13 August 2018

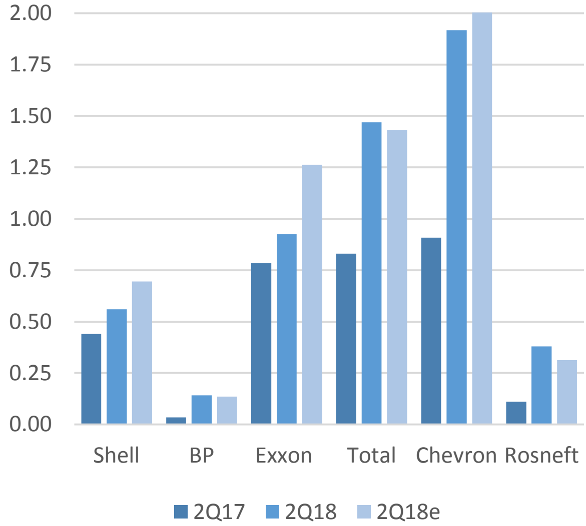
Top oil producers' 2Q18 earnings missed expectations

2Q18 results have been a mixed bag for the world's top oil producers. The oil industry is still recovering from a three-year downturn in the energy sector, bolstered by higher production and crude prices. Benchmark Brent crude futures, currently trading over USD74 a barrel, rose ~16% in 1H18. Improving energy sector factors help long-term upside potential but volatility risks influence short-term gains.

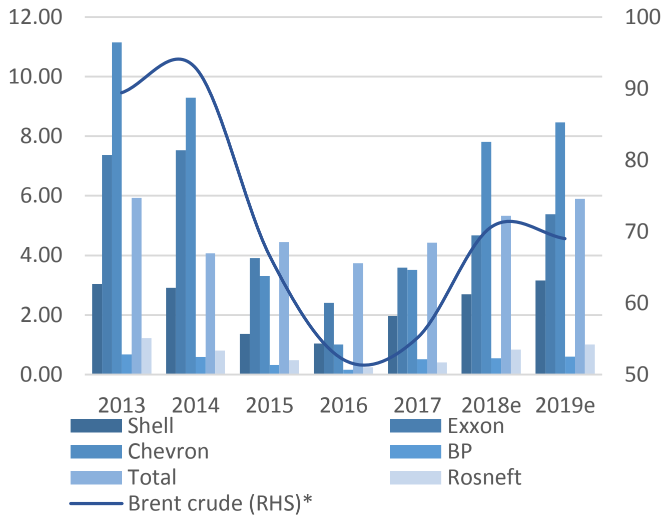
The world's biggest oil companies, Exxon Mobil Corp., Chevron Corp., Royal Dutch Shell Plc, BP Plc, Total SA and NK Rosneft' PAO, boosted profits with a median value of revenue growth at 34% in 2Q18 (EPS: 94%).

- Despite rising oil prices, **Exxon**'s production dropped 7% and it spent more than USD600mln to upgrade refineries in France, Canada, Texas and Saudi Arabia. For 2Q18, Exxon reported revenue of USD73.5bln, an increase of 16.9% YoY and beating analysts' estimates by USD2.14bln. Earnings per share missed expectations at USD0.92, falling USD0.35 below estimates.
- In 2Q18, **Chevron**'s oil production rose by 2% (to 2.83mln bpd) and revenue increased by 22.5% YoY, but due to higher corporate expenses the company missed investors' expectations in terms of earnings. Net income was USD3.41bln or USD1.78 per share in 2Q18 while analysts expected earnings of USD2.08 per share. Chevron's expenses rose 15% during 2Q18 to USD37.33bln. The company announced a USD3bln stock buyback program, long awaited by the market.
- **Shell**'s 2Q18 profits came in far below forecasts. Production decreased by 10.3% YoY to 3.44mln bpd. The drop in profits came also from Shell's downstream divisions, as a result of lower trading results, higher costs and currency exchange. Despite lower-than-expected profits, Shell has recovered from a 3-year downturn in the energy sector. Shell's debt burden eased in 2Q18: debt to equity ratio declined to 23.6% in 2Q18 from a peak of 29.2% in 3Q16 and from 24.7% in 1Q18. As Shell's debt eased the company launched USD25bln share buyback program after 2Q18 results announcement.
- **BP** reported adjusted net income of USD3.47bln or USD0.1414 per share, beating market consensus by 4.4% (USD0.1355). Higher oil prices and increased output helped BP to boost earnings recovery. In the beginning of August, BP agreed to buy US shale oil and gas assets from BHP Billiton for USD10.5bln. The deal is BP's first major acquisition in 20 years.
- **Total** reported better-than-expected results in 2Q18 due to new record oil production and high oil prices, which enabled it to raise output. Oil production rose by 8.7% to 2.717mln bpd, the highest ever produced in a quarter, driven by the early completion of its Maersk Oil deal and the ramp-up of several projects including Yamal LNG in Russia and Moho Nord in Congo. 2Q18 adjusted net profit jumped 44% YoY to USD3.6bln, compared with analysts' estimates of USD3.4bln. Total's higher-than-estimated EPS amounted to USD1.45 in 2Q18 vs. market consensus of USD1.43 per share.
- **Rosneft**'s 2Q18 revenue was USD32.9bln, up 48% YoY. The company's 2Q18 net income more than tripled YoY to USD4.05bln on higher production and prices, pushing the company shares to an all-time peak. Rosneft's profit was also supported by a one-off gain from a share acquisition in an upstream joint venture and the revaluation of a stake in another joint venture.

EPS quarterly, USD (2Q17 – 2Q18)



EPS annually (USD) vs. Brent crude (USD pb) (2013 – 2019f)

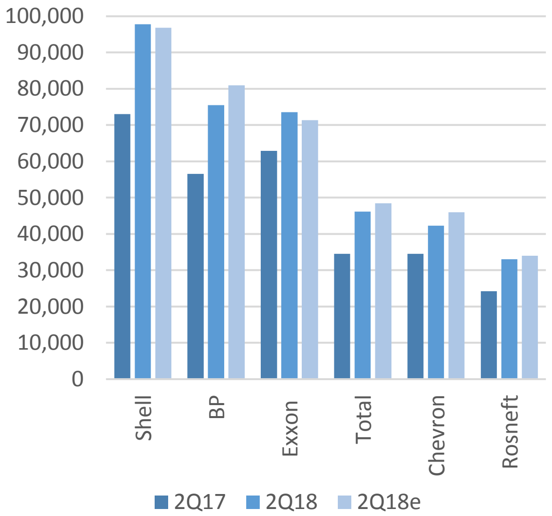


Source: Bloomberg, Samruk-Kazyna
**2018 – 2019: market consensus, based on Bloomberg data*

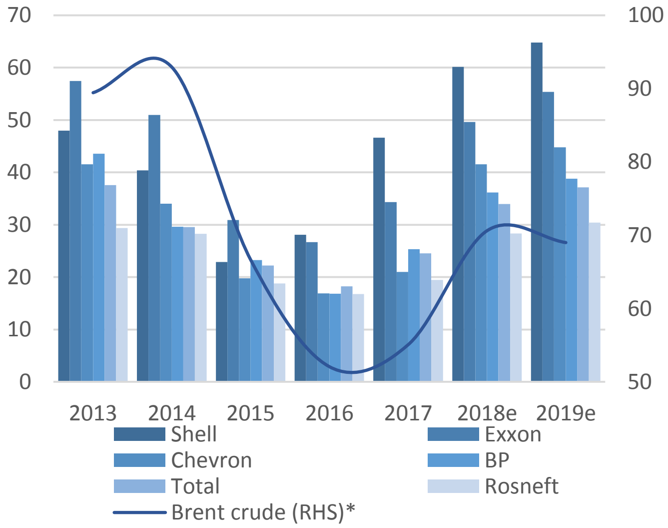
All top oil producers maintain annual dividend increases. **Exxon** and **Chevron** have been increasing their dividend payout annually for the past 25 years. In 2Q18, Exxon and Chevron increased the earnings by 18% and 111% YoY, respectively. However, both companies missed market expectations i.e. Exxon by 28%, Chevron by 8%. Exxon's significant underperformance was caused by increased CAPEX (upgrades at refineries) and decrease in downstream revenue. Chevron's profitability was lower-than-expected due to higher corporate expenses.

Shell's EPS in 2Q18 are 27% higher YoY, but 19% lower than expected by the market because of decrease in production and lower trading results. Due to higher oil prices and increased output,
BP's, **Total**'s and **Rosneft**'s earnings beating analysts' estimates by 4.4%, 2.7% and 2.1% respectively.

Adjusted revenue quarterly, USD mln (2Q17 – 2Q18)



EBITDA (USD bln) vs. Brent crude (USD pb) (2013 – 2019f)

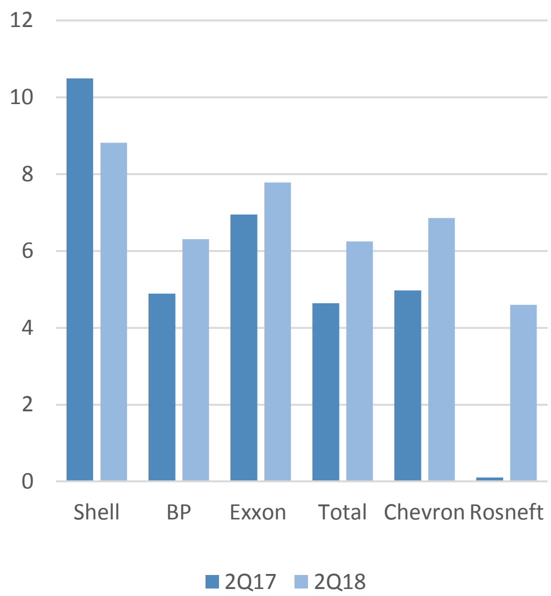


Source: Bloomberg, Samruk-Kazyna
**2018 – 2019: market consensus, based on Bloomberg data*

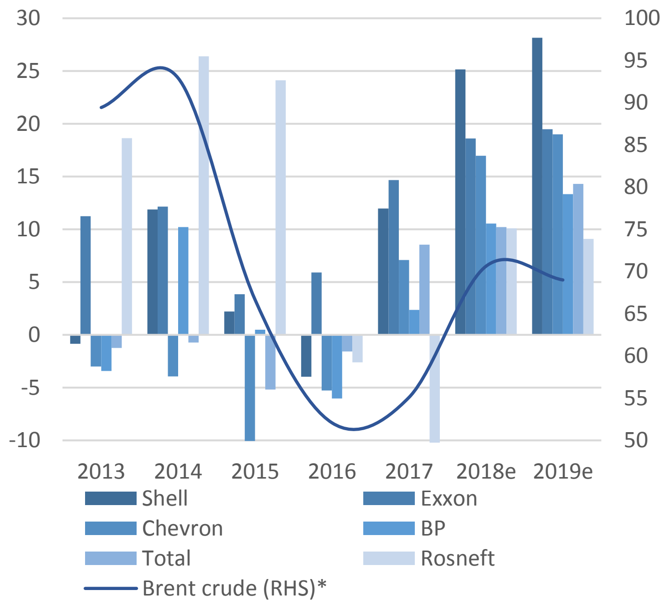
Rising oil prices in the energy sector was a positive contributor to revenues of all top oil producers:

- **Shell**'s strong revenue growth (+34% YoY) did not fully translated into higher cash flow in 2Q18 (-16% YoY) as a result of weakness in refining.
- **BP**'s and **Total**'s sales also increased by 33.5% and 33.7%, respectively.
- **Chevron**'s upgrades at refineries detracted the company from similar-to-peers revenue growth, which at Chevron's amounted to 22.5% YoY. Upstream earnings increased USD1.9bln while downstream earnings decreased USD661mln.
- **Exxon** demonstrated the smallest growth (+17% YoY) due to upgrade works at refineries in France, Canada, Texas, Saudi Arabia and decrease in production by 7%.
- **Rosneft**'s 2Q18 revenue was USD32.9bln, up 48% YoY, operating EBITDA up 85%.

Adjusted cash flow from operations, USD bln (2Q17 – 2Q18)



Free cash flow, USD bln (2013 – 2019e)

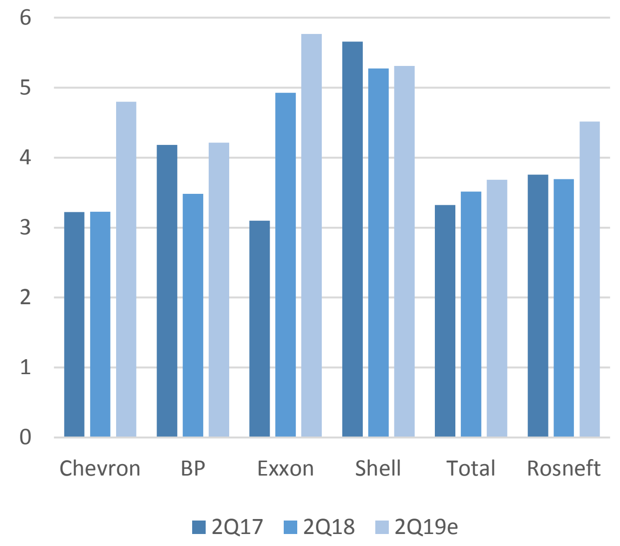


Source: Bloomberg, Samruk-Kazyna
**2018 – 2019: market consensus, based on Bloomberg data*

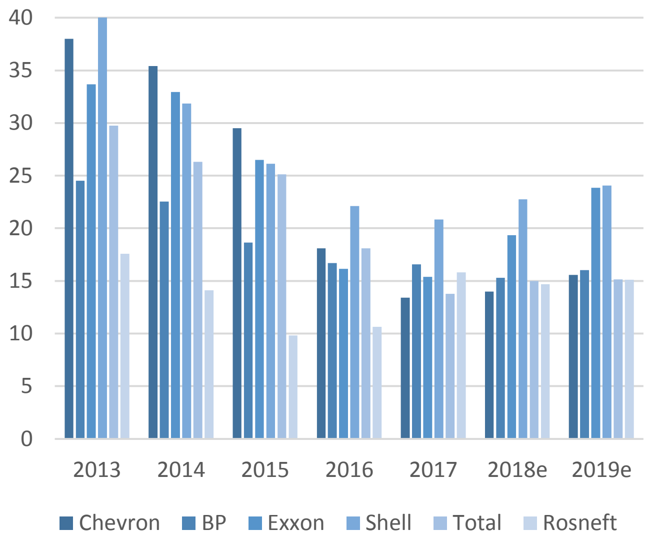
Most of oil majors demonstrated positive trends in operating cash flow, except Shell.

- **Shell's** cash generation from operating activities amounted to USD8.815bln (USD11bln excluding change in working capital). The result is 16% lower than in 2Q17. However, excluding change in working capital, USD11bln from operating activities is the strongest result since 2014 when oil prices were above USD100 pb.
- **BP**'s net income rise to USD2.8bln, exceeding forecasts of USD2.7bln. The company earned USD0.7bln a year earlier and USD2.6bln in 1Q18.
- **Total** and **Chevron** demonstrated the strongest increase in cash from operating activities: 35% and 38%, respectively.
- **Exxon**'s result are not so high but still positive: 12% YoY increase in Cash Flow from operations.
- **Rosneft**'s 2Q18 operating cash flow increased from last year's minor amount of USD105 mln. to USD4.6bln.

Capital expenditures, USD bln (2Q17– 2Q18e)



Capital expenditures, USD bln (2013 – 2019e)



Source: Bloomberg, Samruk-Kazyna
**2018 – 2019: market consensus, based on Bloomberg data*

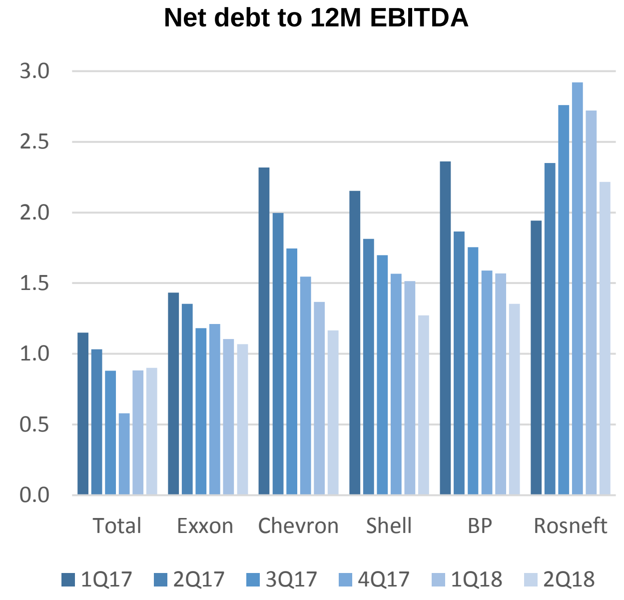
The median value of CAPEX growth in 2Q18 is at 8.3% YoY. Most oil majors continue to invest moderately in order to be able to maintain annual dividend increase.

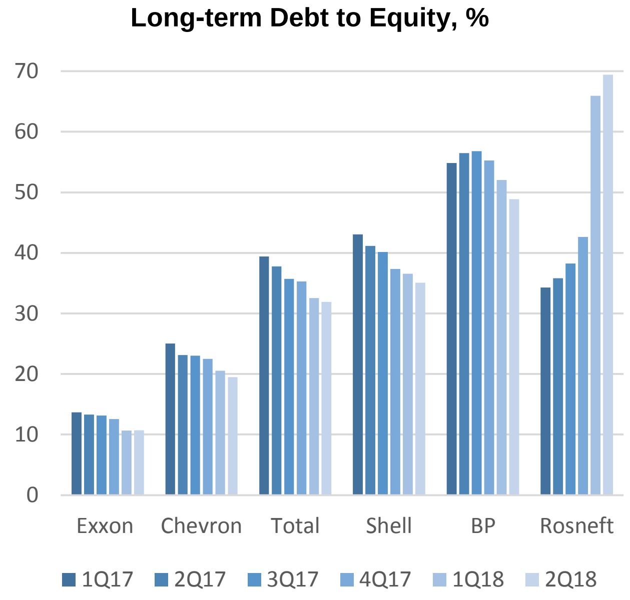
- In 2Q18, **BP** decreased investments by 17% to USD3.23bln. The company has tightened its investment budget for this year to around USD15bln from previously up to USD16bln and increased its divestment guidance to over USD3bln from USD2-3bln. However in 2019, BP plans to buy US shale oil and gas assets from global miner BHP Billiton for USD10.5bln. The deal is BP's first major acquisition in 20 years.
- **Shell** decreases CAPEX 7%, in 2Q18. According to Shell's CEO a three-year long USD30bln divestment program was completed, and Shell will divest around USD5bln per year going forward.
- **Total** maintains 2018 investments at the USD16-17bln range. YoY increase is 5.7%.
- In 2Q18, **Chevron**'s CAPEX amount equaled to 2Q17 value, USD3.2bln.
- **Exxon**'s CAPEX boosted by 59% to USD4.93bln vs. USD3.1bln in 2Q17 due to upgrade of refineries.
- **Rosneft**, in 2Q18, kept investment amount almost at the same level as in 2Q17, down 1.7%. 2018 total CAPEX amount is estimated to be 4.4% lower YoY.

Oil price projections 2H18, USD pb

Price	1H18 average	2018YTD average*	2H18 average*	2H18 forward price*	2H18 market consensus*
Brent	69.9	70.6	74.9	**73.0**	**72.12**

Source: Bloomberg, Samruk-Kazyna
**As of 31 July 2018*





Source: Bloomberg, Samruk-Kazyna

As production and prices increase, debt burden of oil companies eases. Most companies, except Rosneft, significantly reduced their debt burden (net debt to 12M EBITDA): the median decrease was 26.5% YoY. Rosneft's debt burden fell by only 5.6%. The company also has the highest ratio of long-term debt to equity, 69.4%. As their debt burden eases, Chevron, Shell, and Rosneft announced a share buyback program.

OUTLOOK 2H18: announced deals, corporate events and shares buyback campaigns:

Company	Announcement
Chevron	• USD3bln share buyback program was announced for 2H18
BP	• BP will by US shale oil and gas assets from global miner BHP Billiton for USD10.5bln – BP's first major acquisition in 20 years
Exxon	• Exxon's production capacity will increase in 2H18 due to resumed operations at PNG Agogo production facility (Australia), where Chevron holds a 33.2% share. The field's production capacity is 23-26mln boe.
Shell	• A long-anticipated USD25bln share buyback program launched on 2 August 2018 for the period 2H18-2020 • The company plans to divest USD5bln per year going forward
Rosneft	• Qatar is set to become the 3rd largest shareholder in Rosneft after the Russian state and BP. Glencore will sell its 14.16% share in QIA (shareholder of Rosneft) to Qatari sovereign wealth fund by the end of 2H18 • Rosneft announced a plan to cut its debt and trading liabilities by a minimum of 15% or RUB500bln by the yearend partly by selling non-core assets • On 6 August, Rosneft announced a share buyback program until the end of 2020 worth up to USD2bln

Disclaimer & Disclosures

The Research and Knowledge Management Department Strategy and Portfolio Investment Block of JSC "Samruk-Kazyna" (*hereinafter referred to as "the Research Team"*) is responsible for the analysis of this report. The Research Team certifies that all views expressed in this Research report (*hereinafter referred to as "Report"*) reflect the Research Team's personal views.

The Report is based on the information taken from the sources which the Research Team considers reliable and takes every care and precaution to ensure that information related to the Report published on the corporate website of JSC "Samruk-Kazyna" is accurate and regularly updated, but neither the Research Team nor JSC "Samruk-Kazyna" make no guarantee, warranty of any kind, express or implied, or make no representation as to the accuracy or completeness of the information contained in the Report or otherwise, and it should not be relied on as such. The Research Team may change the information contained in this Research at any time without notice.

Neither the Research Team nor JSC "Samruk-Kazyna" or any of its officers, employees shall be liable for any losses or damage that may result from use of the information contained in the Report as a consequence of any inaccuracies in, errors or omissions, if any, from the information which the Report may contain or otherwise arising from the use and/or further communication, disclosure, or other publication of the information contained in the Report.

This Report is solely intended for general informational purposes and is provided for internal distribution within JSC "Samruk-Kazyna". This Report is not in any sense a solicitation or offer of the purchase or sale of securities or any assets in any jurisdiction.