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Oil world reactions in the COVID-19 times

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An analysis of Q1 2020 financials for the global oil industry provides a number of insights into the results and forward thinking in these challenging COVID-19 times.

The crisis did not manage to have a dramatic effect on the operating performance of oil majors in Q1 2020.

A number of companies showed a decline of production in Q1 2020 versus Q4 2019; however, there have been increases in oil production for some of the majors. Refining volumes have demonstrated certain insignificant declines. However, wholesale and retail sales of oil products have experienced significant declines of up to 20 percent, specifically caused by sales reduction in the European markets that shut down for quarantine.

Given the average oil price reduction of 20 percent in the Q12020 versus Q42019, revenues of oil majors showed a decline of up to 30 percent. In addition to declines in revenues, earnings before interest, taxes, depreciation, and amortization (EBITDA) was adversely affected by write-downs of inventories to current market values.

Q1 2020 EBITDA was down as much as 80 percent in comparison to Q4 2019. Most companies still managed to demonstrate positive operating cash flows despite posting negative bottom line.

The following themes seem to be pervasive across the oil industry:

- Most oil majors recognized impairments of fixed assets. The impairments primarily focused on high break-even projects; however, write-downs surprisingly have not been significant given the oil price declines at the end of Q1 2020.
- In doing impairment analysis, oil companies had to provide an impairment forecast in disclosing major oil price adjustments. The companies were generally optimistic in oil price forecasting with an average 2020 Brent price estimate in the range of $40–$45 per barrel. Furthermore, most companies did not adjust their long-term price scenarios and focused primarily on reducing price forecast for 2020 and 2021. It worth noting that in 2020 financials, oil majors estimated long-term price for Brent crude in the range of US$70–$80 per barrel and did not adjust these estimates in the current crises environment.
- Not surprisingly, oil companies recognized write-downs of inventory to fair market value which sometimes was in excess of the values of recognized fixed-asset impairments due to the decline in market price during Q1 2020 as well as accumulation of inventories due to reduction in demand for refined products. The improvement in Q2 2020 prices may to some extent reverse Q1 2020 inventory write-downs.

In response to market conditions in Q1 2020, oil majors announced a number of anticrisis measures:

- Capital expenditure was to be reduced by 20 percent to 35 percent, resulting in decreased production and refining volumes.
- Various operating cost and working capital reduction measures were announced, ranging from minor initiatives to those requiring a reduction of 10 percent to 15 percent of operating costs.
- Most companies announced reduction in dividends and share buybacks to conserve cash resources.

International oil majors demonstrated their ability to adjust to a significant fall in market prices due to strong balance sheets and focus on cost-effective projects. Oil majors overall were optimistic about return of oil prices to the pre-COVID-19 levels within a one- to two-year horizon.

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