Harsh Downturn Prompts Rating Actions On Multiple European Oil And Gas Companies

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- Oil prices and refining margins are testing multi-decade lows due to the combined effects of COVID-19 travel stoppages and unrestrained crude oil supply and price discounting.
- We updated our Brent oil price assumptions on March 19, 2020, and now expect $30 per barrel (/bbl) for the remainder of 2020, $50/bbl in 2021, and $55/bbl thereafter.
- We project most rated oil and gas companies' core debt coverage metrics to be below our rating guidelines, with weaker cash flows in 2020.
- We are therefore taking rating actions on 10 parent companies of major European oil and gas groups and exploration and production (E&P) companies.

LONDON (S&P Global Ratings) March 25, 2020--S&P Global Ratings today took rating actions on 10 Europe-based integrated oil and gas groups and E&P companies as part of our global review of the sector following the oil price collapse.

At investment grade, we revised our outlooks to negative and affirmed the ratings on Aker BP ASA, Eni SpA, Equinor ASA, and Total S.A. We also revised our outlooks to stable from positive and affirmed the ratings on BP PLC, MOL Hungarian Oil and Gas PLC, and Repsol S.A. (see the ratings list below for a detailed breakdown of our rating actions).

The rating actions reflect our forecast of weak debt coverage measures for these companies in 2020 as well as varying degrees of uncertainty about the rate of recovery to rating-commensurate levels in 2021 and beyond.

In speculative grade, we lowered our ratings on EnQuest PLC to 'CCC+' from 'B-' and revised the outlook to negative from positive and our ratings on Tullow Oil to 'CCC+' from 'B' and maintained the negative outlook. We also affirmed our 'BB-' ratings on Neptune Energy Group Midco Ltd and revised the outlook to negative from positive.

These downgrades reflect potential liquidity challenges over time and much weaker free operating cash flow (FOCF) than previously forecast, in spite of protection from some oil-price hedging.

We ranked the following actions in ratings order. If the rating is the same, there is no particular order.

	To	From
Investment-grade issuers		
Equinor ASA	AA-/Negative/A-1+	AA-/Stable/A-1+
Total S.A.	A+/Negative/A-1	A+/Positive/A-1

BP PLC	A-/Stable/A-2	A-/Positive/A-2
Eni SpA	A-/Negative/A-2	A-/Stable/A-2
Repsol S.A.	BBB/Stable/A-2	BBB/Positive/A-2
MOL Hungarian Oil and Gas PLC	BBB-/Stable/--	BBB-/Positive/--
Aker BP ASA	BBB-/Negative/--	BBB-/Stable/--
Speculative-grade issuers		
Neptune Energy Group Midco Ltd	BB-/Negative/--	BB-/Positive/--
EnQuest PLC	CCC+/Negative/--	B-/Positive/--
Tullow Oil	CCC+/Negative/--	B/Negative/--

In other separate rating actions in recent days we downgraded Exxon Mobil Corp. to 'AA' from 'AA+' and revised the outlooks on both Chevron Corp. (AA) and Royal Dutch Shell PLC (AA-) to negative from stable. Our ratings and outlooks on CEPSA (BBB-/Stable/A-3) and Matador Bidco S.à r.l. (BB-/Stable/--) are unchanged. We expect to conclude our reviews of refiners, oil field service companies, and drillers shortly. We will also publish a separate note on Russian and Commonwealth of Independent States (CIS) entities.

Oil and gas industry cash flows and credit metrics are under intense pressure. Gas prices and refining margins have been low for several quarters. Oil markets are now heading into a period of a severe supply-demand imbalance in second-quarter 2020. The acute oversupply threatens to test the limits of crude and product storage as soon as May, according to S&P Global Platts Analytics. In turn, spot and futures prices are testing multi-year lows.

Our review of the sector follows the recent revision of our oil and gas price assumptions (see "S&P Global Ratings Cuts WTI And Brent Crude Oil Price Assumptions Amid Continued Near-Term Pressure," published March 19, 2020, on RatingsDirect). As a direct consequence of these revised price assumptions, we have updated our forecasts on E&P companies. Before this downturn, 2019 financial results were typically only moderate, with several companies reporting credit metrics close to the lower thresholds for our ratings. Consequently, in most cases credit metrics are likely to be below our ratings guidelines for 2020, since headroom is generally low to modest. Our analyses on investment-grade companies explicitly factor in our current projections for 2021-2022, which include a demand rebound for oil as the effects of the COVID-19 pandemic recede. Therefore, we forecast a meaningful recovery over this period. Our cash flow debt coverage metrics, based on the average over three or five years, typically result in meaningfully lower headroom compared with companies' balance-sheet-based debt leverage targets.

Compared with the 2014-2016 industry downturn, costs are lower and annual cash flow after dividends may remain positive for many large companies, but debt is still relatively high. Over the coming months, we will focus on the timeliness and effectiveness of companies' actions to protect liquidity and balance sheets and reduce costs and outgoings. We recognize that many companies may provide further updates and guidance on cash conservation steps and other measures. We will also consider the balance of cuts and payment deferrals made by companies between investments and shareholder returns. As we noted in 2016, oil majors' decisions to cut investment to facilitate generous shareholder distributions are negative from a credit perspective, in part because lower investment will affect future cash-generating assets. This remains our view, notwithstanding the longer-term implications of climate change on demand for oil and gas, especially since investment in alternative businesses may also fall as capital expenditure (capex) is cut.

We have focused on the imminent price-related risks in this review. Over time, we may increasingly factor in the apparently increasing volatility of the sector and the extent to which the integrated model is an effective hedge. Also, the sector is facing increasing direct and indirect actual and potential pressures from investors and other stakeholders given its integral involvement in climate change.

For lower-rated credits, liquidity is paramount since creditworthiness is especially exposed to external market conditions. A particular concern is the potential for distressed exchanges or telegraphed market debt purchases below par, in addition to restructurings--all of which we typically treat as defaults. We perceive significant risk across the high-yield sector globally that management teams may be tempted to reduce their debt burdens as peers do so.

Our overall base-case assumptions include:

- A Brent oil price of $30/bbl for the remainder of 2020, $50/bbl in 2021, and $55/bbl in 2022 and thereafter.
- A material drop in EBITDA as sharp price declines are only partly offset by cost-cutting measures and foreign-exchange movements. We assume refining margins will also be weak in second-quarter 2020 and remain volatile.
- Lower effective tax rates and payments.
- Capex in 2020 generally about 15%-20% lower than in 2019.
- Maintenance of cash dividends, where paid, for most companies but no further share buybacks.
- Contracted asset disposal proceeds and a portion of other indicated disposals.

INVESTMENT-GRADE ISSUERS

Equinor ASA

Primary analyst: Alexander Griaznov

We have revised our outlook on Equinor to negative from stable because we believe it would take at least 18 months for the company to restore its credit metrics to the level we see commensurate with the rating. With the $30 oil price assumption for 2020, funds from operations (FFO) to debt will decline to about 35% this year from 60% currently, because the drop in oil and gas prices will be exacerbated by the six-month tax lag effect. However, accounting for Equinor's historically conservative financial policy, we believe the company will come up with measures to protect its balance sheet, similar to its actions in 2015. These measures could include lower capex and shareholder remuneration. Equinor has already announced the cancellation of buybacks and we believe the company will also cut capex, in line with its peers, but do not exclude more actions if current market conditions continue. This could bring metrics close to 60% toward year-end 2021, provided that oil and gas prices improve, in line with our base-case scenario.

Supporting the 'AA-' rating is Equinor's relatively strong positioning in terms of costs since many of its new projects in the North Sea boast impressive break-even levels of $20/bbl or below. The Norwegian tax system continues to support the company at times of low commodity prices, because the Norwegian government takes the biggest hit, further buffering downside risks for Equinor. Therefore, we believe the company is generally better positioned to withstand low oil prices compared with the majority of purely upstream players.

Outlook

The negative outlook reflects the likelihood that we could lower the rating on Equinor if prices remain depressed for longer than we anticipate or if the company's response to market conditions were to be insufficient. We believe that Equinor's 2020 credit metrics will be well below the rating-commensurate FFO to debt of about 60%. However, theycould recover back to this level in 2021 if Brent prices improve to $50/bbl and management adjusts capex and shareholder remuneration.

Downside scenario: We could lower the rating if oil prices stayed at or below $50 in 2021 and subsequent years. This would be unlikely to allow Equinor to improve FFO to debt back to about 60% and could result in a lower rating. However, in such a scenario, the effect would likely be limited by one notch, since ownership by the 'AAA' rated Norwegian government would likely prevent further downside.

Upside scenario: We could revise the outlook to stable if improved commodity prices, coupled with balance-sheet-protective measures, lift FFO to debt to above 60%--a level that the company has maintained for several years.

Total S.A.

Primary analyst: Edouard Okasmaa

We revised the outlook to negative from positive and affirmed the 'A+/A-1' long- and short-term issuer credit ratings.

We are affirming our 'A+' rating because Total's commitment to a robust balance sheet (the company has a gearing target of below 20%) and ability to take mitigating actions are key rating strengths. The company has already announced organic capex cuts of more than $3 billion (more than 20%), reducing 2020 net investments to less than $15 billion; increased 2020 operating expenditure (opex) savings by $500 million; and stopped the share buyback program. Gearing is nonetheless guided to potentially increase by about 3% and hence be above the 20% target in 2020. Although the company is less likely to see material support from the downstream segment in the current supply-and-demand shock that is putting markets in imbalance, it enters this weak environment with a stronger balance sheet and lower opex than in 2014. Capex is also lower since the company has already expanded significantly in the past couple of years. Having said that, we think the high instability and reduced visibility on market developments increases risks, and our revised base case factors FFO to debt dropping below 40% in 2020, compared with 40%-45% in 2018 and 2019, before bouncing back to above that level in 2021. This is still in line with an 'A+' long-term rating, but we acknowledge that weaker scenarios, notably in downstream, could lead to downward pressure.

Outlook

The negative outlook reflects the risk of a one-notch downgrade over the next six-to-12 months, absent our assumed gradual improvement in oil prices in 2021 and management's commitment and ability to limit the effect of lower oil and gas prices. FFO to debt at about 45% on average is commensurate with the current rating, in our opinion.

Downside scenario: We could consider a downgrade if FFO to debt falls below 30% on a sustained basis over 2020, or if we do not see this ratio progressing toward 45% by 2021. FFO to debt could fail to improve due to persistently lower hydrocarbon prices, or a significant fall in downstream profits, which could be the case if the current supply-and-demand shock is long term.

Upside scenario: We could revise the outlook to stable if we see an earlier and sustained recovery in Total's credit metrics to 35%-40% in 2020 and close to 45% in 2021, combined with neutral or positive cash flow after dividends. This could result from a more sustained oil price recovery in the short term to $55/bbl or more, compared with our 2020 assumption of $30/bbl. Capex reductions, lower shareholder distributions, and other measures not already anticipated that would significantly mitigate the loss in operating cash flow would also be supportive of a stable outlook.

BP PLC

Primary analyst: Simon Redmond

We are affirming our 'A-/A-2' ratings on BP PLC and revising the outlook to stable from positive since both market conditions and credit metrics currently make an upgrade unlikely in the next year.

We project BP's FFO to debt will deteriorate less than peers' in 2020. Although FFO may decline by about one-third, we forecast discretionary cash flow, after dividends, will remain positive. The announced but yet-to-complete disposals should therefore reduce adjusted debt by at least $6 billion and result in FFO to debt of 25%-30% in 2020 and about 35% in 2021. As our multi-year threshold for the rating is 30%, the company still faces rating downside risk, but to a lesser degree than some peers. Importantly, we believe the potential of a downgrade by one notch into the 'BBB' category provides BP with a strong incentive to bolster balance-sheet strength.

Outlook

The stable outlook reflects our view that BP will dip below the 30% FFO to debt rating threshold in 2020, but recover meaningfully in 2021 under our price assumptions, assisted by announced disposal proceeds. We anticipate timely cost and capex reduction measures and that BP at least concludes the announced $6 billion of disposals in 2020. We do not currently project any substantial negative cash flow after shareholder distributions this year. Historical and projected FFO to debt consistently above 30% on a multi-year basis would be commensurate with our 'A-' rating.

Nonetheless, given the heightened industry uncertainty across BP's businesses, we assume it will take decisive and effective steps to protect its assets, cash generation, and credit metrics under scenarios with oil and market gas prices below our industry assumptions.

Downside scenario: We do not exclude ratings downside over the next year but presently see BP as having the capacity and commitment to avoid a downgrade to 'BBB+' in the absence of low average prices persisting in 2021. We could lower the rating if FFO to debt remained below 30% for a long period, particularly if the market environment or BP's financial policies are unsupportive.

BP's exposure to Russia, via its stake in Rosneft Oil Co. PJSC (BBB-/Stable--), remains a potential weakness from a credit quality perspective. Direct financial exposure is currently limited to the amount of dividends that BP receives as Rosneft's minority shareholder. However, severe geopolitical tensions leading to BP losing its material and valuable stake in Rosneft would be more likely to have negative rating implications.

Upside scenario: An upgrade is improbable in the near term, but we could raise the ratings in time if BP proves resilient in the current downturn and oil prices recover sustainably over 2021. This could allow BP to deleverage, reduce debt more meaningfully, and build greater credit metrics headroom. It would also require a conservative approach to growth and shareholder remuneration.

To support an upgrade, we would expect FFO to debt to reach a sustainable average of at least 40%, which we think is unlikely in the next one-to-two years, based on our current oil price assumptions.

Eni SPA

Primary analyst: Edouard Okasmaa

The outlook revision reflects the relatively higher upstream exposure putting operating cash flow at risk, but flexible and conservative financial policies support the rating in the near term, underpinning the affirmation. Eni's exposure to oil and gas is significant, representing virtually all of the group's adjusted operating profit in 2019. A drop of $1 in oil price translates into a loss of €150 million in free cash flow. However, when there is a larger drop (as we anticipate), the sensitivity would be less pronounced for each decline of $1, notably given taxes and royalty declines, as well as a strengthening dollar. We nevertheless anticipate cash flow from operations to fall below €9 billion (about €12.5 billion in 2019) and FFO to debt to be about 35% in 2020. Still, the share buyback program has already been paused, and the rapid measures, coupled with further opportunities to mitigate the fall in cash flows such as capex flexibility, support a return to 45% FFO to debt by 2021. There is uncertainty about how hard the downstream operations in Italy will be hit. They represent less than 10% of group cash flows, so it is more important that we see an oil price improvement in line with our base case to support metrics improvements.

Outlook

The negative outlook reflects the likelihood that we could downgrade Eni to 'BBB+', even within the year, if we see continued pressure on operating performance, including weak oil and gas prices and potentially refining margins. In our base-case scenario, we assume Eni will achieve FFO to debt of about 30% in 2020 and get closer to 45% in 2021.

Downside scenario: We could lower our rating on Eni over the next two years, and even in 2020, if debt increases on the back of materially negative discretionary cash flow, mostly because of weak industry conditions, and we do not see a clear FFO to debt recovery toward and above 45% by 2021. We would likely not lower the rating on Eni if we downgraded Italy (unsolicited; BBB/Negative/A-2) by one notch to 'BBB-'. However, if the rating differential increased to three notches, we would likely more closely correlate our ratings on Eni with those on Italy.

Upside scenario: We could revise the outlook to stable if we concluded that the market environment and management's actions were likely to support improvement of FFO to debt to a level higher than 45%. This could be the case if oil prices were to improve quicker than in our base-case scenario. We could also revise the outlook to stable if the company took significant financial policy decisions that would support credit metrics and largely offset the diminishing operating cash flows in a $30 oil environment.

REPSOL S.A.

Primary analyst: Christophe Boulier

The outlook revision reflects lower rating headroom due to the profit contraction we now expect this year as a result of our sharply reduced oil and gas price assumptions. We believe that the company's financial performance will be materially affected by the decline in Brent to $30/bbl on average in 2020 from about $60/bbl in 2019.

We now forecast FFO to debt of about 30% in 2020, compared with 52%-55% in our previous expectations. However, we factor in our projections improved credit measures from 2021 onward on the back of an oil sector recovery and higher hydrocarbon prices.

The current rating is supported by our perception of the company's willingness and ability to perform a variety of actions to mitigate the negative effect of the lower price environment, including capex cuts and asset sales. Combined, this should enable Repsol to achieve about 40% FFO to debt on average, in our view. We also view favorably Repsol's business diversification into downstream activities, which should make the company more resilient to the downturn and less sensitive to oil-price volatility than peers.

Outlook

The stable outlook reflects our view that the company will focus on reducing its net debt position to withstand the sector downturn and limit the effect of lower hydrocarbon prices. We project that FFO to debt will reach a low of about 30% in 2020, which we view as weak for the current rating. However, we believe the company will succeed in adjusting its costs and discretionary spending and divest assets to reach 40% FFO to debt beyond 2020, on the back of its diversified business activities.

Downside scenario: We could lower the rating by one notch if we forecast FFO to debt would fall closer to 30% on average. This could happen if market conditions deteriorate more or for a longer period than we currently anticipate, which would hamper demand for commodities, or if the company did not succeed in undertaking measures to reduce its net debt in the next few quarters to withstand lower hydrocarbon prices and a global recession.

Upside scenario: We see rating upside as remote in the next 12 months given the very challenging market conditions and lack of visibility regarding any future sector recovery. However, this could be supported by positive changes in the business, both in terms of the continued focus on upstream value and efficiency and downstream diversification, if coupled with FFO to debt above 50% over the cycle. If we do not deem the business trends sufficient to support higher resilience and cash flow generation, we could also raise the rating if FFO to debt was closer to 60% on a weighted-five-year-average basis.

MOL Hungarian Oil and Gas PLC

Primary analyst: Edouard Okasmaa

We are affirming our ratings on MOL because we believe the lower relative upstream exposure and conservative financial policies support the rating. However, near-term upside has vanished, in our view, leading us to revise our outlook on the company to stable from positive. There is the flexibility to lower capex in the years to come, potentially delaying construction of major projects. We believe MOL will use these tools to protect the balance sheet, and that there is a limited likelihood of a downgrade in the near term under our base-case scenario. The company's exposure to oil and gas is significant (about 45% of Clean, current-cost of supply EBITDA in 2019), but the downstream segment is relatively larger. Even if the ACG acquisition in Azerbaijan (not yet part of our base-case scenario but due to close in second-quarter 2020) will boost production by about 20,000 barrels per day, we still view sensitivity to oil prices to be less than similarly rated upstream peers.

Outlook

The stable outlook reflects our view that, despite our assumptions of challenging market conditions in the next 12 months, MOL's business resilience and diversity, will limit the overall effect on credit metrics. We anticipate that FFO to debt will remain close to 60% over a five-year average, a level commensurate with the 'BBB-' rating.

Downside scenario: We could lower the rating in the next 12 months if a much weaker macroeconomic scenario unfolds, including low oil prices (below our $30 assumption for 2020) and weak refining margins stemming from a global recession and weak demand for refined products. These scenarios could lead to FFO to debt falling below 45% on average without prospects for a quick recovery.

Upside scenario: We could raise the rating in the next 12-24 months if MOL's improving business mix and diversification, coupled with a markedly stronger market environment and conservative financial policies, lead to FFO to debt of about 60% through the cycle. This would also require cash flows after capex and dividends to be at least neutral.

Aker BP ASA

Primary analyst: Edouard Okasmaa

We have affirmed our ratings on Aker BP because we believe that management will take measures to address reduced cash flows from weaker oil prices in 2020. The company has already announced a 20% cut in capex in 2020 and could lower it more significantly in 2021 if lower oil prices persist. We anticipate FFO to debt will be well below 45% in 2020 but bounce back in 2021. However, the outlook revision reflects us seeing downside risks to our base-case scenario, notably if the recovery in oil prices takes longer than we anticipate.

The rating continues to be supported by low operating costs, world class assets, and a portfolio of organic growth that provides visibility on mid-term production levels. Although Aker BP has no diversification outside upstream and Norway, some aspects of the business provide relative resilience. Taxes, which are high in Norway, limit upside when prices are high but also limit downside in our current scenario. Furthermore, the Norwegian krone has materially weakened against the U.S. dollar during the oil price collapse, which should result in operating expenditure of $7/bbl-$8/bbl in 2020. Aker BP continues to maintain very strong liquidity with no major near-term debt maturities. As of March 20, 2020, it has available cash and undrawn credit facilities of $3.9 billion.

Outlook

The negative outlook reflects our view that, amid weak industry conditions for oil producers, and despite a relatively lower FFO effect on Aker BP on the back of the high tax regime, the downside risk to our base-case scenario is significant and could lead to its inability to restore credit metrics to a level we see commensurate with a 'BBB-' rating, namely average FFO to debt of about 45%. The company's recent actions, notably capex cuts, are supportive nonetheless and reduce downside risk.

Downside scenario: We could lower the ratings on Aker BP if credit measures do not improve such that projected FFO to debt is below 45% for a sustained period. This could occur if crude oil and natural gas prices were to remain low and below our price assumptions of $30/bbl of Brent for the rest of 2020 and $50/bbl for 2021, and offsetting measures such as dividend cuts or decreased capex would not be sufficient to mitigate shrinking FFO.

Upside scenario: We could revise the outlook to stable if oil price development is in line with our base-case assumptions while potential offsetting measures would provide a clear path to full recovery of credit metrics to the level we see as consistent with the 'BBB-' rating in the next 12-24 months.

SPECULATIVE-GRADE ISSUERS

Neptune Energy Group Midco Ltd.

Primary analyst: Ivan Tiutiunnikov

We have affirmed the rating on Neptune as we think the drop in credit metrics in 2020 will be temporary and FFO to debt will improve back to 20%-25%, a level we see commensurate with the 'BB-' rating. However, we have revised our outlook to negative from positive, reflecting downside risks in case oil prices take longer to rebound from about $25/bbl currently. We expect that Neptune will generate EBITDA of $1.0 billion-$1.1 billion in 2020, compared with our previous expectation of $1.4 billion-$1.5 billion. The decline is partly limited thanks to the company's hedging of slightly more than 50% of its total production (oil production is hedged less than gas production). Still, we expect that the significant capex plan and pending acquisition of Energean assets, will mean Neptune posts negative FOCF in 2020. We note that the company has some flexibility to cut capex and opex, which could provide downside protection. Weaker cash flow generation could translate into reported net debt to EBITDA plus exploration expense (EBITDAX) above the 2x guidance for 2020. In such a scenario, we would expect the company to cancel dividends to protect the balance sheet, in line with its financial policy.

Outlook

The negative outlook reflects that we may lower the rating in the next 12 months if FFO to debt stayed consistently below our 20% target for the current rating. We expect FFO to debt of 15%-20% in 2020, which is below the threshold. This is partly due to Neptune's significant expansion plans in 2020 that will lead to increased leverage amid reduced oil and gas prices.

Downside scenario: We could downgrade Neptune if FFO to debt declined below 20% on a consistent basis. This scenario could materialize if oil prices remained at about $30/bbl for longer than we currently expect, or if the company faced operational issues leading to EBITDA losses. We may also lower the rating due to rising liquidity pressure. In such a scenario, net debt to EBITDAX could move toward the 3.5x covenant under the company's reserve-based loan (RBL).

Upside scenario: We would revise the outlook to stable if FFO to debt stays above 20%, as a result of more supportive prices, proactive cost management, or shareholder support such as an equity injection. Although not expected in the next 12-18 months, FFO to debt of about 30% and above would likely make us consider an upgrade.

EnQuest PLC

Primary analyst: Ivan Tiutiunnikov

The downgrade reflects mounting liquidity pressure and our expectation of adjusted debt to EBITDA above 5x, exacerbated by possible negative free cash flow in 2020. To protect cash flow amid lower prices, EnQuest announced that it would reduce operating expenses and capex and it now expects a break-even oil price of about $38/bbl in 2020. With our assumption of Brent at $30/bbl for the rest of the year, the risk of free cash flow turning negative is still significant, although we understand that the company might introduce further cost-saving initiatives. Negative free cash flow could in turn reduce liquidity headroom ahead of the credit facility maturity in October 2021 ($65 million due in April 2021, and $360 million due in October 2021). From Jan. 1, 2021, our 12-month forward liquidity estimate could point to a shortfall if the facility is not refinanced. We understand the company is confident that it would be able to refinance the facility, with a pre-financing transaction as one option. That said, in the prevailing low oil price environment we would expect a significant drop in EBITDA and adjusted debt to EBITDA materially above our estimated 3.0x-3.5x in 2019. Therefore, any transaction remains uncertain and cannot be factored into our base case.

In addition, we note that the company's bonds are trading with a very significant discount to par, although this is not too different from its peers. Still, given the rising likelihood of defaults in the sector, we think restructuring will remain a possibility for EnQuest, although we understand it has to be agreed by the banks. We anticipate that the company will try to preserve cash through the downturn and so would not engage in bond buybacks. If the company were to announce the purchase of the bonds and we thought that investors were receiving less than the original promise, we could see this as a selective default, lowering the rating accordingly.

Outlook

The negative outlook reflects that we might downgrade EnQuest over the next 12 months if its liquidity situation deteriorates. We expect the company may generate negative free cash flow this year, which will put its liquidity at risk ahead of the credit facility maturity in October 2021.

Downside scenario: We could downgrade EnQuest if it had acute liquidity pressure. Such a scenario could materialize if, as of Jan. 1, 2021, our 12-month forward liquidity estimate pointed to a significant shortfall, which could be the case if the credit facility were not refinanced.

Alternatively, we could also lower the rating if the company bought bonds at significant discount or announced a distressed exchange.

Upside scenario: We could revise the outlook to stable if EnQuest secured funds to refinance the credit facility maturing in October 2021, and maintained adequate liquidity headroom to address price volatility. We could raise the rating back to 'B-' if market conditions improve with oil prices sustainably rising to $50/bbl-$55/bbl. This would allow EnQuest to generate positive free cash flow and reduce adjusted debt to EBITDA to below 4x.

Tullow Oil

Primary analyst: Elad Jelasko

The downgrade reflects a downward revision of our expectation for Tullow's cash flow in 2020 and potential liquidity issues. The recent material drop in oil prices has caught Tullow at a time when it is downsizing its operations and addressing its high level of absolute debt. Tullow's reported gross debt was $3.1 billion as of Dec. 31, 2019. Earlier this year, we assumed that the company would generate free cash flow of about $150 million in 2020, with an oil price of $60 per barrel (/bbl). We now assume negative free cash flow of up to $30 million. The drop in the company's cash flow could have been even worse, were it not for its sizable hedge book.

Despite Tullow's track record of prudent liquidity management, we now see its liquidity position as fragile. Tullow is currently progressing the scheduled semi-annual review of its RBL and expects the process to conclude with debt capacity of $1.9 billion by March 31, 2020. We expect that Tullow will need to obtain a waiver later in the year to avoid a likely breach of the financial covenant on the RBL at year-end 2020. Furthermore, Tullow needs to address the maturity of its $300 million senior unsecured notes due in July 2021. With current oil prices unsustainably low, achieving each one of these milestones is not a foregone conclusion. As of January 2020, Tullow had $97 million of unrestricted cash on its balance sheet and $1,060 million under its RBL (or $560 million post the undergoing review).

In our view, when assuming no or limited availability under the RBL post the undergoing review or because of the risk of a financial covenant breach later this year, Tullow will be unable to offset the cash flow shortfall over the next 12 months and address the upcoming debt maturities with internal measures (such as operating costs, capex, and exploration budgets). We understand that Tullow is looking to divest key assets, including selling some of its stakes in its projects in Uganda and Kenya, with the aim of obtaining total proceeds of at least $1 billion. At this stage, we do not include these proceeds in our base case.

Outlook

The negative outlook reflects our view that Tullow's weak liquidity position could deteriorate further in the coming six-to-12 months, leading to a distressed exchange offer or even a default.

Under our base-case scenario, and assuming a Brent oil price of $30/bbl for the rest of the year, we expect Tullow to generate negative free cash flow of up to $30 million in 2020. If oil prices recover to $50/bbl in 2021, we expect Tullow to report breakeven free cash flow.

Downside Scenario: In our view, the likelihood of further downgrades, and potentially a default, could be triggered upon one or more of the following:

- No or very limited availability under the RBL post the ongoing semi-annual review (the company expects availability of $560 million going forward).

- Oil prices remain at $30/bbl-$40/bbl in the coming six-to-12 months, limiting Tullow's access to the financial markets, and its ability to refinance its $300 million notes due in July 2021, as well as fund the negative free cash flow we expect.
- Tullow's failure to comply with its financial covenants later this year, leading to an acceleration of its debt repayments.
- An announcement of a distressed exchange offer, which constitutes a default under our definitions.

Upside Scenario: We could revise our outlook to stable if Tullow saw a material recovery in oil prices to $50/bbl or more over the short term and the company addressed current liquidity pressure. In our view, an agreement to divest some of its assets with high upfront cash components could be another lever to alleviate the liquidity situation, and based on the actual proceeds may even support further rating upside.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
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Ratings List

*** * * * * * * * * * * * * * * * Aker BP ASA * * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Aker BP ASA		
Issuer Credit Rating	BBB-/Negative/--	BBB-/Stable/--
*** * * * * * * * * * * * * * * * * BP PLC * * * * * * * * * * * * * * * * ***		
Ratings Affirmed		
BP America Production Co.		
BP Corp. North America Inc.		
BP Capital Markets PLC		
Issuer Credit Rating	A-/Positive/A-2	
BP Co. North America Inc.		
BP Products North America Inc.		
Standard Oil Co. Inc.		
Issuer Credit Rating	A-/Positive/--	

Ratings Affirmed; Outlook Action		
	To	**From**
BP PLC		
Burmah Castrol PLC		
Atlantic Richfield Co.		
Issuer Credit Rating	A-/Stable/A-2	A-/Positive/A-2
BP Finance PLC		
Issuer Credit Rating	BBB+/Stable/--	BBB+/Positive/--
Jupiter Insurance Ltd.		
Issuer Credit Rating	A-/Stable/--	A-/Positive/--
Financial Strength Rating	A-/Stable/--	A-/Positive/--
Standard Oil Co.		
Issuer Credit Rating	A-/Stable/--	A-/Positive/--
*** * * * * * * * * * * * * * * * EnQuest PLC * * * * * * * * * * * * * * ***		
Downgraded		
	To	**From**
EnQuest PLC		
Issuer Credit Rating	CCC+/Negative/--	B-/Positive/--
*** * * * * * * * * * * * * * * * * Eni SpA * * * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Eni SpA		
Eni International B.V.		
Issuer Credit Rating	A-/Negative/A-2	A-/Stable/A-2
Eni Lasmo PLC		
Eni U.S. Inc.		
Issuer Credit Rating	A-/Negative/--	A-/Stable/--
*** * * * * * * * * * * * * * * * Equinor ASA * * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Equinor ASA		
Issuer Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+
Equinor US Holdings Inc.		
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
Statoil Forsikring AS		
Issuer Credit Rating	A+/Negative/--	A+/Stable/--
Financial Strength Rating	A+/Negative/--	A+/Stable/--

*** * * * * * * * * * * MOL Hungarian Oil and Gas PLC * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
MOL Hungarian Oil and Gas PLC		
Issuer Credit Rating	BBB-/Stable/--	BBB-/Positive/--
*** * * * * * * * * * * Neptune Energy Group Midco Ltd * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Neptune Energy Group Midco Ltd		
Issuer Credit Rating	BB-/Negative/--	BB-/Positive/--
*** * * * * * * * * * * * * * * * Repsol S.A. * * * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Repsol S.A.		
Repsol Oil & Gas Canada Inc.		
Issuer Credit Rating	BBB/Stable/A-2	BBB/Positive/A-2
*** * * * * * * * * * * * * * * * Total S.A. * * * * * * * * * * * * * * * ***		
Ratings Affirmed; Outlook Action		
	To	**From**
Total S.A.		
Total Holdings SAS		
Issuer Credit Rating	A+/Negative/A-1	A+/Positive/A-1
Omnium Reinsurance Co. SA		
Pan Insurance DAC		
Issuer Credit Rating	A+/Negative/--	A+/Positive/--
Financial Strength Rating	A+/Negative/--	A+/Positive/--
*** * * * * * * * * * * * * * * * Tullow Oil * * * * * * * * * * * * * * * ***		
Downgraded		
	To	**From**
Tullow Oil		
Issuer Credit Rating	CCC+/Negative/--	B/Negative/--

NB: This list does not include all the ratings affected.

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