MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Aker BP's senior bond rating to Ba1 and affirms Ba1 CFR; outlook stable

07 Jun 2019

London, 07 June 2019 -- Moody's Investors Service ("Moody's") today upgraded the ratings of Aker BP ASA's ("Aker BP") $400 million 6% Senior Notes due 2022 and $500 million 5.875% Senior Notes due 2025 to Ba1 from Ba2. Concurrently, Moody's affirmed the Ba1 Corporate Family Rating (CFR) and Ba1-PD Probability of Default Rating (PDR) of Aker BP. The outlook remains stable.

RATINGS RATIONALE

The rating upgrade of the senior notes of Aker BP follows the successful refinancing of its $4 billion senior secured borrowing base facility (RBL) with a $4 billion senior unsecured revolving credit facility (RCF). As a result, the unsecured outstanding bonds now rank pari passu with obligations outstanding under the RCF and all other debt of Aker BP.

The Ba1 ratings reflect the solid position held by Aker BP as a mid-sized oil and gas exploration and production (E&P) company on the Norwegian Continental Shelf (NCS), where it benefits from a stable operating environment and attractive oil and gas tax regime. Aker BP's operating profile is underpinned by sizeable 1P reserves of 683 million barrels of oil equivalent (mmboe) representing 11.8 years of projected 2019 production of around 158 thousand barrels of oil equivalent per day (kboepd), low operating costs and a step-up in production to be driven by the ramp-up of the Johan Sverdrup field scheduled to deliver first oil in November 2019. The ratings also reflect the robust financial profile Moody's expects Aker BP to maintain in the medium term under a range of oil and gas price scenarios, with adjusted total debt to EBITDA projected to keep below 2.0x.

Currently, the Ba1 ratings remain constrained by the smaller scale of Aker BP relative to some of its US-based peers in terms of proved reserves and production. In this context, Moody's notes that Aker BP's production profile will get a significant fillip from Johan Sverdrup in the period through 2023, when the field is due to reach plateau production (76 kboepd net to Aker BP). The start-up of the Skogul, Valhall Flank West and Ærfugl projects that were sanctioned in late 2017, should also help mitigate the decline rate of producing assets in the mature Alvheim, Valhall and Skarv areas in the near to medium term. Further ahead, Aker BP also has a pipeline of projects (including expansions at existing fields and new field developments) underpinned by 2C contingent resources of 946 mmboe at year-end 2018. Although yet to be sanctioned, these projects should allow the group to bring production close to a level of around 250 kboepd by 2022-2023. Significantly, Aker BP estimates that 90% of its contingent resources can be developed through projects enjoying a break-even oil price of $35/boe or less.

However, Moody's considers that the successful execution of these projects will require that Aker BP sustain capex of around $1.5-1.6 billion p.a. in the medium term. As a result, Moody's believes that combined with the group's stated ambition to raise dividend payouts through to 2023 by $100 million per year from the rebased level of $750 million in 2019 (v. $450 million in 2018), this will cause Aker BP to consistently generate negative free cash flow after capex and dividend (FCF) in the next few years. This will result in a material increase in debt, even though Moody's expects leverage to remain comfortably below 2.0x, as incremental production boost EBITDA and operating cash flow.

LIQUIDITY

Aker BP's liquidity position is sound. At the end of Q1 2019, the group had $114 million in cash and cash equivalents, and $2,850 million available under its RBL facility. The latter was refinanced in May 2019, with a new $4 billion RCF, which comprises a 3-year $2 billion working capital facility and a 5-year $2 billion liquidity facility.

This leaves the group with sufficient liquidity to meet short-term lease debt obligations of $93 million and fund negative FCF that Moody's projects to amount to around $1.2 billion in the next 12 months. That said, Moody's would expect Aker BP to finance this shortfall in the long-term debt capital markets. The group's next bond maturity of $226 million falls due in July 2020.

RATING OUTLOOK

The stable outlook reflects Moody's view that Aker BP will maintain moderate leverage in coming years, despite some material negative FCF reflecting sizeable planned capital expenditure and increased dividend payouts. The outlook is also predicated on Moody's expectations that the group will maintain a good liquidity profile at all times.

WHAT COULD CHANGE THE RATING -- UP

The rating could be upgraded to Baa3 if Aker BP demonstrates the ability to: (i) sustain a production profile in excess of 250 kboepd while achieving a reserve replacement rate of no less than 100%; ii) pursue financial policies which ensure that adjusted retained cash flow (RCF) to total debt is maintained above 40% on a sustained basis; and (iii) materially strengthen its FCF generating capacity amid a constant need to access and develop new hydrocarbon resources. The rating upgrade would also require the group to maintain a strong liquidity profile.

WHAT COULD CHANGE THE RATING -- DOWN

The rating could be downgraded to Ba2 if: (i) average production falls below 150 kboepd on a consistent basis; (ii) Aker BP's financial profile materially deteriorates and leverage increases so that adjusted RCF to total debt falls below 20% for an extended period of time. The rating could also be downgraded should the group's liquidity profile significantly weaken.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Independent Exploration and Production Industry published in May 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

CORPORATE PROFILE

Aker BP ASA is a Norwegian oil and gas company primarily involved in the exploration, development and production of petroleum resources on the Norwegian Continental Shelf. Its production assets are entirely located in Norway and the company operates around 97% of its producing fields. In 2018, Aker BP reported an average production (on a working interest basis) of 156 kboepd, revenues of $3.75 billion and proved plus probable (2P) reserves of 917 million barrels of oil equivalent. Aker BP is owned 40% by Aker ASA, 30% by BP p.l.c. (A1 stable) and the remaining is free float.

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Francois Lauras
VP - Senior Credit Officer
Corporate Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Peter Firth
Associate Managing Director
Corporate Finance Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454