the same period in the last year. As the company has a strong liquidity position and its activities were not affected by the outbreak, Q1 2020 actual entitlement production was 117% higher than that of Q1 2019, according to SDX Energy's Q1 2020 results report.

For Capex, it increased to \$15.5 million in Q1 2020, up from \$13 million in Q1 2019. While for 2020, Capex has been revised up from \$24.7 million as per the Company's 2019 annual results statement provided on 7 April, to \$28.2 million. This increase reflects the 100% cost of tying in the successful SD-12X well in South Disouq in April. However, Capex 2020 is 34% lower than that of 2019 as the company tries to maintain its balance sheet solid and operate its assets efficiently during the pandemic.

#### SDX's Capex (\$ million) (YoY)

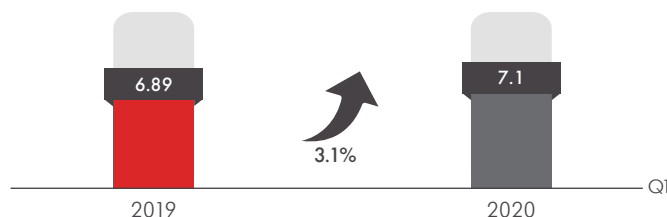


### 6. EXXONMOBIL

According to the US company ExxonMobil's report for Q1 2020 results, the company recorded a total loss of about \$0.61 billion compared to earnings of \$2.4 billion in the same period last year.

The current circumstances made the company reduce its Capex by 30% and reduce the Operating expenses (Opex) by 15%. The company expects its Capex to decrease to \$23 billion by the end of 2020 from \$33 billion in 2019, according to the company's Q1 2020 results report.

#### ExxonMobil's Capex (\$ billion) (YoY)



### 7. CHEVRON

Chevron's Q1 2020 results report showed that the American company's cash flow from operations in Q1 2020 declined by 7.8% to \$4.7 billion, down from \$5.1 billion in Q1 2019. Furthermore, the Capex declined by 6.4% between Q1 2019 and Q1 2020. The company's Capex in H2 2020 is expected to be about \$7 billion.

#### Chevron's Capex (\$ billion) (YoY)



Chevron has taken several steps to maintain a stable balance sheet during the crisis, including suspension of share repurchases and the completion of additional asset sales. In addition, artificial intelligence (AI) technology and data analytics were used to drive logistics, increase efficiency, and lower costs. The company further plans to reduce 2020 Capex guidance by \$4 billion (20%), according to Chevron's website.

### 8. ENERGEAN OIL & GAS

The London-based independent E&P Company's activities were not affected by COVID-19 during Q1 2020, as mentioned in the company's outlook. The company targets cutting costs and controlling financial discipline, where investments will be reduced by \$155 million in Greece and Israel. The budget for Egypt will decline by \$140 million, according to Reuters company-by-company rundown, published in March.

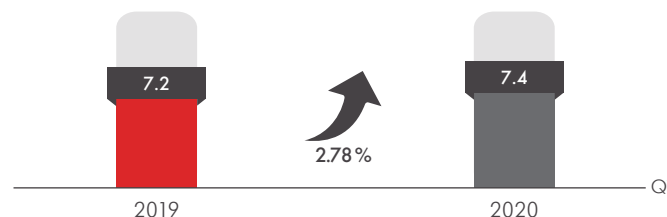
Energean also plans to increase revenues to more than \$1.4 billion and reduce general and administrative (G&A) expenses to \$25-30 million as medium-term targets, according to Energean's Investor Update, announced in April.

### 9. SAUDI ARAMCO

Saudi Aramco announced that the company has proven its financial and operational strength in Q1 2020, despite the challenges due to the outbreak. The company's net income remained \$16.7 billion despite the low crude oil prices, due to the prudent balance sheet management and low-cost structure.

Despite the increase in Aramco's Capex for Q1 2020, the company plans to cut its Capex by about 25-29% to range between \$25-30 billion in 2020, according to the company's Q1 2020 results which was published in May.

#### Saudi Aramco's Capex (\$ billion) (YoY)



It is worth noting that the increase in Q1 2020 Capex was due to the continued project development and upgrades at various facilities.

### 10. WINTERSHALL DEA

To confront the effects of the outbreak, the German Wintershall Dea announced a 30% reduction in its development and production Capex in 2020 compared to that of 2019, according to the company's Q1 2020 results report. In addition, 2020 Opex was reduced by 10% on an annual basis and common dividend was suspended.

The results report further showed that the company has followed decisive measures to keep its financial balance, including trimming the exploration budget by 20% from EUR 340 million in 2019 to EUR 150-250 million.

One main element in Wintershall Dea's strategy to combat COVID-19 is digitalization, which saves 20% of annual operating cost for the company and assets in maintaining safety. For example, the Mittelplate Platform Digital Twin saves around EUR 1 million per year.

#### Wintershall Dea's Capex (EUR million)

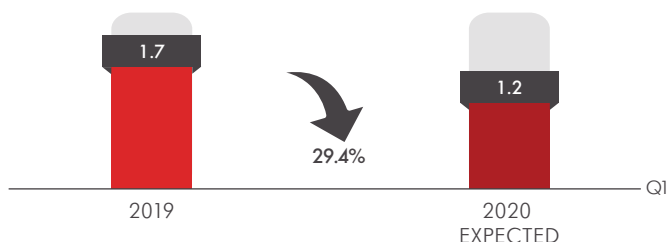


### 11. SCHLUMBERGER

Schlumberger's revenues reached \$7.5 billion in Q1 2020, a decline of 5% in comparison to \$7.9 billion in Q1 2019, according to the company's Q1 2020 results report.

The company plans to reduce capital investments to \$1.8 billion, over 30% less than in 2019, according to the company's press release for Q1 2020 results. It is worth noting that the capital investments include Capex and other relevant investments.

#### Schlumberger's Capex (\$ billion) (YoY)



### 12. HALLIBURTON

The outbreak led Halliburton to record a net loss of \$1 billion in Q1 2020. In addition, the total revenues of the company declined by 12%, from \$5.7 billion in Q1 2019 to \$5 billion in Q1 2020, according to the company's Q1 2020 results report.

To contain the negative effects of COVID-19 outbreak, the US field service company depended on a strategy that targets taking swift actions to reduce overhead and other costs by \$1 billion, in addition to reducing the Capex to \$800 million, according to the company's Q1 2020 results report.

#### Halliburton Capex (\$ million) (YoY)

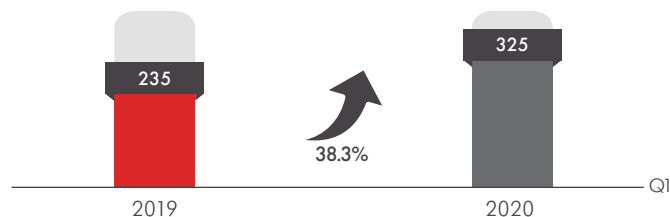


### 13. BAKER HUGHES

The American Baker Hughes' revenues recorded \$5.4 billion in Q1 2020; a 3% decline compared to Q1 2019. In addition, the company's adjusted operating income amounted to \$240 million, remarking 56% decline compared to the same period last year, according to the company's Q1 2020 results report.

Baker Hughes followed a strategy to navigate the current challenging environment, including cutting costs, accelerating structural changes, deploying technology, and optimizing processes that can lower costs for the clients. Capex was reduced by more than 20% in 2020 compared to 2019. In addition, the company is working on delivering on a portfolio evolution strategy, as mentioned in the Q1 2020 results report mentioned.

#### Baker Hughes's Capex (\$ million) (YoY)



### 14. TOTAL

The French company, Total, announced immediate action plan in March, setting expectations for the company's production in 2020 to range between 2.95 and 3 mmbob/d, taking into consideration some contractionary measures in Canada, the exceptional quotas announced by OPEC+, the lower local demand for gas, and the situation in Libya.

Total's net investments recorded \$ 3.63 billion in Q1 2020 compared to \$ 3.1 billion in Q1 2019, with about 18.4% increase. The boost was due to the increase in both acquisitions and asset sales, substituting the decrease in investments, according to Total's press release for Q1 2020 results .

Total plans to decrease the net investments by 25% in 2020 to be less than \$14 billion and to reduce operating costs by \$1 billion, according to Total's press release.

#### Total's Adjusted Opex (\$ billion) (YoY)



The company will cut 20% of its Capex, equivalent to more than \$3 billion. Moreover, the company will save on operating costs of \$800 million in 2020, according to the company's press release, in March.

Some IOCs' operations were not affected in Q1 2020 because of their quick responses, having strong liquidity positions and setting long-term plans. However, with the double crises of the price downturn and the COVID-19 pandemic, most of the IOCs followed the strategy of trimming their portfolio by cutting Capex and reducing investment spending. Thus, 2020 is expected to witness the lowest implemented projects since the 1950s, in terms of the total sanctioned investments. These investments are expected to drop to \$100 billion in comparison to those in 2019, according to Rystad Energy press release published in April.

The release also stated that this crisis not only affects the companies' solidity and reduces investments and dividends, but also considerably cuts government tax revenue. Hence, it will be challenging for oil dependent states such as Russia and other countries to sustain their budgets.