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Optimistic oil price forecasts 'over-value' majors' assets

The world's biggest oil companies are systematically over-valuing their assets based on excessively optimistic forecasts of future prices, according to a leading investor.

DAVID SHEPPARD — ENERGY EDITOR

UK asset manager Sarasin & Partners has asked the oil companies in which it invests — BP, Shell and Total — to reveal the full risk they face should demand for crude peak as the trend towards decarbonisation grows. Sarasin oversees almost £14bn of investments, including funds from many large charities.

The Paris Agreement to cut emissions and limit global warming has led many in the energy industry to argue that crude demand will peak in the next 20 years,with electric cars and renewables expected to challenge oil's dominance.

But the world's top oil producers, who are positioning themselves for the so-called energy transition, have continued to value their oilfields and related assets in the billions of dollars, based on long-term prices that appear more consistent with business as usual.

Natasha Landell-Mills, head of stewardship at Sarasin, said she was concerned that oil groups were not doing enough to make clear the risks.

"What we're looking for is a much better understanding of how resilient each of their businesses are to serious decarbonisation efforts," she said.

From disclosures by Royal Dutch Shell, BP, Total, Equinor, Eni, Repsol, Cairn Energy and Soco International, Ms Landell-Mills found all used long-term oil price assumptions of $70-$80 a barrel, rising 2 per cent a year.

At the same time the big groups are lowering break-even costs for new projects, generally to less than $50 a barrel, partly due to fears that oil prices could weaken from rising competition.

Shell said that a $10-a-barrel swing in either direction for the Brent price equated to a $3bn swing in earnings for its exploration and production unit, or $6bn for the entire group.

Sarasin said there was not enough visibility over what a prolonged period of lower prices would mean in terms of impairments to assets on balance sheets. Ms Landell-Mills said. "They need to address it."