S&P Global Ratings

Oil and Gas

Steady as she goes?

This report does not constitute a rating action.

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What's changed?

Merger mania. Significant ramp-up in merger and acquisition (M&A) volume in upstream exploration and production (E&P) due to concerns about medium- to longer-term reserve replacement, productivity, and need for scale.

The reemergence of deepwater. Rig retirements, limited new rig supply, and increases in offshore spending have led to vastly improved rig utilization and day rates.

Shifting focus back to core. Some majors announced a shift of focus back to hydrocarbon development vs. energy transition projects due to concerns about generating shareholder value and energy security.

What to look out for?

M&A to slow but stay active as producers continue to look to replace production, add to their reserves, and look for synergies.

Capital spending remains disciplined as producers continue to focus on returning cash to shareholders.

Hydrocarbon prices to remain supportive. OPEC continues to support oil prices while gas prices begin rebounding by year end due to liquid natural gas (LNG) export growth and data center build out.

What are the key risks around the baseline?

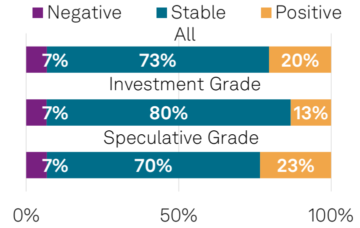
Natural gas prices remaining weak due to high inventory levels, byproduct gas production, and delays on lifting the Biden administration's ruling to pause issuing LNG export permits.

Oil field service activity to remain soft. Ongoing capital discipline among E&P companies, producer consolidation, improving efficiencies, and low natural gas prices will continue to pressure service demand and prices.

Shale productivity. Some plays, particularly the Bakken, Eagle Ford, and Anadarko basin, are experiencing declining productivity as core acreage depletes and costs increase. This could impact medium- to longer-term credit ratings for less diversified producers.

Rating Trends

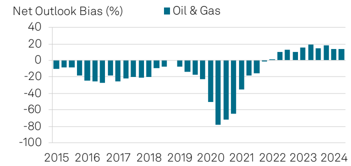
Outlook Distribution



Ratings Statistics (YTD)*

	IG	SG	All
Ratings	30	73	103
Downgrades	0	3	3
Upgrades	2	6	8

Ratings Outlook Net Bias



Sector Forecasts (Median)

2024	IG	SG
Revenue growth (Y/Y%)	1.2	3.8
EBITDA growth (Y/Y%)	1.2	6.0
EBITDA margin (%)	28.6	50.9
Capex growth (Y/Y%)	0.8	4.9
Debt/EBITDA (x)	0.9	1.5
FFO/Debt (%)	85.1	54.8
FOCF/Debt (%)	46.8	19.1

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

The Permian Basin's Dominance Continues--But For How Long, May 31, 2024

North American Upstream Capex Growth To Decelerate In 2024 Amid Greater Capital Efficiency Gains, May 1, 2024