S&P Global Ratings

# Oil and Gas

## Prices and policies remain supportive

**This report does not constitute a rating action.**

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## What's changed?

**Oil market balances underpin prices, for now.** Prices in 2024 look supported, with demand for oil modestly ahead of earlier expectations and OPEC+ producers showing ongoing restraint.

**Portfolio strategy to the fore.** Mergers and acquisitions, especially in North America, show how companies are positioning their assets and capital allocations for the future.

**Drilling day rates are up.** Global offshore spending and a tighter rig market mean both utilization and day rates for drillers have strengthened, albeit with the Middle East now a softer market.

## What to look out for?

**How fast OPEC+ increases oil supply.** The signaled increase in production from October 2024 could pressure prices, even if restraint continues for now.

**Refining margins may soften further.** The exceptional profits of recent years are moderating, so fundamental asset quality and investment needs are more important for ratings, although balance sheets have generally been rebuilt.

**Capital spending--how much and on what?** Most investments still go into oil and gas, but companies continue to tweak and refocus their priorities depending on their opportunity sets.

## What are the key risks around the baseline?

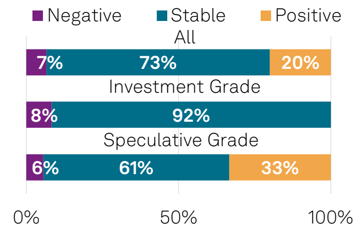
**Loss of focus on cost control.** Financial and operating discipline have bolstered the sector's overall credit quality in recent years. We see this continuing; however, keeping a tight rein amid solid prices could become increasingly difficult.

**Material shifts in prices or prospects.** Changes in production profiles due to strategy, regulation, or taxes can change an asset's value dramatically. The specific effects of energy transition trends and imperatives continue to bring uncertainty and surprises.

**Companies' financial policy implementation.** Many have materially reduced their debt. Balance sheet strength enables companies to make choices about capital allocation and distribution flexibility, so rating headroom could be eroded when the market environment becomes less favorable.

## Rating Trends

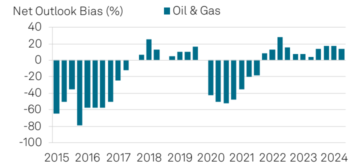
### Outlook Distribution




### Ratings Statistics (YTD)*

| | IG | SG | All |
|---|---|---|---|
| Ratings | 12 | 18 | 30 |
| Downgrades | 0 | 1 | 1 |
| Upgrades | 1 | 3 | 4 |

### Ratings Outlook Net Bias




### Sector Forecasts (Median)

| 2024 | IG | SG |
|---|---|---|
| Revenue growth (Y/Y%) | 0.7 | 5.2 |
| EBITDA growth (Y/Y%) | 9.7 | 6.7 |
| EBITDA margin (%) | 20.0 | 36.4 |
| Capex growth (Y/Y%) | 13.2 | 19.8 |
| Debt/EBITDA (x) | 0.8 | 2.3 |
| FFO/Debt (%) | 94.7 | 31.4 |
| FOCF/Debt (%) | 24.7 | 11.3 |

All data as of end-June 2024.
* Year-to-date. Current ratings only.

## Related Research

S&P Global Ratings Makes Modest Change To AECO Natural Gas Price Assumption; Other Prices Unchanged, June 11, 2024

Net-Zero Targets Leave GCC Oil Companies Unperturbed For Now, April 22, 2024

Industry Credit Outlook 2024: Oil & Gas, Jan. 9, 2024