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Worries Over Russian Assets Cloud BP's Post-Spill Comeback

By The Moscow Times

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Selling TNK-BP in 2012 left BP with a 19.75 percent stake in state-owned Rosneft that some say is a risky asset. **Andrei Makhonin**

In the two months after April 20, 2010, when an explosion at the Deepwater Horizon oil rig in the Gulf of Mexico caused the worst offshore oil spill in U.S. history, BP shares lost nearly two-thirds of their value as the scale of the disaster threatened to sink the company.

BP sold $40 billion worth of prime assets to stay afloat — and spent $42.5 billion on the spill clean-up, fines and provisions for future costs.

As part of that sell-off, BP extracted about $12 billion from the company's troublesome Russian investment, TNK-BP. Of that, it has given about $8 billion of it back to shareholders.

But it has yet to prove that the remaining half — which became a 19.75 percent stake in state-controlled Rosneft — is anything more than a high-risk minority holding in a company based in a politically unpredictable country, despite its seat on the board.

BP CEO Bob Dudley "does not seem to have that pally relationship you need with Igor Sechin," said an industry source who has done business with the Rosneft CEO.

Dudley himself remains confident of his Russian move. "BP's strategic investment in Rosneft allows us access to growth opportunities previously unavailable to us in Russia, one of the world's largest producers of oil and gas combined with unparalleled resource potential," he said in October last year.

Despite the convulsions that BP has been through since the 2010 spill, the company has made a remarkable comeback. If you had spent £10 on BP shares on April 19, 2010, you would have just £9 now, including dividends.

The shares are flirting with post-spill highs, and the second-best performer in the industry's top five behind Exxon Mobil since the start of the fourth quarter.

This may have something to do with the misfortunes of its peer group — a profit warning at Shell, cost overruns at Chevron, and worries about cashflow and production at Exxon — not to mention a price-enhancing share buyback program put in place last year, but it is still quite a turnaround in sentiment from 2010.

In a note published Friday downgrading profit forecasts across the sector, analysts at UBS predict BP's return on average capital employed, or ROACE, this year will be 11 percent — on par with Shell's.

BP shed a big chunk of its earning power to pay for the spill, but got prices that now look enviable as the industry cycle turns down. Rivals are now falling over each other to get assets on the block, at the risk of driving prices lower.

A leaner, meaner asset base has emerged, too. Meanwhile, having settled criminal proceedings, and two phases into a three-stage civil trial, an army of lawyers is working to push remaining spill fines and penalties way into the future. Barely a week goes by without a new legal challenge from the British group aimed at keeping a lid on its liabilities.

"BP has become a litigation-dominated company, and they have an issue in Russia," said oil and gas blogger and independent industry investment adviser Malcolm Graham-Wood.

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