

bp
Energy and resources
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Focusing on returns and growth

bp is pivoting back towards its traditional upstream oil and gas business, with a renewed focus on shareholder returns. It will remain an integrated energy play with strong differentiating factors (trading, high-quality assets) but with a less aggressive tilt towards renewables, a strategic review of lubricants (Castrol) and a primary focus on maximising shareholder returns. In our view, this pivot could reduce its discount to peers. We believe oil and gas exposure is important in the construction of investors' portfolios as it offsets the negative impact of energy price spikes.

Revised capital allocation

bp's strategic reset in the near term will focus on driving performance through improving downstream operations, as well as a significant cost efficiency programme. Capex spending has been reallocated (2025–27) towards the highest-returning upstream opportunities and strengthening its reserves (c \$10bn, up from c \$8.5bn), alongside cuts to its energy transition business (c \$1.5–2bn, down from c \$7bn). Total capex for 2025–27 will be \$13–15bn per year, a reduction of \$1–3bn per year to 2027 (2025 guidance: c \$14.5bn). bp guided for cash distributions of 30–40% per year from operating cash flow through dividends and share buybacks, with annual dividend per share increases of at least 4%. A \$750m share buyback programme, announced in Q125, is due to complete by end Q225.

New financial targets

bp's new strategic financial targets, announced at its capital markets day in February, include an adjusted free cash flow CAGR of over 20% in 2024–27, structural cost reductions of \$4–5bn by end 2027, group return on average capital employed of more than 16% in 2027 (at \$74.4/bbl vs 12% at \$70/bbl in FY24) and net debt of \$14–18bn by end 2027 (c \$27bn at Q125), as well as a 45–50% reduction across its scope 1 and 2 emissions. bp's focus on strengthening its balance sheet will be supported by c \$20bn of divestments by 2027 (including lightsource bp transaction and strategic review of Castrol).

Valuation: At a discount

In our view, the market will be looking for bp to deliver on its new plan and remove its relative discount to peers as it does so. bp offers a dividend yield of c 6.5% in FY25e (on consensus estimates at the current stock price), which is c 13% above the peer average, while its buyback programme represents an additional return.

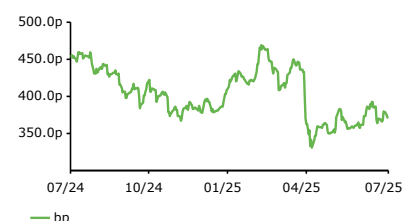
Consensus estimates

Year end	EBITDA (\$m)	PBT (\$m)	EPS (¢)	DPS (¢)	EV/EBITDA (x)	P/E (x)	Yield (%)
12/23	43,710.0	23,749.0	114.00	27.76	2.4	4.4	5.5
12/24	38,012.0	6,782.0	46.00	30.54	2.8	11.0	6.0
12/25e	33,491.3	12,612.4	41.00	33.00	3.2	12.3	6.5
12/26e	33,760.5	13,345.3	46.00	34.00	3.2	11.0	6.7

Source: Company data, LSEG Data & Analytics. Note: EPS is adjusted. Benchmark assumption prices for FY25e: Brent oil: \$65.47/bbl, Henry Hub gas: \$3.75/mmBtu. FY26: Brent oil: \$62.91/bbl, Henry Hub gas: \$3.98/mmBtu.

Price 371.75p
Market cap £58,684m

Share price performance



Share details

Code	BP
Listing	LSE
Shares in issue at Q125	15,786.0m
Net cash/(debt) at Q125	\$(26,968.0)m

Business description

bp is a major global integrated energy company, headquartered in London. Its operations span the energy value chain, with upstream (oil and gas exploration and production, trading, biogas), downstream (refining, biofuels, fuels retail and convenience) and low-carbon energy assets. In 2025, bp announced a strategic pivot back towards its core oil and gas operations.

Bull points

- Increased focus on highest-returning investment opportunities and significant cost reduction production.
- Strong progressive dividend yield.
- Actively pursuing strategic asset sales and debt reduction.

Bear points

- Greater debt weighting compared to peers.
- Potential sector wide exposure to carbon regulations.
- Commodity price and demand volatility (both upside and downside).

Analysts

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