Accelerating Capital: 2018 Oil & Gas Industry Planning Outlook

Cost-reduction efforts of recent years have laid the groundwork for a return to sensible capital investment in the coming year.

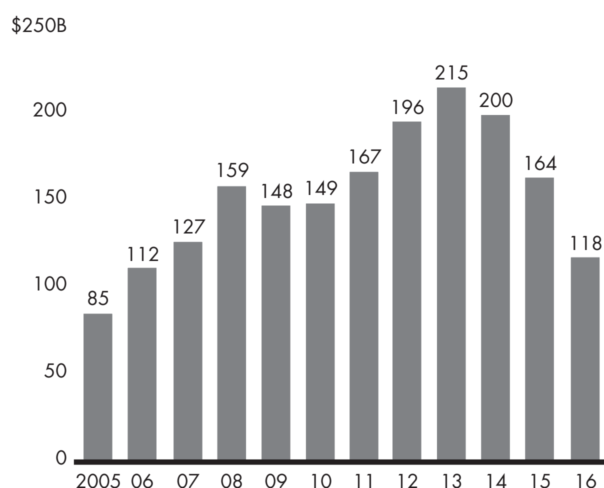
A sharp deceleration in the oil and gas industry's capital expenditure accompanied the weak oil prices of 2015 and 2016, with global capex down well over 40% from its peak (*see Figure 1*). In 2017, we saw what some have characterized as the industry's "tapping the brakes," as cost improvements began yielding some benefits, even as balance sheets still demanded very careful management.

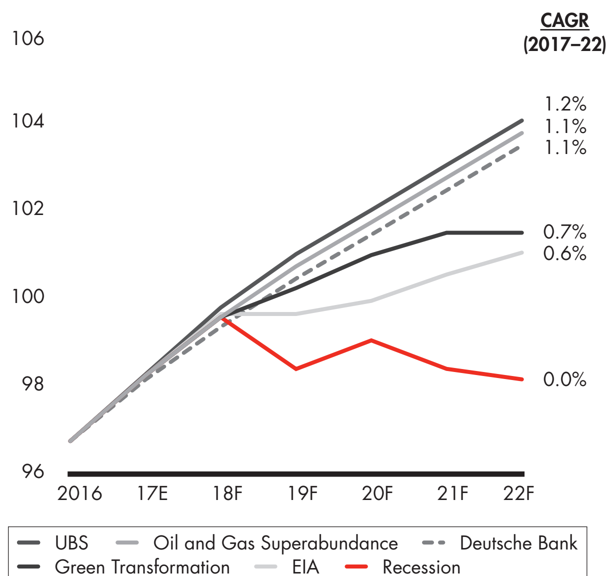
Heading into 2018, with oil prices firmer and the benefit of a much lower operating cost base, the industry looks set to cautiously press the accelerator, increasing capital spending. A 15% to 20% spending increase over 2017 would not be a surprise. On paper, project economics are beginning to look better, improving the affordability of investments on the back of 2017 results and combining with general investor sentiment eager for signals of "strategy in execution."

Where could we expect to see this growth capital deployed?

- Offshore, midsized oil development projects will be in favor.
- Oil sands have quiet momentum.
- More gas projects will be in demand, as many look to improve the gas-to-oil ratios in their portfolios.
- Downstream oil and gas will attract capital, especially in smaller scale infrastructure, customer development and the expansion of new energy-asset footprints, including renewable generation.
- Investment growth in unconventionals may still be cautious, but this sector is much more able to react to short-term, quarterly price and cost signals.

Figure 1: Capital spending by the oil majors peaked in 2013, then fell sharply in 2014–16; the outlook for 2022 demand ranges from 98 million to 104 million barrels per day

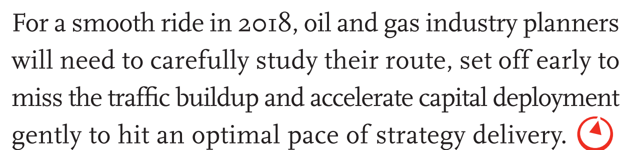




Notes: Majors include BP, Chevron, ConocoPhillips, ENI, ExxonMobil, Royal Dutch Shell, Statoil, Total; historical rate applied to exchange rates; Mbbl/d is million barrels a day
Sources: S&P Capital IQ; IHS Markit; analyst reports; US Energy Information Administration; Bain analysis

Opportunities look good for first movers, those able to take advantage of “ready to go” projects and lower rates in the supply chain. But the hazards are obvious in an industry that can heat up very quickly, and where costs can rise and timelines come under pressure—testing new simplified standards, outdated management systems and the effectiveness of new and under-development digital technologies.

The winners in the supply chain will also need to react with careful scaling of capacity, accurate prediction and resourcing, so that they can flexibly deploy capex to try out modular work packages, robust digital tools and new commercial models.



For a smooth ride in 2018, oil and gas industry planners will need to carefully study their route, set off early to miss the traffic buildup and accelerate capital deployment gently to hit an optimal pace of strategy delivery.

By Peter J. Parry

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