S&P Global Ratings Takes Multiple Rating Actions On Major Oil And Gas Companies To Factor In Greater Industry Risks

- S&P Global Ratings believes the energy transition, price volatility, and weaker profitability are increasing risks for oil and gas producers.
- To factor this into our ratings, on Jan. 25, 2021, we revised our industry risk assessment to moderately high risk from intermediate risk.
- We have placed our ratings on nine companies and their subsidiaries on CreditWatch with negative implications, as we review the consequences of higher business risks for these ratings.
- We are revising the outlooks on two ratings to negative.
- We expect to resolve the CreditWatch placements within a few weeks.

LONDON, Jan. 26, 2021 /PRNewswire/ -- Following S&P Global Ratings' review of future and prevailing risks and uncertainties for the exploration and production (E&P) and integrated industry, we are placing the following ratings on CreditWatch with negative implications.

Company	Ratings	
	To	From
Chevron Corp.	AA/Watch Neg/A-1+*	AA/Negative/A-1+
Exxon Mobil Corp.	AA/Watch Neg/A-1+*	AA/Negative/A-1+
Imperial Oil Ltd.	AA/Watch Neg/A-1+*	AA/Negative/A-1+
Royal Dutch Shell PLC	AA-/Watch Neg/A-1+*	AA-/Negative/A-1+
Shell Energy North America (US) L.P.	A+/Watch Neg/--	A+/Negative/--
TOTAL SE	A+/Watch Neg/A-1	A+/Negative/A-1
China Petrochemical Corp.	A+/Watch Neg/A-1	A+/Stable/A-1
China Petroleum & Chemical Corp.	A+/Watch Neg/--	A+/Stable/--
China National Offshore Oil Corp.	A+/Watch Neg/--	A+/Stable/--
CNOOC Ltd.	A+/Watch Neg/--	A+/Stable/--
ConocoPhillips	A/Watch Neg/A-1*	A/Stable/A-1
Woodside Petroleum Ltd.	BBB+/Watch Neg/--	BBB+/Negative/--
Canadian Natural Resources Ltd.	BBB/Watch Neg/A-2*	BBB/Stable/A-2

Note: Parent companies and certain subsidiaries are included in the list above. A full list of rated subsidiaries can be found at the end of this report. *Short-term rating on CreditWatch negative.

S&P Global Ratings will be hosting a live webinar onFeb. 2, 2021 (10:00 am EST; 3:00 pm GMT) to discuss these actions. For more details, please visit: https://event.on24.com/wcc/r/2967390/5CB2A5B4F41495257E6F5AC8987604B6

We aim to resolve these CreditWatch placements within a few weeks, focusing on the implications of the companies' recalibrated business risk profiles, as well as other aspects of the relative creditworthiness of these companies.

In addition, we are affirming our 'A-/A-2' ratings on BP PLC and our 'BBB+/A-2' ratings on Suncor Energy Inc. (BBB+/Negative/A-2) and revising both outlooks to negative from stable. These revisions capture the incremental increase in industry risk at their relatively lower ratings, although with reduced headroom at those rating levels.

The change in our industry risk assessment for oil and gas E&P and integrated companies reflects our evaluation of increased and likely increasing risks for oil and gas producers. In particular, we note:

- Significant challenges and uncertainties engendered by the energy transition, including market declines due to growth of renewables;
- Pressures on profitability, specifically return on capital, as a result of high dollar capital investment levels over 2005-2015

and lower average oil and gas prices since 2014; and
- Recent and potential oil and gas price volatility.

We see these factors as more material for ratings now than they were previously. For more of our analysis of this change in our industry risk assessment, see "The Change To The Industry Risk Assessment For Exploration & Production Companies And What It Means For Issuer Ratings," published Jan. 25, 2021.

We are placing on CreditWatch those ratings in which we see industry risks as having the greatest incremental impact on credit quality. These include some of the highest ratings in our oil and gas portfolio, as these companies bear the burden of sustaining the strongest credit quality over time, in the face of current and future industry uncertainties. Our view is that the challenges the sector faces are more important for these ratings, at this point, than the precise strategic adaptations and choices the companies make. Also, in general, we do not see materially different dynamics for producers of oil compared with gas.

In most cases, at this point we do not anticipate downgrades of more than one notch solely as a result of the industry risk review. This said, we cannot exclude a combination of the industry risk revision and other material factors leading to a two-notch downgrade, especially given the potential for negative surprises after the COVID-19 impacts in 2020.

Environmental, social, and governance (ESG) credit factors for these credit rating changes:

- Greenhouse gas emissions.

One of the main drivers for our revised industry risk assessment and the related changes in business risk profiles is the energy transition. Strategic announcements in 2020 and earlier by BP, Shell, Total, and others are a response to the energy transition and the increasing risks and uncertainties for oil and gas producers as a result of governments' and consumers' concerns and actions on greenhouse gas emissions in particular. The outlook revisions and CreditWatch placements reflect our reassessment of the industry's and companies' risk profiles, in part due to these environmental risks.

Affirmations With Outlook Revisions To Negative

1) BP PLC

We are affirming our 'A-/A-2' ratings on BP PLC and revising the outlook to negative from stable as a result of reduced headroom for the rating following our reassessment of BP's business risk profile as strong (from excellent). This change is driven by our reassessment of the industry rather than BP's strategy response to these industry challenges.

As our BP rating is already two-to-four notches below that of its peers with hitherto excellent business risk profiles, the rating already factors in more credit risk, even if this is mostly due to higher leverage than these peers. With a strong, but less resilient, business assessment we have tightened our ratio guidelines for the 'A-' rating to approaching 40% rather than above 30%.

Importantly, we note that BP took a series of decisive and effective actions in 2020 to bolster operating resilience and balance-sheet strength and, in part, to reduce the risk of a downgrade.

Outlook

The negative outlook reflects our view that BP's funds from operations (FFO)/debt will be below 30% in 2020, and may have limited headroom in 2021. At the same time, we believe BP will continue to focus on strengthening its balance sheet and reducing net debt. As such, we expect BP will reach its net debt target of $35 billion in 2021, thanks to improved market conditions, continuous focus on costs, and asset sales. After recovering during 2021, we would see FFO/debt closer to 40% and comfortably above 30% with positive cash flow after organic investments and shareholder distributions as consistent with the rating, given our revised assessment of BP's business profile.

Given the heightened industry uncertainty across BP's businesses, as seen in 2020 and over the coming decade, we believe the company will continue to take decisive and effective steps to protect its assets, cash generation, and credit metrics under scenarios with oil and market gas prices below our industry assumptions.

Downside scenario

We could lower the rating on BP within the next 24 months if FFO to debt is not on a trajectory to improve towards 40%. This would be more likely if the market environment deteriorates or BP's financial policy implementation is unsupportive or not timely.

BP's material stake in Rosneft Oil Co. PJSC (BBB-/Stable/--) is a valuable asset, so in an unlikely scenario of BP losing it without compensation, for example due to severe geopolitical tensions, there could be negative rating implications. The ongoing direct financial exposure is limited to the amount of dividends that BP receives as Rosneft's minority shareholder.

Upside scenario

We may revise the outlook to stable if BP's FFO/debt were to be clearly above 30% and trending sustainably towards 40% or more. For us to maintain the rating in 2021 we would need to see BP taking continued actions to reduce leverage and debt, and build headroom in its credit metrics.
A balanced and prudent approach to growth and shareholder remuneration would also be important considerations.

Ratings Score Snapshot

Issuer Credit Rating: A-/Negative/A-2

Business risk: Strong

- Country risk: Intermediate

- Industry risk: Moderately high

- Competitive position: Excellent

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)

- Capital structure: Neutral (no impact)

- Financial policy: Positive (+one notch)

- Liquidity: Strong (no impact)

- Management and governance: Satisfactory (no impact)

- Comparable rating analysis: Positive (+1 notch)

SACP: a-

2) Suncor Energy Inc.

Following the change to our industry risk assessment we also revised our business risk profile on Suncor Energy Inc. to satisfactory from strong. As a result, we revised the outlook on Suncor Energy to negative from stable and affirmed our ratings on the company, including the 'BBB+' long-term issuer credit rating.

Continued adherence to moderate financial policies will be key to maintaining the 'BBB+' rating. The company's current cash flow and leverage metrics are below the minimum thresholds needed to support the 'BBB+' rating, hampered by 2020's extreme price volatility and widened regional price differentials. Suncor's continued focus on reducing debt and maintaining strong liquidity are the primary factors underpinning our assessment of the company's financial policies. Moreover, the company's continued adherence to these financial policies should ensure its cash flow metrics, specifically its fully adjusted FFO-to-debt ratios, strengthen above 45% beyond 2020.

Outlook

With the revision of Suncor's business risk profile the company's cash flow and leverage metrics are below the minimum threshold needed to support the 'BBB+' rating. As a result, the negative outlook reflects the risk that Suncor's fully adjusted, weighted-average FFO-to-debt ratios might not improve to the levels needed to support the rating. We believe this could occur if the company's operating performance falls short of our expectations, or Suncor's spending and net debt increase.

Downside scenario

We would lower the rating to 'BBB' if Suncor's three-year, weighted average FFO-to-debt ratio remains below 45%, and its weighted-average discretionary cash flow (DCF)-to-debt ratio remains below 10%, with no prospect of improving during our 24-month rating outlook period. This could occur if the company materially increased its discretionary spending to fund either dividend increases or share repurchases, or its operating performance and cash flow generation weaken.

Upside scenario

We could revise the outlook to stable if Suncor's fully adjusted three-year, weighted-average FFO-to-debt ratio strengthened and remained above 45%, and the company continued to generate high levels of positive DCF. Cash flow ratios above this threshold would adequately offset our weakened assessment of the company's business risk profile and support the 'BBB+' rating.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Negative/A-2

Business risk: Satisfactory

- Country risk: Very low

- Industry risk: Moderately high

- Competitive position: Satisfactory

Financial risk: Intermediate

- Cash flow/Leverage: Intermediate

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)

- Capital structure: Neutral (no impact)

- Financial policy: Positive (+one notch)

- Liquidity: Strong (no impact)

- Management and governance: Strong (no impact)

- Comparable rating analysis: Neutral (no impact) SACP: bbb+

Note on criteria application:

In line with our criteria framework, the highest of our six business risk profile assessments, excellent, is unattainable with an industry risk of 4 (moderately high risk). This is already the case for refining and marketing, oilfield services, and sectors such as metals and mining. All business risk profiles for oil and gas producers will now be distributed across five categories, from strong to vulnerable. This involves some recalibration of the higher ratings in the portfolio, and implies changes in competitive position assessments, comparative rating analysis, and other modifiers to capture our overall analysis in the ratings.

We intend to publish reports in the coming days on companies with ratings that are not directly affected by the industry risk assessment revision but for which we are re-evaluating the components of our analysis. As part of this portfolio recalibration, where companies' business risk profiles are revised or a company is repositioned at the lower end of a category, the financial thresholds we see as commensurate with the ratings could also be tightened.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Oil Refining And Marketing Industry, March 27, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- The Change To The Industry Risk Assessment For Exploration & Production Companies And What It Means For Issuer Ratings, Jan. 25, 2021
- Industry Risk Assessments Update: January 2021, Jan. 25, 2021
- Industry Top Trends: Oil & Gas, Dec. 10, 2020
- Questions That Matter: Oil and Gas | Can Energy Companies Prevail?Dec. 3, 2020
- The Energy Transition: COVID-19 And Peak Oil Demand, Sept. 24, 2020
- The Energy Transition: COVID-19 Undermines The Role Of Gas As A Bridge Fuel, Sept. 24, 2020
- S&P Global Ratings Revises Oil And Natural Gas Price Assumptions, Sept. 16, 2020
- Write-Downs, While Eye-Catching, Are Not The Largest Issue Facing Oil And Gas Supermajors, Aug. 3, 2020

Ratings List

********** **BP PLC** **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
BP PLC		
Burmah Castrol PLC		
BP Corp. North America Inc.		
BP Capital Markets PLC		
BP America Production Co.		
Atlantic Richfield Co.		
Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2
BP Co. North America Inc.		
Issuer Credit Rating	A-/Negative/NR	A-/Stable/NR
BP Finance PLC		
Issuer Credit Rating	BBB+/Negative/--	BBB+/Stable/--
BP Products North America Inc.		
Standard Oil Co. Inc.		
Standard Oil Co.		
Issuer Credit Rating	A-/Negative/--	A-/Stable/--
Jupiter Insurance Ltd.		
Issuer Credit Rating		
Local Currency	A-/Negative/--	A-/Stable/--
********** **Canadian Natural Resources Ltd.** **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Canadian Natural Resources Ltd.		
Issuer Credit Rating	BBB/Watch Neg/A-2	BBB/Stable/A-2
********** **Chevron Corp.** **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Chevron Corp.		
Unocal Corp.		
Issuer Credit Rating	AA/Watch Neg/A-1+	AA/Negative/A-1+
Chevron Corp. Profit Sharing/Savings Plan Trust Fund		
Pure Resources Inc.		
Issuer Credit Rating	AA/Watch Neg/--	AA/Negative/--
Noble Energy Inc.		
Issuer Credit Rating	AA/Watch Neg/NR	AA/Negative/NR
********** **China National Offshore Oil Corp.** **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
CNOOC Insurance Ltd.		
Issuer Credit Rating		
Local Currency	A+/Watch Neg/--	A+/Stable/--
CNOOC Ltd.		

CNOOC Finance Corp. Ltd.		
China National Offshore Oil Corp.		
Issuer Credit Rating	A+/Watch Neg/--	A+/Stable/--
********** **China Petrochemical Corp.** **********		
New Rating; CreditWatch/Outlook Action		
China Petroleum & Chemical Corp.		
Issuer Credit Rating		
Local Currency	A+/Watch Neg/--	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
China Petrochemical Corp.		
Issuer Credit Rating	A+/Watch Neg/A-1	A+/Stable/A-1
China Petroleum & Chemical Corp.		
Issuer Credit Rating		
Foreign Currency	A+/Watch Neg/--	A+/Stable/--
Sinopec Insurance Ltd.		
Issuer Credit Rating		
Local Currency	A+/Watch Neg/--	A+/Stable/--
Sinopec Century Bright Capital Investment Ltd.		
Issuer Credit Rating	A/Watch Neg/A-1	A/Stable/A-1
********** **ConocoPhillips** **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
ConocoPhillips		
ConocoPhillips Co.		
Issuer Credit Rating	A/Watch Neg/A-1	A/Stable/A-1
********** **Exxon Mobil Corp.** **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Exxon Mobil Corp.		
Mobil Corp.		
Imperial Oil Ltd.		
Issuer Credit Rating	AA/Watch Neg/A-1+	AA/Negative/A-1+
********** **Royal Dutch Shell PLC** **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Royal Dutch Shell PLC		
Shell Petroleum N.V.		
Shell Petroleum Co. Ltd.		
Shell Oil Co.		
BG Energy Holdings Ltd.		
Issuer Credit Rating	AA-/Watch Neg/A-1+	AA-/Negative/A-1+
Shell Energy North America (US) L.P.		
Issuer Credit Rating	A+/Watch Neg/NR	A+/Negative/NR
********** **Suncor Energy Inc.** **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Suncor Energy Inc.		
Issuer Credit Rating	BBB+/Negative/A-2	BBB+/Stable/A-2
Suncor Energy Ventures Corp.		
Issuer Credit Rating	BBB+/Negative/--	BBB+/Stable/--
********** Total SE **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Total SE		
Total Holdings SAS		
Issuer Credit Rating	A+/Watch Neg/A-1	A+/Negative/A-1
Omnium Reinsurance Co. SA		
Pan Insurance DAC		
Issuer Credit Rating		
Local Currency	A+/Watch Neg/--	A+/Negative/--

********** Woodside Petroleum Ltd. **********		
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
Woodside Petroleum Ltd.		
Issuer Credit Rating	BBB+/Watch Neg/NR	BBB+/Negative/NR

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