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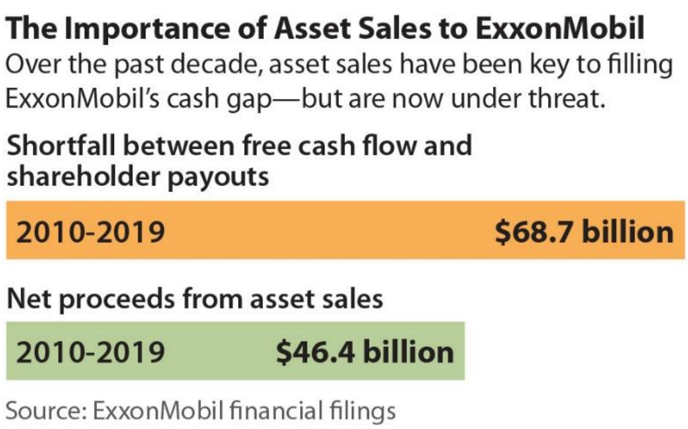
ExxonMobil's Planned Assets Sales: Another Strategic Misstep

Company's Problems Began Long Before Pandemic, Oil Price War
Any Asset Sales Likely to be Distressed

Executive Summary

ExxonMobil's strategy of selling assets to plug persistent holes in its annual cash budget will continue to fall short. Even before this year's oil price rout, ExxonMobil's planned asset sales were confronting a challenging market. In 2019, the company anticipated $5 billion in proceeds from asset sales, but produced only $3.7 billion, well below the company's targets and about $1 billion below its ten-year average annual average.



Key Findings

- Even before this year's market turmoil, ExxonMobil backed away from aggressive plans to sell assets to raise cash.
- The company has reduced its asset sales targets from $5 billion per year to $3 billion per year.
- Annual asset sales help the company pay annual dividends, despite low oil prices.
- Low oil prices and weak asset sales put pressure to borrow more at a time of higher interest rates for oil and gas companies.
- Asset sales in 2019 were nearly $1 billion short of 10-year average.

In March 2020, at its annual Investor Day Conference, the company re-adjusted its annual asset sales target from $5 billion per year to $3 billion per year through 2025. Yet even that lowered target may be unrealistic in today's market.

Asset sales play an important role in ExxonMobil's annual cash management strategy. Over the past decade, the company has covered one-third of its total cash distributions to shareholders through sources other than free cash flow. Asset sales have provided key cash infusions to make up that shortfall.[1] Troubles with asset

[1] IEEFA.org. Living beyond their means: Cash flows of five oil majors can't cover dividends, buybacks. January 2020.

sales, particularly at a time of low oil prices, are likely to create additional cash flow challenges for the world's largest private sector oil company.

With weak, or potentially *no,* asset sale proceeds, ExxonMobil will increasingly be forced to borrow to cover its dividend payments and capital expansion plans. Moody's, which has an Aaa rating on Exxon, cited rising debt concerns when putting the company on negative outlook. Last week, during a turbulent time in the bond markets, the company borrowed an additional $8.5 billion to support its capex and dividend strategies.

Analysis

Even before this year's oil price rout, ExxonMobil's assets sales were falling short. ExxonMobil realized $3.7 billion from 2019 asset sales, nearly $1 billion shy of its 10-year average. (See Table 1.) The company's sole major sale in 2019—a late-December transaction for Norwegian oil assets—netted $3.1 billion in cash for the year, but also contributed to company-wide production shortfalls.[2]

Table 1: ExxonMobil: Sources of Cash for Shareholder Distributions (in millions USD)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10-Year Total
IEEFA Calculations											
Free cash flow	21,542	24,370	21,899	11,245	12,164	3,854	5,919	14,664	16,440	5,355	137,452
Net distributions to shareholders	20,548	30,151	30,967	26,823	24,721	16,124	13,424	13,748	14,424	15,246	206,176
Surplus/(Deficit)	***994***	***(5,781)***	***(9,068)***	***(15,578)***	***(12,557)***	***(12,270)***	***(7,505)***	***916***	***2,016***	***(9,891)***	(68,724)
Additional cash, not from operations											
Y-o-y borrowings (repayment)	5,162	(2,861)	(1,565)	(981)	4,762	7,409	9,020	(4,628)	(3,844)	5,437	17,911
Y-o-y cash drawdown (build)	2,868	(4,839)	3,082	4,938	28	911	48	480	135	(47)	7,604
Proceeds from asset sales	3,261	11,133	7,655	2,707	4,035	2,389	4,275	3,103	4,123	3,692	46,373
Cash from reserves, asset sales, and	***11,291***	***3,433***	***9,172***	***6,664***	***8,825***	***10,709***	***13,343***	***(1,045)***	***414***	***9,082***	71,888
Dividends	(8,498)	(9,020)	(10,092)	(10,875)	(11,568)	(12,090)	(12,453)	(13,001)	(13,798)	(14,652)	(116,047)
Share buybacks	(12,050)	(21,131)	(20,875)	(15,948)	(13,153)	(4,034)	(971)	(747)	(626)	(594)	(90,129)
Long-term debt net of lease obligations	11,923	9,062	7,497	6,516	11,278	18,687	27,707	23,079	19,235	24,672	159,656
Proceeds from asset sales	3,261	11,133	7,655	2,707	4,035	2,389	4,275	3,103	4,123	3,692	46,373

Exxon Mobil typically sets multi-year asset sale targets to complement its revenue estimates.[3] The company then adjusts the goals at least annually to reflect actual performance, underlying market conditions, and company strategy. From 2010

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[2] ExxonMobil.com. 2019 10K. p. 109. ExxonMobil.com. Investor day presentation 2020. March 5, 2020.
[3] ExxonMobil.com. Investor Day 2019. See pages 25, 26 and the cash flow estimates inclusive of asset sales on page 28.

through 2019, Exxon Mobil averaged $4.6 billion annually in asset sales, with a high of $11.1 billion in 2011 and a low of $2.4 billion in 2015. Over the last five years the company realized annual asset sales averaging $3.5 billion.

The current round of sales began in early 2019 when Darren Woods, the company's CEO, noted that the company had "an opportunity to trade out some of the existing assets."[4] When the company formalized those plans, announcing a hard number, $15 billion, a hard deadline, 2021,[5] it "expected increased divestment activity over the next three years." On an annual basis, this target called for $5 billion in asset sales per year.

Analysts covering the company raised questions at the quarterly earnings call in June. When asked whether sales had been lighter than expected, a company executive responded that "we're just four months into a three-year program."[6] In September, researchers from Wood Mackenzie reportedly identified potential problems with the company's Australian sales, noting that the holdings were "complex, mature assets," and that buyers would "have to get comfortable with the age of the assets, declining production and significant decommissioning liabilities."[7] During the third quarter earnings call, an ExxonMobil executive claimed that the divestment plan was "progressing well and ahead of schedule," stressing that "we feel good about the assets that are being marketed in terms of interest, and we expect to continue to put more assets in the market as we get close to the end of the year."[8]

ExxonMobil appeared to remain committed to its ambitious $5 billion per year asset sale goal through 2019. In November, citing unnamed Exxon sources and "three banking sources," Reuters reported that ExxonMobil was planning an increase in asset sales that could reach $25 billion by 2025.[9] Reuters reported that the potential sales would span 11 countries across 4 continents. In Asia, ExxonMobil hoped to sell holdings in Indonesia and Malaysia.[10] In Africa, the company was planning asset sales in Chad, Equatorial Guinea,[11] and Nigeria. Last year, the company put Australian holdings up for sale.[12] And the company has also announced plans to

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[4] Fool.com. ExxonMobil (XOM) Q4 2018 Earnings Conference Call Transcript. February 1, 2019.
[5] ExxonMobil.com. Investor Day 2019. March 6, 2019, p. 26.
[6] Fool.com. Exxon Mobil Corp (XOM) Q2 2019 Earnings Call Transcript. June 30, 2019.
[7] HoustonChronicle.com. Exxon Mobil puts offshore Australian assets up for sale along with other regions. September 19, 2019.
[8] Fool.com. Exxon Mobil Corp (XOM) Q3 2019 Earnings Call Transcript. November 1, 2019.
[9] Reuters.com. Exclusive: Exxon aims to sell $25 billion of assets to focus on mega-projects – sources. November 21, 2019. Although this appeared to be an increase it is probably a decrease in actual plans. The plan announced in March 2019 at the Investor Day set a target of $15 billion by 2021, or $5 billion per year. This plan, though somewhat vague in details, appears to set a goal of $25 billion by 2025. Assuming that this is a plan that would commence with 2020 and go through 2025, or six calendar years, then the company's target was now on an annual basis $4.1 billion, not $5 billion.
[10] Reuters.com. Exclusive: Exxon aims to sell $25 billion of assets to focus on mega-projects – sources. November 21, 2019.
[11] WSJ.com. Exxon considers sale of oil assets in Equatorial Guinea. January 12, 2020.
[12] HoustonChronicle.com. Exxon Mobil puts offshore Australian assets up for sale along with other regions. September 18, 2019.

stage a de facto exit from the upstream oil business in Europe.[13] (Separately, the Netherlands government has mandated the early closure of a gas field, jointly operated by ExxonMobil and Shell, due to concerns about earthquakes.)[14]

But in its year-end financial report for 2019, ExxonMobil's asset sales had fallen short of the $5 billion target. The company realized just $3.7 billion in cash from asset sales in 2019, principally from the sale of its Norwegian oil assets. And at its Investor Day 2020 in March, ExxonMobil reduced its asset sales target for 2020 and 2021 downward from $5 billion to $3 billion annually, and folded the two years into a plan that assumed $3 billion annually through 2025.[15]

ExxonMobil's current asset sale plan of $3 billion per year may also be at risk. ExxonMobil isn't alone in its divestment plans: other global oil and gas supermajors plan to sell off assets as well.[16] With numerous large oil companies looking to unload assets that do not fit the definition of a high grade asset, the risk is that any sales—if they occur at all—may be for substantially less than anticipated. Furthermore, in the current environment where many companies are reducing capital expenditures, less money will be available for acquisitions.

A Cash-Flow Crunch?

ExxonMobil has increased its dividend payments for 37 consecutive years, and regularly distributes cash to shareholders by means of share buybacks. Yet over the past decade, the company's free cash flows have only covered two-thirds of these payouts. Just last year, ExxonMobil paid $15.3 billion to shareholders, while generating only $5.4 billion in free cash flows—leaving a $9.9 billion deficit that the company made up from other cash sources, including $5.4 billion in new long-term borrowing and $3.7 billion in asset sales.

Credit analysts increasingly cite ExxonMobil's cash flow challenges as a headwind for the company. Moody's pointed to the company's cash flows through 2021 when it changed its outlook from stable to negative, noting that even if ExxonMobil completes its planned asset sales, the company's debt levels will still increase.[17] Similarly, S&P recently downgraded Exxon from AA+ to AA while maintaining its negative outlook, citing concerns about the company's cash flow.[18]

In mid-March 2020, the company issued an $8.5 billion bond to support its 2020 capex and dividend plans.[19] It paid a premium for the investment. A Morgan Stanley

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[13] HoustonChronicle.com. Exxon Mobil puts offshore Australian assets up for sale along with other regions. September 18, 2019.
[14] Reuters.com. Netherlands to halt Groningen gas production by 2022. September 10, 2019.
[15] ExxonMobil.com Investor day presentation 2020. Footnote 2, p. 10 and Footnote 1, p. 152.
[16] HoustonChronicle.com. Big Oil majors looking to sell $27 billion in assets worldwide. November 18, 2019.
[17] IEEFA.org. IEEFA update: Moody's adjusts ExxonMobil credit outlook to negative. November 21, 2019.
[18] Nasdaq.com. Exxon Mobil's credit rating downgraded a notch by S&P. March 16, 2020.
[19] Reuters.com. Exxon pays more to borrow amid market turmoil. March 17, 2020.

analyst noted that the company was going to use the new cash infusion to finance its 2020 capex plans, "assuming no asset sales."[20]

Oil majors increasingly struggle to balance their long-term needs to invest in future oil and gas production with investors' short-term expectations for cash payouts. Yet as recently as last month, ExxonMobil promised to do both, announcing plans to spend more than $30 billion on capital projects this year while maintaining steady growth in dividend payments. Cash from asset sales represented a key element of the company's strategy to maintain these high levels of cash outflows.

Since then, however, the oil market rout has prompted ExxonMobil to announce cuts to its capital spending ambitions.[21] So far, the company has remained silent about proposed asset sales. Yet the global oil glut and sustained low oil and gas prices will likely delay the company's asset sales, reduce sales prices, and constrain the company's plans to raise cash by selling off pieces of its asset portfolio.

Even before the recent downturn in the oil and gas market, Exxon's asset sales appeared to be struggling. Now, difficulties with asset sales could serve as a red flag that Exxon's cash management plans are facing deepening challenges in a turbulent market.

[20] Barrons.com. Exxon is expected to support dividend, use debt for capital spending. March 31, 2020
[21] Reuters. Oil Majors Slash 2020 Spending by 20% After Prices Slump. April 1, 2020

About IEEFA

The Institute for Energy Economics and Financial Analysis conducts research and analyses on financial and economic issues related to energy and the environment. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy. www.ieefa.org

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