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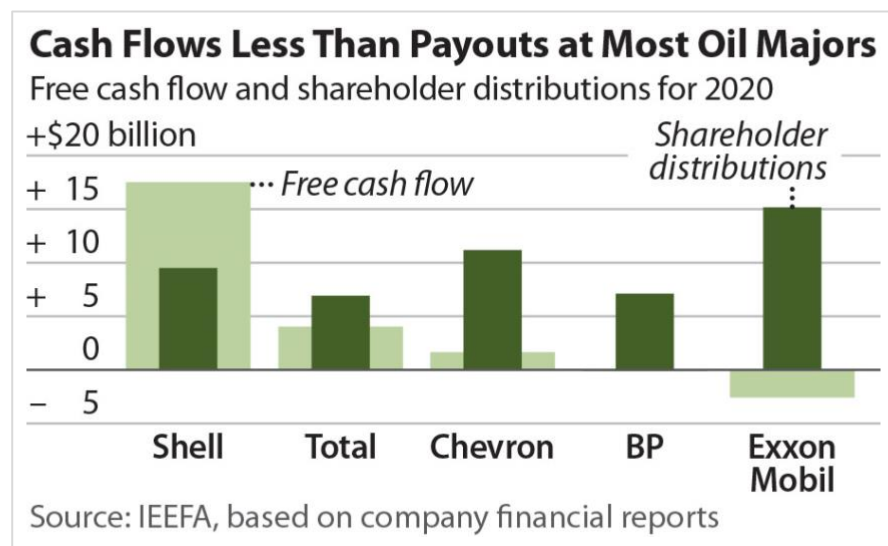
Running on Fumes: Oil and Gas Supermajor Cash Woes Worsened in 2020

Big 5 Oil Companies Paid $29.4 Billion More to Shareholders Than Their Core Operations Generated

During 2020, four of the world's five largest private-sector oil and gas companies failed to generate enough cash from their primary business—selling oil, gas, refined products, and petrochemicals—to cover their cash payments to shareholders. ExxonMobil paid $17.8 billion more to shareholders during the year than it generated from its core business operations; Chevron paid $9.5 billion more; BP paid $7.3 billion more; and Total rewarded its shareholders with $2.9 billion more than it generated.

Only Shell broke from its peers, generating a $8.0 billion cash surplus. To do so, however, the company reduced dividends by two-thirds (the firm's first per-share dividend cut since 1945), while suspending share buybacks and slashing capital expenditures by 28% year-over-year.



All told, these firms rewarded stockholders with $49.9 billion in dividends and share buybacks last year, almost two-and-a-half times the $20.5 billion the companies generated in free cash flows. (See Table 1.) Despite cutting shareholder cash distributions by 30% year-over-year, and trimming capital spending by 26%, the supermajors allowed their cumulative gap between free cash flows and shareholder payouts to balloon to $29.4 billion in 2020, almost triple the previous year's deficit.

Table 1: Five Oil and Gas Supermajors: Free Cash Flow, Shareholder Distributions, and Cash Deficits, 2019-2020 (Million $USD)

	Free Cash Flow	Dividends and Buybacks	Surplus/ (Deficit) 2020	Surplus/ (Deficit) 2019
ExxonMobil	($2,585)	$15,170	($17,755)	($9,891)
Chevron	$1,655	$11,182	($9,527)	$1,304
Shell	$17,520	$9,508	$8,012	($7,353)
BP	($144)	$7,116	($7,260)	$1,895
Total SA	$4,039	$6,925	($2,886)	$3,876
Sum, 5 supermajors	**$20,485**	**$49,901**	**($29,416)**	**($10,169)**

Source: IEEFA, based on company financial reports.

These 2020 results spotlight a harsh reality: Investors can no longer count on the oil and gas supermajors to generate abundant, sustainable cash returns. All told, these five companies generated $325 billion in free cash flows over the past decade, while rewarding their shareholders with a whopping $561 billion in share buybacks and dividends—leaving a cash shortfall of $236 billion. The companies covered this deficit mostly by borrowing money and selling assets. Said differently, over the last decade these five companies covered only 58 percent of their shareholder payouts from free cash flows, filling the 42 percent funding gap via other means. (See Table 2.)

Table 2: Five Oil and Gas Supermajors: Free Cash Flow, Shareholder Distributions, Cash Deficits, 2011 – 2020 (Million $USD)

	Free Cash Flow	Dividends and buybacks	(Deficit)	FCF as Share of Payouts
ExxonMobil	$113,325	$200,798	$(87,473)	56%
Chevron	$38,700	$98,983	$(60,283)	39%
Shell	$121,651	$131,185	$(9,534)	93%
BP	$21,503	$70,801	$(49,298)	30%
Total SA	$29,863	$59,199	$(29,337)	50%
Sum, 5 supermajors	**$325,042**	**$560,966**	**$(235,925)**	**58%**

Source: IEEFA, based on company financial reports.

Discussion

Generous dividends and share buybacks give the globe's largest private oil and gas companies a veneer of blue-chip financial performance. But closer examination reveals an underlying financial weakness: During the past decade, not one of the supermajors has been able to generate enough cash from its core businesses to fully fund payments to shareholders.

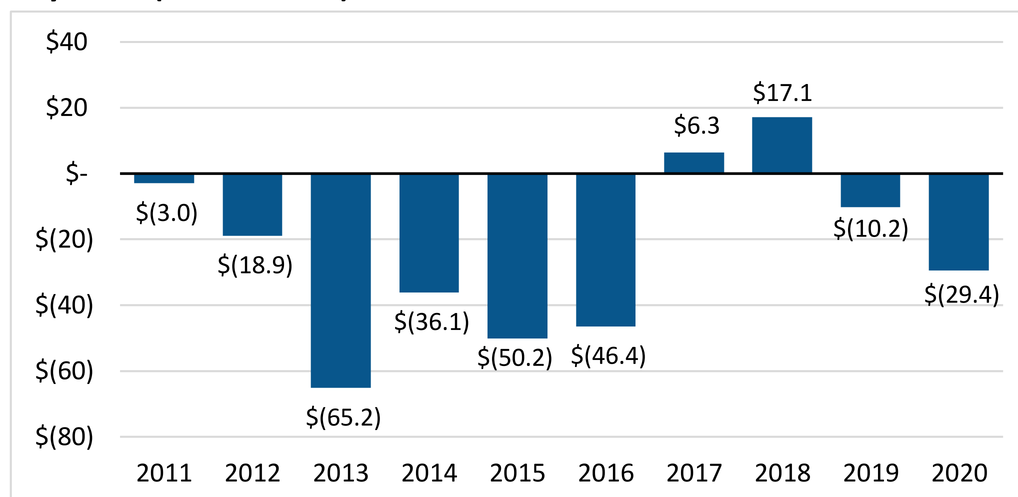
Investors typically expect private companies to fund shareholder payouts with free cash flow—the cash generated by the company's operations, minus cash spent on capital projects.[1] When a company deviates from this standard, cautious investors will carefully scrutinize the firm's business model and financial underpinnings. Over the past decade—and particularly since 2014—investors have taken an increasingly skeptical view of the oil and gas majors, prompted in part by their sustained inability to produce the robust free cash flows needed to fund payouts to shareholders.

The oil majors' cash shortfalls varied by year. (See Figure 1.) In 2013 and 2014, high oil prices helped the supermajors generate ample sales—yet the firms also spent prodigiously on capital projects and shareholder distributions, leading to steep cash flow deficits. And in 2015 and 2016, a crash in oil prices constrained revenues, leading to two consecutive years of negative free cash flows—and two more years of substantial cash deficits.

The following two years brought better cash results. But by 2019, the supermajors fell back into deficit spending. And during last year's COVID crisis and the resulting oil market turmoil, most supermajors suspended share repurchases, two cut dividend payments, and all five reduced capital spending. Yet these austerity measures couldn't fully mitigate low oil and natural gas prices on top of wilting oil and gas demand. As a result, the gap between the supermajors' free cash flows and shareholder payouts nearly tripled, year over year.

[1] Regular warnings are issued by rating agencies, investment publications and the business press about the elevated levels of financial distress that accompany using high levels of debt and asset sales as the means to pay dividends. The warnings are issued as general investment policy and are also specific to the oil and gas industry. See: The Wall Street Journal. Big Oil Opts for Payouts Over Debt Rating. February 4, 2016.
Moody's. Leveraged Finance – US: Tracking The Largest Private Equity Sponsors: LBO Credit Quality Is Weak, Bodes Ill For Next Downturn. October 18, 2018. Forbes. Is Chevron's Debt-Funded 4.5% Yield Really Worth 70x P/E, 300% Payout? March 31, 2016. The Wall Street Journal. Borrowing for Dividends Raises Worries. October 6, 2009. The Money Commando. Avoid companies that borrow to pay a dividend. September 2016. Stone Fox Capital. Exxon Mobil: Dividend Problems. December 16, 2019.

Figure 1: Five Supermajors: Free Cash Flow Minus Dividends and Buybacks (Billion $USD)



Source: IEEFA, based on company financial reports.

The five oil supermajors have historically viewed dividends as sacrosanct to their investors. Chevron, ExxonMobil, Shell, and Total maintained steady dividend increases over the past decade, gambling that investors would reward their commitment to shareholder payouts in the midst of oil market instability. Although BP suspended its dividend after the Macondo well blowout in the Gulf of Mexico, the company resumed dividend payments the following year after as its exposure to fines and clean-up costs became more clear.

But in the wake of low oil prices during the COVID-19 pandemic, Shell lopped two-thirds of its dividend in 2020—the company's first dividend cut since 1945. BP followed suit and halved its dividend towards the end of last summer. Prior to this point, BP had steadily boosted its per-share payments since it resumed paying dividends in 2011.

For all five companies, asset sales represented a crucial source of cash for dividends and share buybacks. The oil and gas supermajors typically describe their asset sales as efforts to streamline their portfolios and meet high-value strategic goals. Yet asset sales also served as critical sources of cash for annual shareholder payouts. Shell led the supermajors in asset sales over the decade, raising $67.0 billion from asset sales since 2011, trailed by BP at $59.2 billion. Yet 2020 represented the low-water mark for asset sales over the decade, with just $14.2 billion in asset sales across the five firms—the lowest level since 2009—even though the companies have all signaled they are open to selling a significant portion of their assets.[2]

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[2] Rystad.com. Majors' global selling spree could fetch $27 billion. November 18, 2019. CNBC. A $100 billion Big Oil divestiture plan is coming. October 4, 2020.

All five companies also took on new long-term debt last year. Exxon led the way, boosting long-term debt (net of lease obligations) by $20.8 billion. Chevron nearly matched Exxon, with $19.1 billion in new long-term debt, followed by Total ($12.4 billion), Shell ($9.8 billion) and BP ($6.1 billion).

By selling assets and taking on new debt to fully fund shareholder payouts, the oil and gas supermajors run the risk of eroding their long-term value proposition and alienating investors. Meanwhile, falling capital spending may augur a reduction of growth, further clouding the supermajors' prospects.

Although a recent spike in crude oil prices and an easing of the COVID crisis have lifted the supermajors' stock values, the futures markets have not yet gotten on board with the price increases. The 2022 crude oil futures calendar strip averages 12% below the current WTI crude oil price, with prices falling back towards $50/barrel in the out-years—suggesting that many market participants see the recent surge as short-lived.

Volatile prices and weakening long-term crude demand do not support the idea that supermajors will once again become reliable cash generators. And credit ratings agencies have begun to take notice of the oil and gas industry's deteriorating prospects. Last year, S&P Global Ratings lowered the ratings of both ExxonMobil and Chevron by one notch, to AA- from AA, with S&P noting that the industry faces a "more difficult operating environment."

More pointedly, given the supermajors' decade of weak cash performance, one might say that the oil and gas majors are now running on fumes.

Sources and Methods

Data used in this report were drawn from U.S. Securities and Exchange Commission (SEC) filings. For ExxonMobil and Chevron, data were taken from annual 10-K forms. For Shell, BP, and Total, data were taken from 20-F forms 2019 and prior years, and from 6-K (Current Report) filings for 2020.

IEEFA took additional steps to check the validity of the trends that are suggested by the data. In a few instances, the authors checked with company investor relations to determine the accuracy of the formal securities disclosures. IEEFA also reviewed numerous credit opinions and analytical updates conducted by Moody's on each of the companies for the period covered in this paper. Moody's analytical systems treat many of the data sets used in this report differently. IEEFA did not change any number based on these studies and relied exclusively on the corporate data reported in each company's financial filings. The Moody's reports were used as sensitivity checks on trends and as additional explanation to support IEEFA's data gathering, analysis and conclusions.

All spreadsheets and work products for this report are available on request, as are any of the independent studies used for sensitivity checks.

Terminology: The five supermajors used slightly different terms and reporting methods in their financial statements. IEEFA believes that variations in definitions, terms, and currencies do not materially impact the basic trends identified in this report. The system of uniform accounting that serves as the basis for formal annual and quarterly company disclosures under U.S. and international securities laws enables reasonable comparisons among the companies on the financial metrics selected for review in this study.

Free Cash Flow: IEEFA calculated Free Cash Flow as net cash from operating activities minus capital expenditures, defined as follows:

> **Net cash from operating activities**. In recent audited financial statements this value was indicated on cash flow statements as "Net cash provided by operating activities" for ExxonMobil, Chevron, and BP, and as "Cash flow from operating activities" for Shell and Total.
>
> **Capital expenditures.** This value was listed on cash flow statements as "Additions to property, plant, and equipment" for ExxonMobil, "Capital expenditures" for Chevron, "Capital expenditure" for Shell and BP, and "Intangible assets and property, plant and equipment additions" for Total.

Net additions to long-term debt: Total long term-debt was listed as "Long-term debt" for ExxonMobil, Chevron, and Shell, as "Finance debt" for BP, and as "Non-current financial debt" for Total. Where possible, IEEFA excluded lease obligations from long-term debt. Lease obligations were listed in different ways over time for each company. ExxonMobil reported "capitalized lease obligations" as a separate line item on its balance sheet. Chevron reported "capital lease obligations" as part of its long-term debt for 2017 through 2019, but as a separate line item in prior years. Shell listed "finance lease liabilities" in notes to the balance sheet. BP did the same for "net obligations under finance leases," and Total for "financial lease obligations."

Asset Sales: In recent financial statements, ExxonMobil listed asset sales as a single line item: "Proceeds associated with sales of subsidiaries, property, plant and equipment, and sales and returns of investments." Chevron reported asset sales as "Proceeds and deposits related to asset sales and returns of investment." Shell's cash flow statements had separate listings for "Proceeds from sale of property, plant and equipment and businesses" and "Proceeds from sale of joint ventures and associates," which IEEFA summed to a single total for asset sales. BP listed "Proceeds from disposals of fixed assets" separately from "Proceeds from disposals of businesses, net of cash disposed," which IEEFA summed to a single total. For Total, IEEFA calculated asset sales as the sum of "Proceeds from disposals of intangible assets and property, plant and equipment" and "Proceeds from disposals of subsidiaries, net of cash sold."

Dividends: For all companies and in all periods, IEEFA tallied all dividends to common stock shareholders listed on the cash flow statements, excluding all other forms of dividend payments, including dividends to non-controlling interests.

Net share buybacks: The five companies reported buybacks of common shares in varied ways. Some listed a single number for net purchases/sales; others with

separate line items for issuances and repurchases. And some companies listed separate totals for issuance and repurchases of common shares and treasury shares. We combined all common share issuance and buybacks into a single net total for each company, in each year.

Net distributions to shareholders: IEEFA calculated this figure as the sum of dividends and net share buybacks.

Exchange rates: Prior to 2011, Total reported its financial results in euros. All figures were converted into U.S. dollars, using the annual exchange rates listed in Total's financial reports.

About IEEFA

The Institute for Energy Economics and Financial Analysis (IEEFA) examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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