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BP's Looney stakes future on producing less oil

New chief seeks to convince investors the push into renewables will pay off

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When Bernard Looney makes his long-awaited pitch to investors on the future of BP this week, the chief executive is expected to hammer home one message: that BP will be a stronger company when it produces less oil and gas.

Since the veteran oil man took the helm in February, he has promoted with unlikely passion the transformation of BP into a diversified energy producer fit for the 21st century, even as US rivals still pin their success on an oil-fuelled future.

BP's target of net zero emissions by 2050, the move to write billions of dollars off the value of oil and gas assets and its pledge to cut production by 40 per cent in the next decade have won plaudits from unusual corners. Plans to increase investments in renewables 10-fold in the coming years and the move away from oil were even praised by Greenpeace, which has called for greater action against climate change.

Now the 50-year-old Irishman, who started as a drilling engineer at the company 29 years ago, has to demonstrate that he can steer BP through the energy transition and still deliver value, while bringing with him both the millennial data scientists and roughneck oil drillers still competing over the company's future.

"There has been a lot of excitement about what we have done in the last six to eight months," Mr Looney told the Financial Times in an interview. "[But] there is a very simple message: we need to execute."

He recognised that he has to move quickly. A hint of what this might entail was revealed on Thursday, when the company announced a $1.1bn deal with Norway's Equinor, to acquire a stake in US offshore wind farms. More acquisitions are likely.

Critics assumed the coronavirus pandemic and the collapse in the oil price, from $70a barrel to below $20 in April and $40 today, would complicate BP's plans to reinvent itself.

In August BP was forced to cut its dividend — one of the largest payouts in the FTSE100 — for the first time in a decade. It slashed capital spending, issued billions of dollars worth of bonds and announced 10,000 job cuts as part of a big restructuring. The company's $41bn debt pile is also among the highest in the sector.

Mr Looney said he remained undeterred, saying the virus only "reinforces the need for us to change", as public support for action on climate change strengthened.

A big question for investors is how BP will generate its cash and if wind, solar and other green strategies can eventually replace oil revenues. As Ben Caldecott, director of the Oxford Sustainable Finance Programme, said: "Investors want to see significant down payments on the future strategy, such as the Equinor deal, but they also want proof that they [BP] can deliver financially."

Mr Looney has taken a twin-track strategy, wanting to reassure investors that he is not abandoning oil and gas while at the same time warning them not to underestimate BP's ability to extract revenues from new businesses.

"In 2030, BP will still be a major producer of hydrocarbons," said Mr Looney, estimating it will be producing 1.5m barrels of oil equivalent a day, down from 2.6m today, excluding its 20 per cent stake in Russia's Rosneft.

BP will keep directing the bulk of its $14bn-$16bn in capital spending towards oil and gas, but will aim to boost renewables spending to a third of the total by 2030.

"It takes capital to transition and reinvent ourselves", he said. "We can't turn the tap off overnight."

Mr Looney added that in the meantime, investors should not expect a fire sale of legacy assets to generate cash. A $12bn hybrid bond issue and the $5.5bn sale of its petrochemical business to Ineos, means pressure to fast-track its $25bn divestment plan has eased.

He is also maintaining his predecessor Bob Dudley's mantra of "value over volume", keeping only the oil and gas assets with the highest rate of return.

"We will sell things when there is a good market, not because we have to," he said.

Investors would have to expect — and accept — a lower return on investment, said Mr Looney. Renewable businesses can still generate returns of 8 per cent to 10 per cent compared to the 15 per cent historically targeted for new hydrocarbon projects.

Bernstein analyst Oswald Clint said the market is split on the viability of matching 2019's revenues by 2030 with a far smaller contribution from oil and gas, but added that there is a growing recognition that renewables can offer steadier returns given the volatility in oil prices over the past decade.

"The 15 per cent returns promised on oil and gas projects rarely, if ever, materialised, as every eight years or so you'd get a dramatic crash in oil prices," Mr Clint said. "The 10 per cent they are targeting in renewable projects is a lot more stable."

Some analysts want more detail, fearing BP is making optimistic assumptions. Lydia Rainforth at Barclays said that while BP's broad plan is attractive "in theory", returns of 8-10 per cent from renewables "appear to us ambitious" as competition grows in the sector.

"Not every project will work as originally envisaged . . . examples in practice would help address key investor concerns," Ms Rainforth said.

Critics also question BP's competitive advantage in renewable energy. Giulia Chierchia, BP's own head of strategy and sustainability, said last month the "ability to scale at pace" and the pandemic's longer-lasting impact on finances remain risk factors.

But Mr Looney said that outsiders underestimate the company's capabilities that set it apart from pure-play renewables companies — from its geographical reach and industrial prowess to its pool of thousands of engineers and scientists.

"We build and operate some of the biggest projects in the world," he said. "I wouldn't underestimate just how relevant some of those skills are."

Aside from streamlining its fossil fuel businesses and growing in renewables, BP aims to expand its retail business as electric charging goes mainstream.

"This is a high return, strong track record, not capital-intensive business," said Mr Looney. He expects BP to double the number of retail stations it runs in developed markets over the next decade to more than 3,000 — while increasing the number of electric charge points from 7,500 to 70,000.

In growth markets such as China and India, BP has targeted a six-fold increase in service stations to more than 8,000.

BP can extract maximum value from renewables, Mr Looney said, by leveraging its vast marketing and trading divisions to generate profits and greater efficiencies across all businesses. He even promises to "lift the hood" on trading activities that for years delivered significant earnings but with little financial disclosure.

"We are a company that can do it all," Mr Looney said. "We can pull it all together in a way few companies can."

But is his enthusiasm shared across the 70,000 employee-strong company? Morale in the Houston office, for example, is said to be low, according to several people familiar with BP's operations there.

Mr Looney did not dispute that people are "anxious . . . in the traditional business". But he argued that the majority of staff, particularly younger employees, "love" the strategy. Its impact on company culture, he said, was "one of the things I worry about the least".

BP's effort to reinvent itself widens the divide between European majors that believe in diversification and US majors such as US ExxonMobil and Chevron, which continue to bet largely on hydrocarbons.

Mr Looney said he did not view BP's decision to back renewables as a "moral" choice. But he said he believed the divergence between European energy majors and their US rivals would let investors "decide what they want" the titans of the oil age to become.

"We have to be successful in this transition," he added. "Then maybe others can see it is not as big a risk as people think."