

BP's sustainability goals questioned by investors

Company Analysis By Martin Assmann (03.12.2023)



BP's old Logo (IMG Source: R~P~M)

British Petroleum (BP) is attending COP28, after marking a year with turbulent stock prices and a struggle with its own drive for sustainability, all while the search for a new CEO stays ongoing.

BP's last CEO, Bernard Looney, resigned in September after details of a work relationship he had with a subordinate came to light in an internal investigation. BP's shares have since fallen significantly, as it has lost 8,3% of its value, as earnings disappointed as well. The search for a new CEO remains ongoing, as it is going to extend into 2024.



BP's Stock price finds itself at the same place it started (Source: London Stock Exchange, annotated by me)

This comes at a particularly transformative time at BP, as the company undergoes a transition to become a net-zero company by 2050, as outlined in a 2020 announcement. A goal that won shareholder support at a vote at the BP annual general meeting.

BP had pledged to become net-zero by 2050, invest \$5 billion into renewable energy by 2030 and develop new low-carbon technologies.

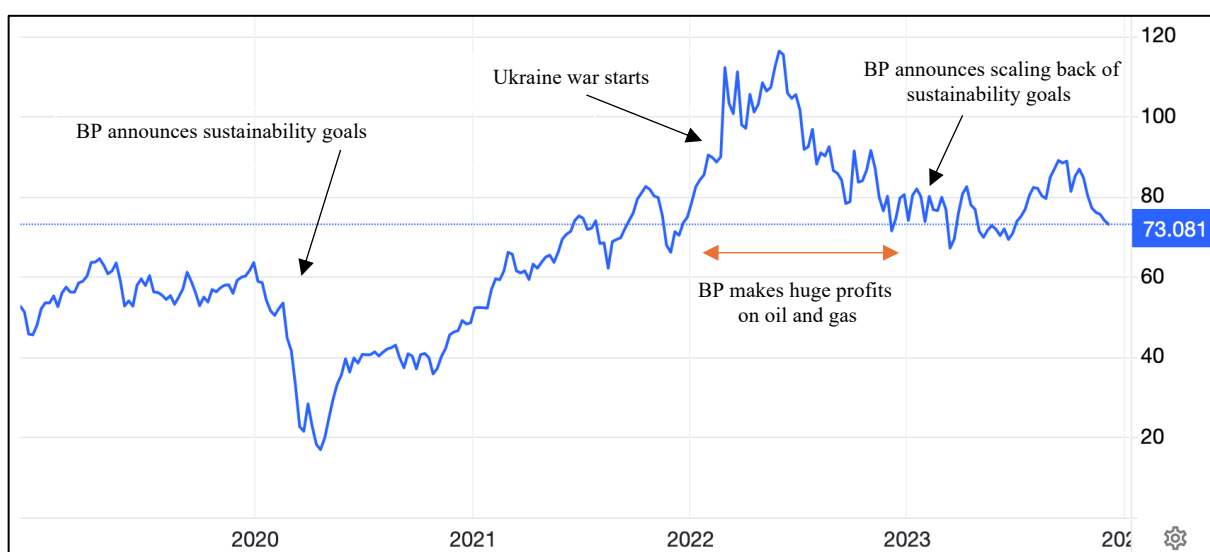
Mark van Baal, founder of the shareholder activist group Follow This, said to Fortune after the announcement in 2020: "This is the first oil major to walk the walk."

Since then, BP has slowed these ambitions as it announced a scaling back of climate targets in February. The goal to reduce fuel production by 40% to 2030 will be lowered to 20-30%. Its goal of investing \$5 billion into renewable energy has also been lowered to \$3-4 billion.

BP also said in February that it would slow down the shift away from oil production, amid revenues of \$227bn and record profits of \$28bn for the fiscal year 2022 as oil and gas prices surged.

Following this announcement, BP's shares rose to their highest level this year, with most investors being happy with a focus on profitable oil and gas production.

More climate-oriented investors were not pleased, as Bruce Duguid, from Federated Hermes, stated to Reuters: "In the context of a very strong financial outcome, those investors with net-zero goals, including many of our clients, will be concerned at such a material change to BP's 2030 absolute emissions reduction target."



Oil Price Chart over the last 5 years (Source: tradingeconomics, annotated by me)

BP has responded to this criticism by saying, that its spending on its five transition businesses (biofuels, convenience, charging, renewables, and hydrogen), accounted for 30% of capital expenditures, and is expected to grow to 50% by 2030.

These numbers have been questioned by observers though, as BP records investment in convenience stores and gas stations as "low-carbon" and uses broad definitions for its recordings.

This comes across in a more general shift away from sustainable goals in the industry. Shell, one of BP's biggest competitors has had a successful year in the stock market as it is also scaling back from sustainability goals.

The company appointed Wael Sawan as CEO in January, who made Shell go through a significant shift. Shell has pulled back from its renewable goals, even more so than BP, eliminating the position of head of renewables, and refocussing on oil production.

Its stock has since risen by more than 8% this year to a market cap of over \$215bn, more than double BP's, as Sawan pledged to "focus on performance, discipline and simplification".

Martin Assmann Final Portfolio

BP's other competitors are also renewing their commitment to oil and gas assets as Exxon acquired Pioneer Natural Resources for \$59,5 billion, a major shale producer in the Permian Basin, and Chevron bought Hess Corporation for \$53 billion.

Now, the Q3 earnings of BP have fallen short of investors expectations, as their net income hit \$3.3bn, well short of their target of \$4bn. The firm attributed this drop to a “weak gas marketing and trading result.”

During COP28, BP, along with fifty of the world's largest oil companies have joined the Oil and Gas Decarbonization Charter. This charter pledges that participating companies will “align around net zero by or before 2050”, amidst other commitments.

Van Baal, who previously lauded BP's goals, now says to Fortune: “They made enormous profits, and they're back in their comfort zone (...) They want to hang on to their old business model as long as possible, because it is profitable.”