

# Outlook and Rating Trends for Oil and Gas Industry

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Pete Speer serves as an Associate Managing Director within Moody's Corporate Finance Group, where he leads the Oil and Gas Team.

Before assuming his current position, Pete held the title of Senior Vice President in the Oil and Gas Team, managing a portfolio that included both investment-grade and high-yield energy companies. His experience encompasses various sectors, such as integrated oil, exploration and production, drilling, oilfield services, and midstream operations. He began his tenure at Moody's in 2003 as part of the Accounting Specialists Group, collaborating with energy rating analysts to evaluate the reliability and quality of issuers' financial reporting and controls.

Prior to his role at Moody's, Pete was a senior manager in the national office of PricewaterhouseCoopers LLP, where he spent two years advising audit engagement teams on numerous complex financial accounting and reporting challenges. Before this national office role, he was based in Houston, serving as the senior manager for audit engagements with several multinational clients in the energy sector.

Pete is a Certified Public Accountant, licensed in both Texas and Michigan. He earned a Bachelor of Business Administration from the University of Michigan.

# Sajjad Alam

## VP – Senior Credit Officer

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Sajjad Alam serves as a Vice President – Senior Credit Officer within the Corporate Finance Group at Moody’s Investors Service in New York. As part of the Oil & Gas Team, he oversees a portfolio that includes investment-grade and high-yield exploration and production, midstream, drilling, and oilfield services companies.

Sajjad began his tenure at Moody’s in 2006, where he spent his initial two years as an Associate Analyst, focusing on the North American Metals and Mining, as well as the Paper and Forest Products sectors. Before joining Moody’s, he worked as a Senior Manager at Scotiabank’s Global Risk Management Group in Toronto, where he was responsible for assessing and enhancing the bank’s internal credit risk framework across various industry sectors. Earlier in his career, he held numerous analytical, accounting, and management reporting roles at Deutsche Bank, The Bank of New York, and Morgan Stanley.

Sajjad holds an MBA in Finance from York University in Toronto and a B.S. in Accounting and Economics from The University of Tennessee at Knoxville. Additionally, he is a CFA charterholder, a Certified Public Accountant, and a Financial Risk Manager.

# Agenda

- 1 Corporate Credit Conditions**
- 2 Oil and Natural Gas Prices**
- 3 Energy and Midstream Sector Outlooks**
- 4 Oil and Gas Rating Actions**
- 5 Risks on the Horizon**
- 6 Q&A**

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**1**

# Corporate Credit Conditions

# US tariff and trade matters take center stage, roiling global economies and markets

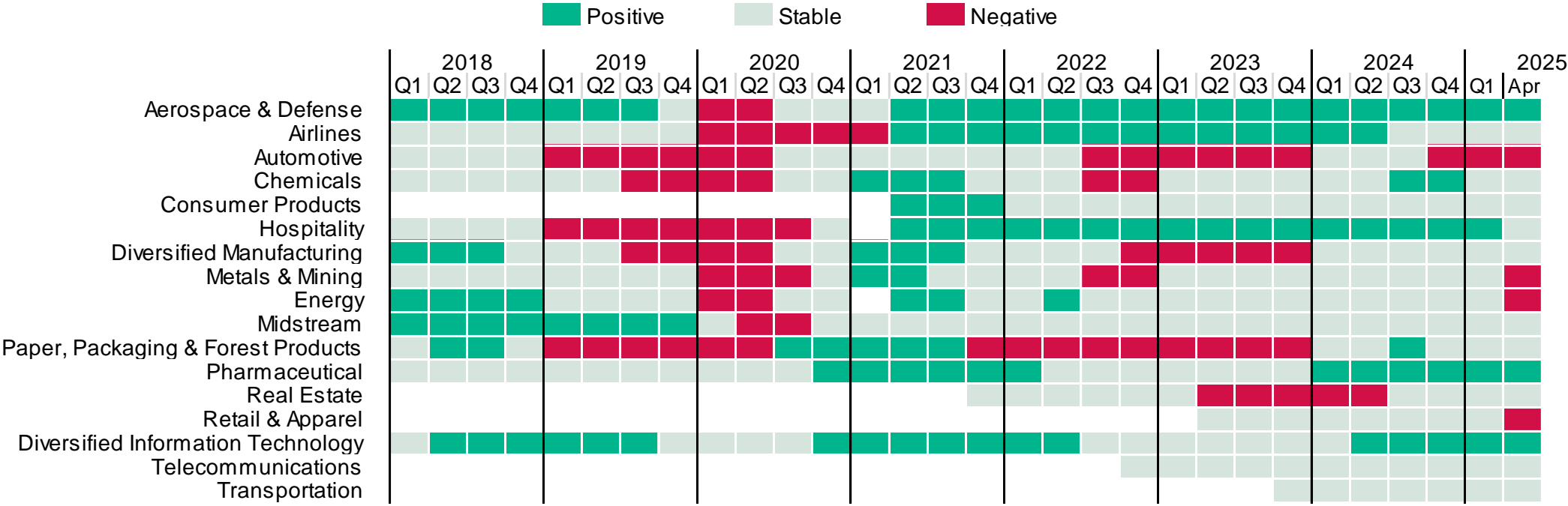
- **Unpredictable US trade policy will lead to a deterioration in global credit conditions**
- **US tariffs are likely to stick in some form, rewriting sector risk profiles**
- **The macroeconomic impact will slow growth, and recession is increasingly a possibility**
  - We expect tariffs to shave at least one percentage point from our prior US growth forecast
  - Higher inflation rates may be temporary, but price adjustments will stay
  - The Federal Reserve will likely hold rates steady for now but cut them later in 2025
- **Trade, macroeconomic fallout and financial markets are all risk-transmission channels**
- **Credit effects will be broad and unequal**
  - Nonfinancial corporate sectors are more at risk from tariffs than other areas such as infrastructure, utilities, banks and insurance companies
  - Low-rated, speculative-grade companies will be affected by their reliance on debt markets

# US tariffs will significantly curb global economic growth

	Real GDP Growth		Merchandise exports to the US
	Annual average, %		% of nominal GDP - 2023
	2025 scenario		
	February 2025F	10% universal tariffs & 145% on China	
US	2.0	0 to 1.0	--
Euro area	1.0	0 to 1.0	3.1
Germany	0.3	-0.5 to 0.5	3.8
UK	1.3	0 to 1.0	2.3
France	0.7	0 to 1.0	1.6
Italy	0.7	0 to 1.0	3.2
China	4.5	3.0 to 4.0	2.9
India	6.6	5.5 to 6.5	2.1

Source: IMF, Haver Analytics and Moody's Ratings, 14 April 2025 Report

# Detailed ISO heat map as of 30 April 2025



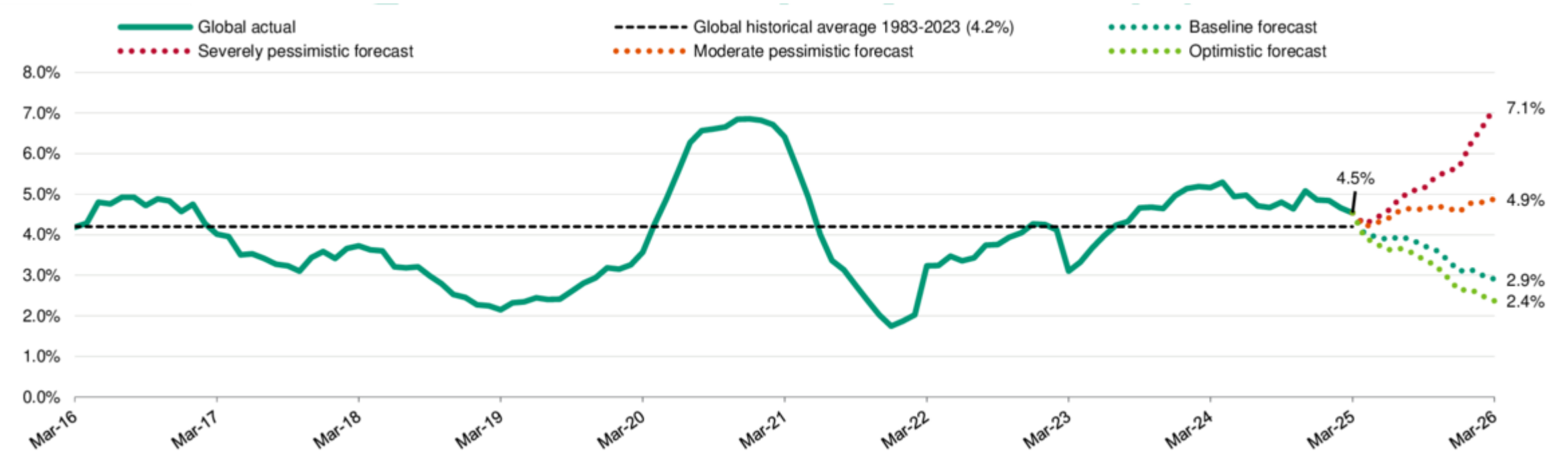
Source: Moody's Ratings

# April - tariffs and trade drove four ISO scores down, with more negative than positive outlooks

Group and Sector	Current ISO	Date of Publication	Notes
Aerospace & Defense		3-Jul-24	
Airlines		9-Sep-24	
Automotive		16-Oct-24	
Chemicals		25-Mar-25	
Consumer Products		17-Apr-25	remains Stable
Hospitality		28-Apr-25	from Positive
Diversified Manufacturing		20-Jun-24	
Metals & Mining		17-Apr-25	from Stable
Energy		9-Apr-25	from Stable
Midstream		9-Apr-25	remains Stable
Paper, Packaging & Forest Products		24-Feb-25	
Pharmaceutical		17-Jun-24	
Real Estate		25-Sep-24	
Retail & Apparel		14-Apr-25	from Stable
Diversified Information Technology		24-Sep-24	
Telecommunications		28-Oct-24	
Transportation		28-Oct-24	

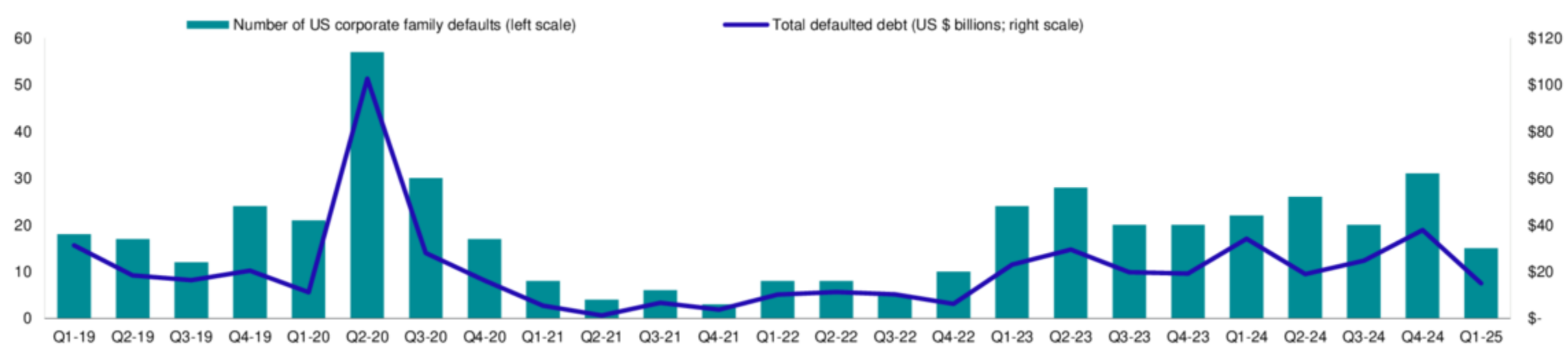
Source: Moody's Ratings

# Default forecast likely to rise with revised economic forecasts and other data



Source: Moody's Ratings, 30 April 2025 Report

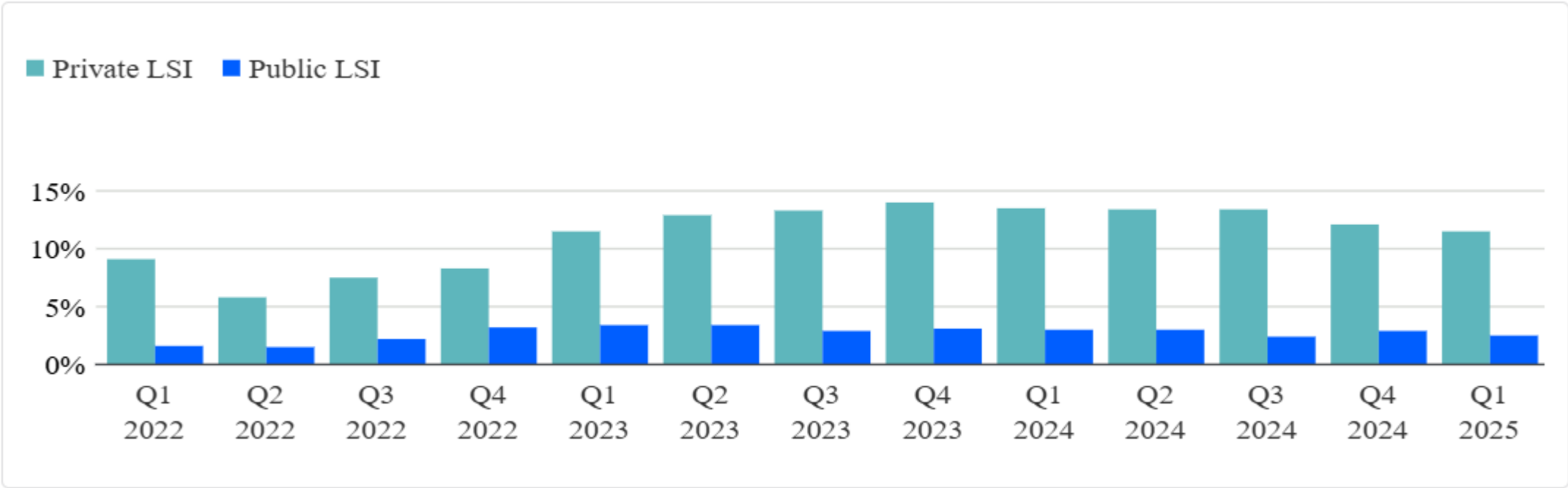
# Defaults notably declined in Q1 2025, before credit conditions took a sharp turn for the worse in April



Source: Moody's Ratings, 2 May 2025 Report

# Improving liquidity assessment trend for private companies likely to reverse

EXHIBIT 4  
Our intrinsic liquidity assessments for private companies sharply weaker than our public LSI



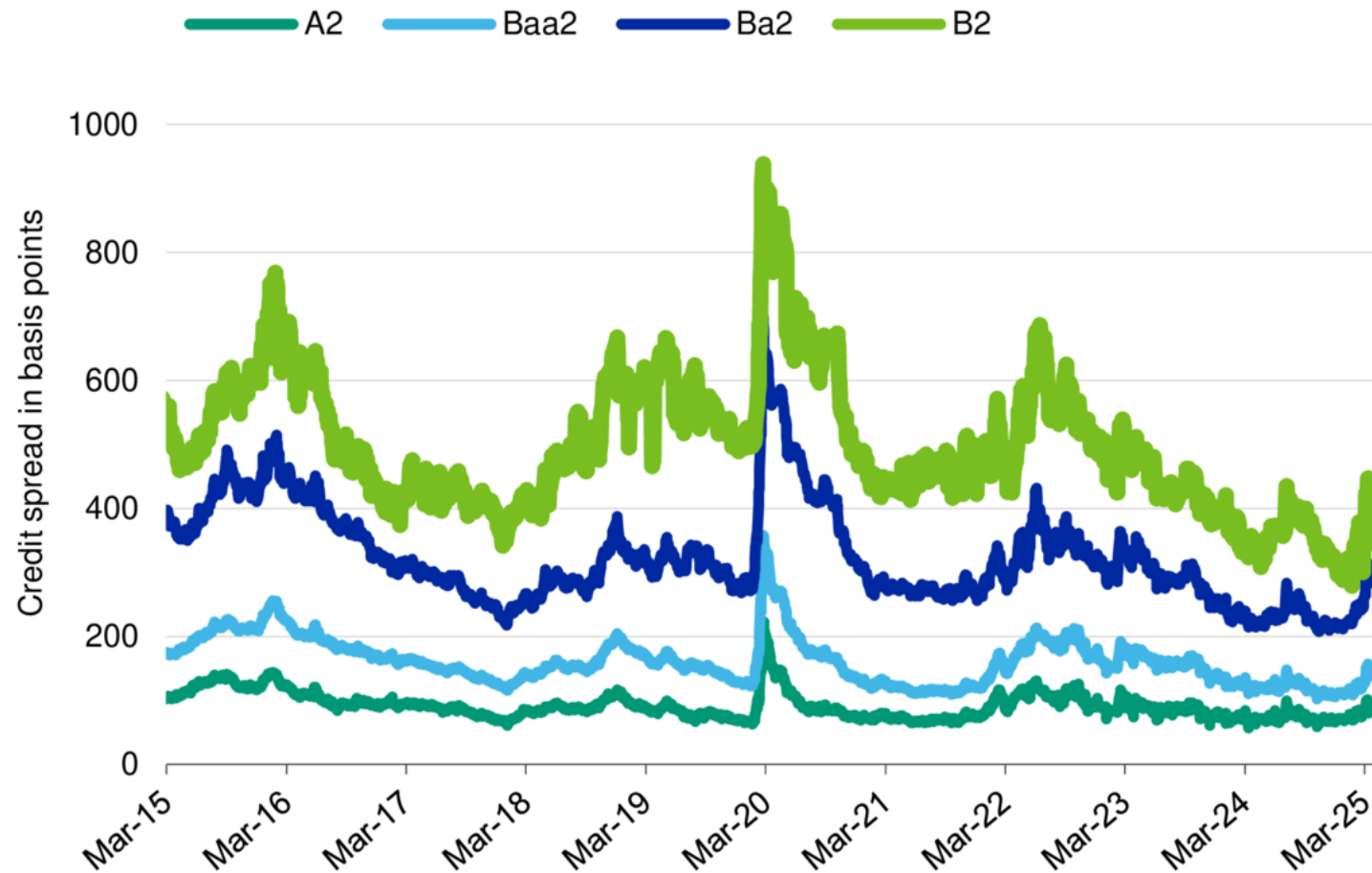
The LSIs falls when corporate liquidity appears to improve and rises when it appears to weaken. Our private LSI is comprised of companies with internal liquidity assessments. Public LSI record monthly high: 20.8% in March 2009; Record low: 1.5% in June 2022; Long-term Avg: 5.7%

Source: Moody's Ratings

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Source: Moody's Ratings, 2 May 2025 Report

# Credit spreads widened and becoming more volatile for low speculative-grade issuers



Source: Moody's Ratings, 30 April 2025 Report

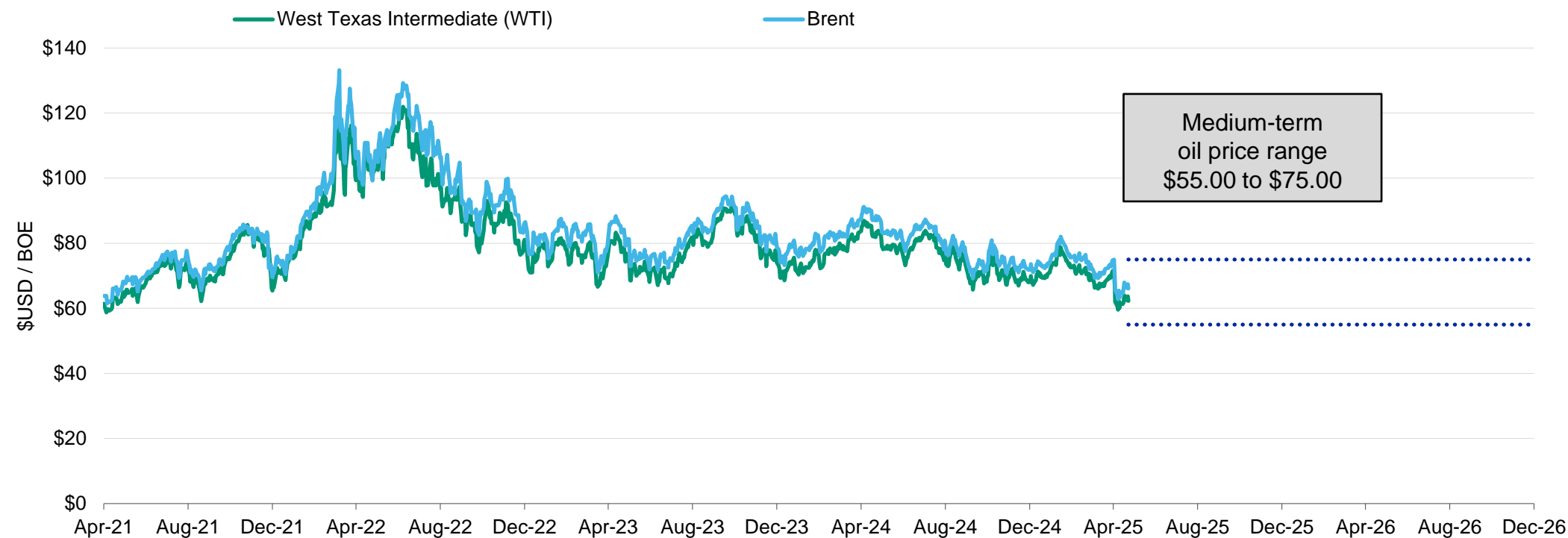
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# 2

## Oil and Natural Gas Prices

# Medium-Term Commodity Price Ranges

Oil prices are weakening from ample supply and rising risks to demand



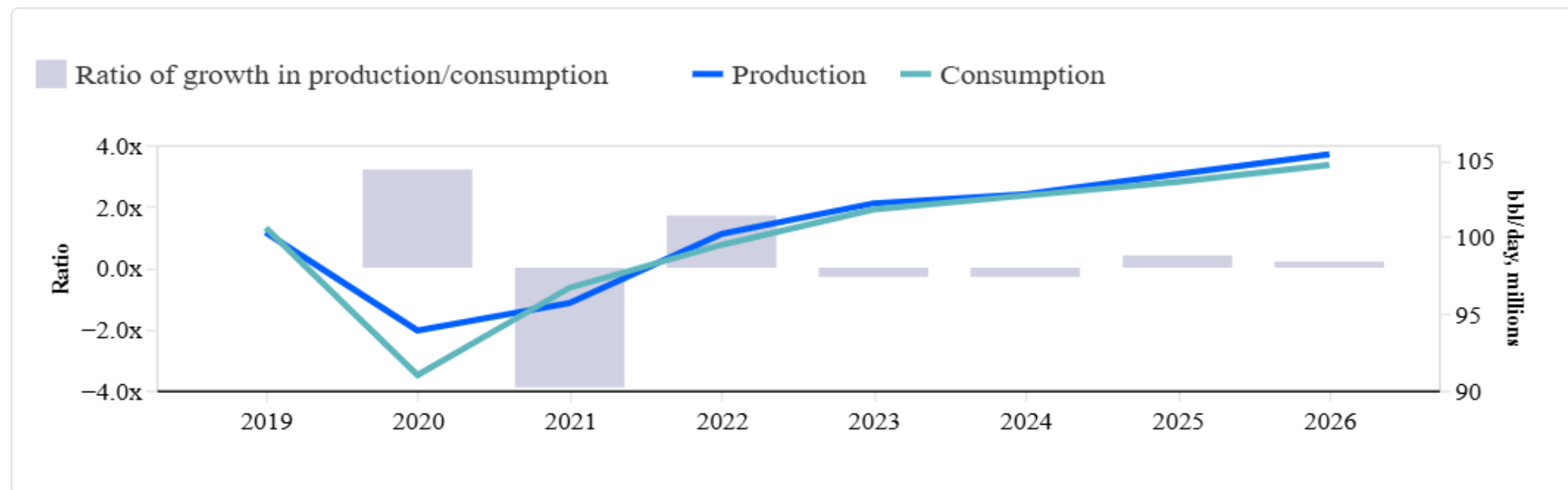
# Medium-Term Commodity Price Ranges

## Oil supply rising faster than demand

EXHIBIT 3

**Oil market will move into oversupply in 2025-26**

Growth in world oil production and consumption, 2019-25



Source: EIA and Moody's Ratings

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Source: US EIA and Moody's Ratings

# OPEC+ Adds Supply as Demand Uncertainties Rise Sharply



## Risks to demand rose near term amid slower growth in China's oil consumption and uncertainty about global trade

- China's demand for transportation fuels is starting to decline; naphtha demand is strong
- New trade policies raise risks of an economic slowdown, lower growth in demand for oil in 2025



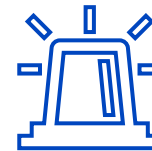
## Production costs remain flat for now

- Our **medium-term oil price range of \$55-\$75/bbl** remains unchanged
- OFS cost inflation moderated significantly in 2024, and will ease in 2025 as oil prices declined
- Watch on materials and labor costs



## OPEC+ is unwinding production cuts, non-OPEC supply continues to tick higher

- OPEC+ plans to add 140Mbpd on average in 2025
- Non-OPEC production is driving all growth
- Growth in US production will remain market/investor driven



## High geopolitical risks may harm supply

- Sanctions to take hold, risking near-term disruption from Iran, Russia, and Venezuela
- Risk of escalation of tariff/trade restrictions

# Medium-Term Commodity Price Ranges

Natural gas prices are poised for recovery



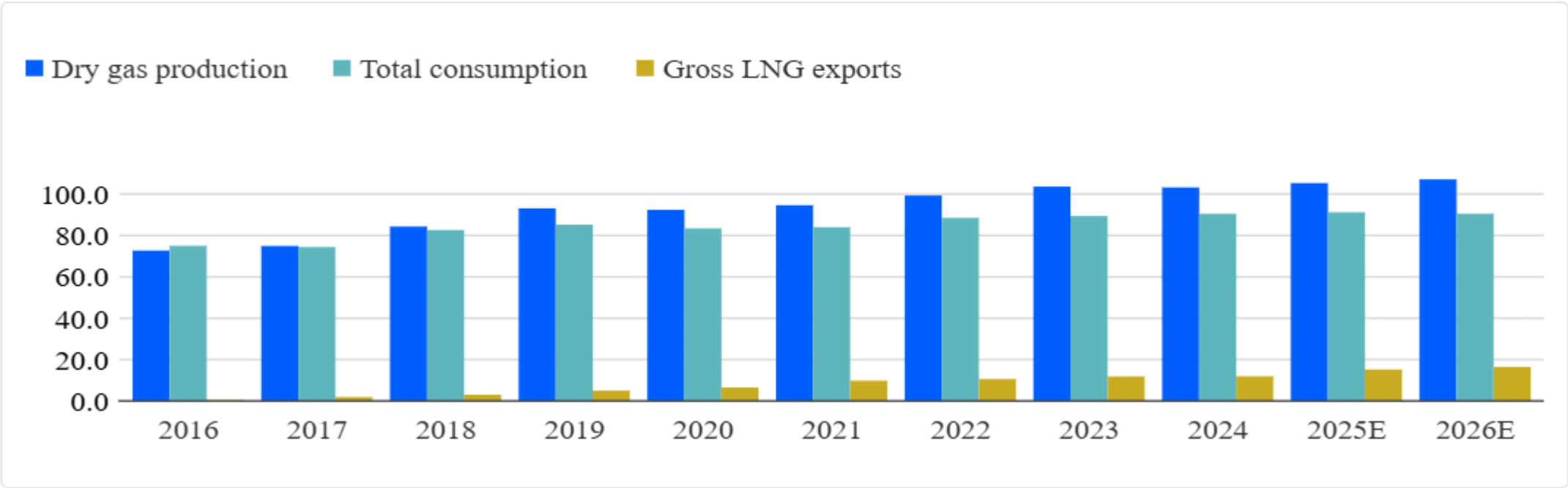
Source: FactSet  
Date: 23 April 2025

# Medium-Term Commodity Price Ranges

## Natural gas demand driven by LNG Exports

EXHIBIT 5  
US natural gas market will continue to grow led by higher export demand in 2025-26

US natural gas production/consumption, billions of cubic feet/day



Source: EIA  
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# US Natural Gas Market is Led by Rising Demand



## Robust demand outlook depends on economic growth

- Cold winter and reduced level of inventory lifted prices in Q1 2025
- US domestic demand for natural gas is poised to grow, led by utilities
- Asia, including China, drives demand growth in the medium term
- European demand in 2025 will be high due to low inventory levels, further reduction in Russian gas purchases



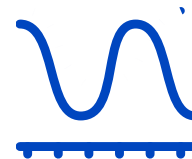
## US producers are poised to add volumes as prices recovered and demand is rising

- US producers can ramp up production quickly, market anticipates increase in demand from LNG producers from 2H 2025
- Growth in production of associated gas may slow down if oil prices remain in 60s



## LNG supply glut appears on the horizon

- Global LNG market is projected to move into oversupply in 2026/2027, capping improvement in LNG price spreads
- Achieving peace in Ukraine may bring back supply of gas from Russia to some European countries
- Changes in US-China trade relations may reduce China's demand for US LNG, cause large-scale re-routing of LNG cargoes



## US producers maintain highly competitive positions amid rising associated gas output

- **Medium-term Henry Hub price range of \$2.50-\$3.50/MMBtu** reflects full reinvestment costs and dividends
- Associated gas production driven by oil economics and allows for overproduction even if prices fall below production cost like in 2023/24

# Audience Poll

What do you expect oil prices to average for remainder of 2025?

- A. < \$50/bbl
- B. \$50/bbl - \$55/bbl
- C. \$55/bbl - \$60/bbl
- D. \$60/bbl - \$70/bbl
- E. > \$70/bbl

# Audience Poll

What do you expect oil prices to average in 2026?

- A. < \$50/bbl
- B. \$50/bbl - \$55/bbl
- C. \$55/bbl - \$65/bbl
- D. \$65/bbl - \$75/bbl
- E. > \$75/bbl

# Audience Poll

What do you expect US natural gas prices to average for remainder of 2025?

- A. < \$2.50/MMBtu
- B. \$2.50 - \$3.00/MMBtu
- C. \$3.00 - \$3.50/MMBtu
- D. \$3.50 - \$4.00/MMBtu
- E. > \$4.00/MMBtu

# Audience Poll

What do you expect US natural gas prices to average for 2026?

- A. < \$2.50/MMBtu
- B. \$2.50 - \$3.00/MMBtu
- C. \$3.00 - \$3.50/MMBtu
- D. \$3.50 - \$4.00/MMBtu
- E. > \$4.00/MMBtu

# Medium Term Commodity Price Ranges

Underpin our ratings analysis through periods of volatility

- Used instead of speculative projections of oil and gas prices
- Aim to maintain appropriate level of ratings stability and minimize impact of commodity volatility due to temporary factors
- Cost and breakeven analysis - reflects full-cycle production costs, including new reserve development, regulatory costs and costs of capital
- Periodically reviewed to estimate future financial metrics and maintain durable ratings
- Medium-term ranges are not projections; prices may stay above or below these ranges
- Various price scenarios analyzed to assess financial strength and exposure to price volatility
- Durability of company credit profile depends on management's decisions during high and low-price periods, expressed through capital allocation and financial policies

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# 3

## Energy and Midstream Sector Outlooks

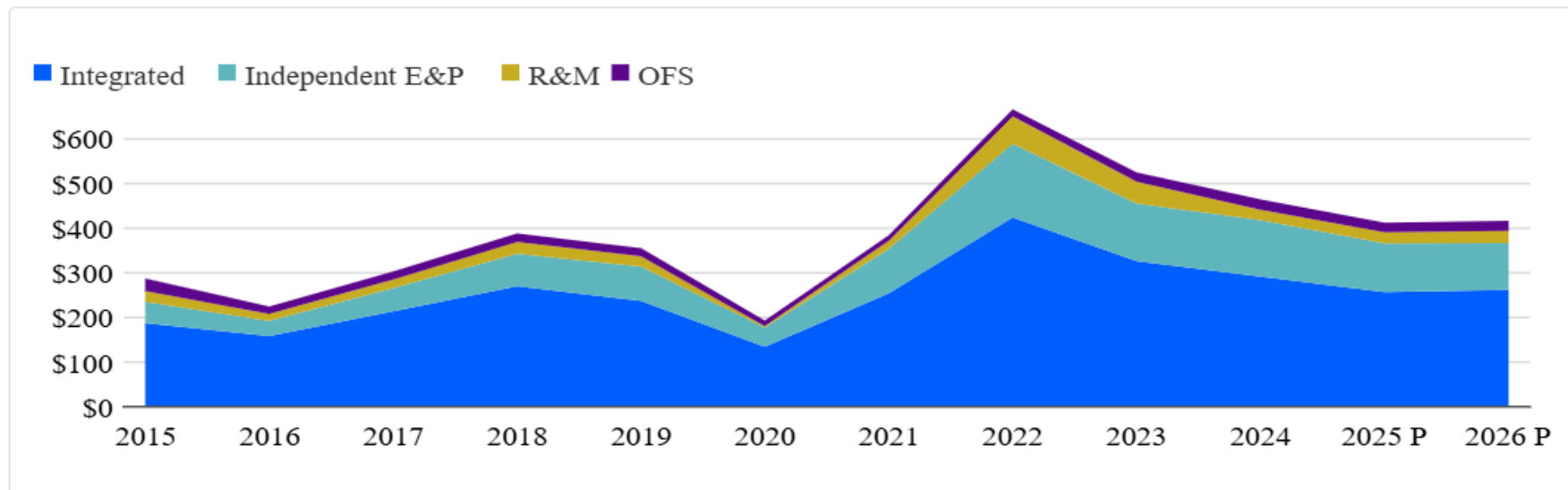
# Global Energy Outlook

**Earnings will decline by 10% in 2025, with further risk to the downside**

EXHIBIT 2

**Energy industry EBITDA will continue to decline in 2025-26**

USD billions



[1] Estimated EBITDA based on representative sample of 30 leading rated companies from the four segments of the Global Energy sector.

[2] Our estimates are adjusted for the effect of acquisitions and assume Brent crude of \$67/barrel (bbl) in 2025 and \$65/bbl in 2026, and Henry Hub natural gas of \$3.50/MMBtu in both 2025 and 2026. While natural gas prices have upside potential, we see significant risks to our oil price assumptions that would indicate even larger declines in earnings in 2025-26.

Source: Moody's Ratings

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Source: Moody's Ratings

# Global Energy Outlook

## Outlook: Negative

### Exploration & Production Direction: DECLINING

- Oil prices are declining, but US natural gas prices are firming
- Companies sustain focus on capital discipline, operating efficiency, and debt reduction
- Solid balance sheets and free cash flow offer flexibility in managing shareholder returns



### Refining & Marketing Direction: DECLINING

- Low refining margins will reflect increased volatility in crack spreads amid uncertain and slowing macroeconomic conditions
- Worldwide refining capacity will rise, despite some US refinery shutdowns
- Cash flow will be more stable for companies with midstream and retail segments than for those focused mainly on refining



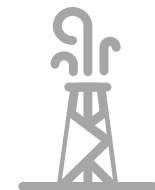
### Integrated Direction: DECLINING

- Earnings will ease from historically high levels
- Companies will focus on efficiency, moderate production growth, and continued energy transition
- Companies will sustain investment discipline and high shareholder distributions



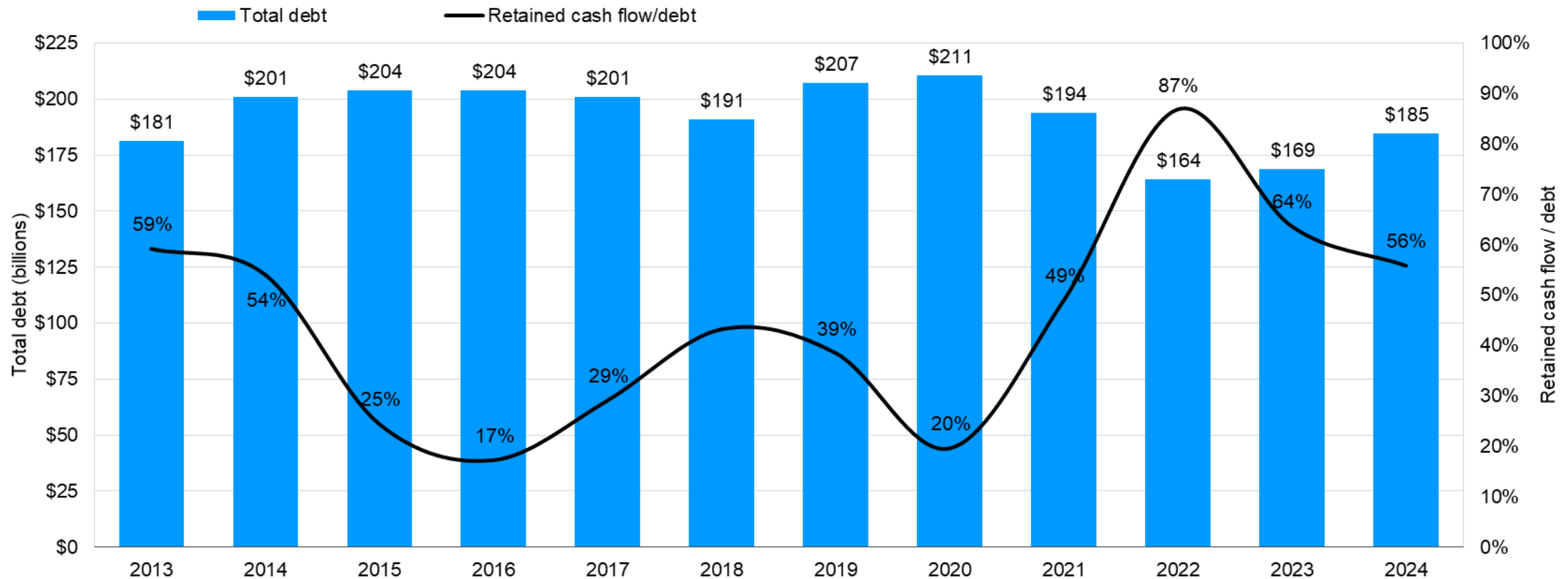
### Oilfield Services Direction: FLAT

- Companies will have difficulty raising earnings in uncertain macroeconomic conditions
- Sustained decline in oil prices will likely reduce rig count and oilfield services revenue
- Pockets of growth in certain international markets will continue, while increasing LNG exports will spur pickup in US gas drilling



# Exploration and Production

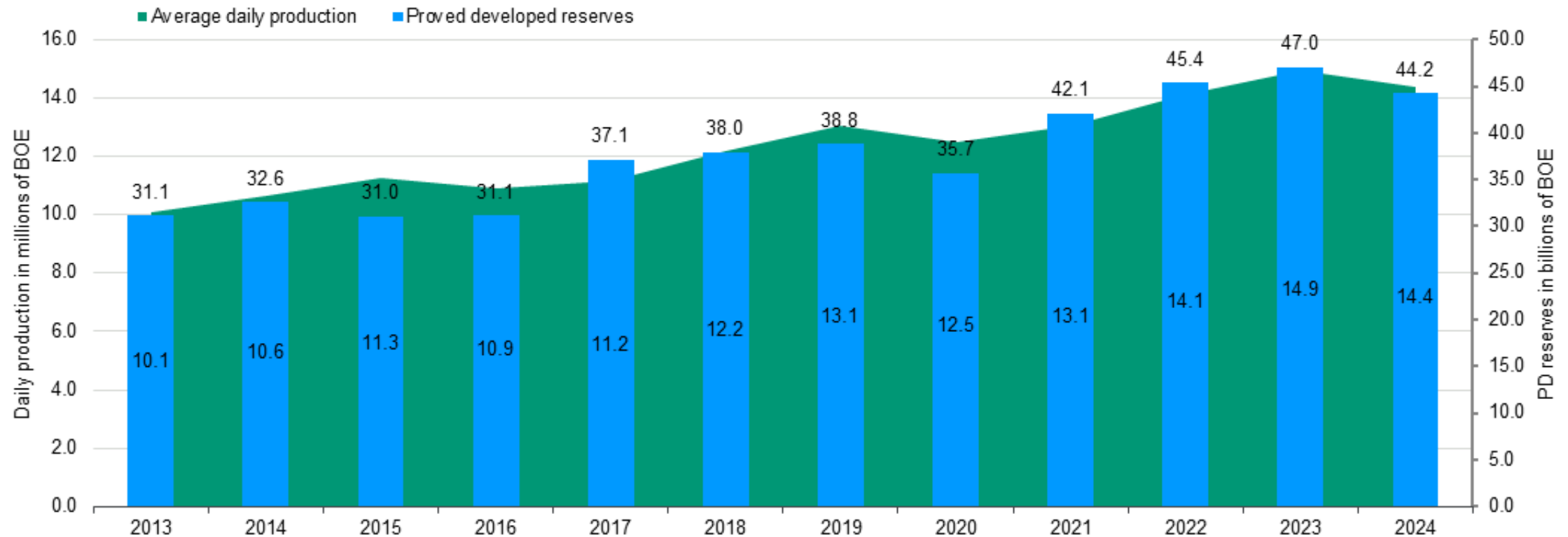
The sector reduced debt in 2021-22, but recent debt-financed M&A has stalled that trend



Sources: Company reports and Moody's Ratings

# Exploration and Production

**Production and reserves have grown steadily, boosting asset and cash flow coverage**



Sources: Company reports and Moody's Ratings

# Exploration and Production

## More debt used in recent acquisitions

Issuer, rating and outlook at announcement	Acquisition	Moody's response
Canadian Natural, Baa1 stable	Chevron's Canadian assets	No change to rating or outlook, but <b>credit negative</b>
Helmerich & Payne, Baa1 stable	KCA Deutag	<b>Downgraded to Baa2</b>
Coterra Energy, Baa2 stable	Franklin Mountain and Avant Natural Resources	No change to rating or outlook, but <b>credit negative</b>
Devon Energy, Baa2 stable	Grayson Mill	Credit neutral, leveraging but with some equity funding
ONEOK, Baa2 stable	EnLink and Medallion Midstream	Affirm stable
EQT, Baa3 stable	Equitrans/EQM	<b>Affirm but changed outlook to negative</b>
Occidental Petroleum, Baa3 positive ( <i>announced December 2023</i> )	Crownrock	<b>Affirm but changed outlook to stable</b>
Matador Resources, Ba3 positive	Ameredev II	<b>Affirm but changed outlook to stable</b>

# Global Midstream Energy Outlook

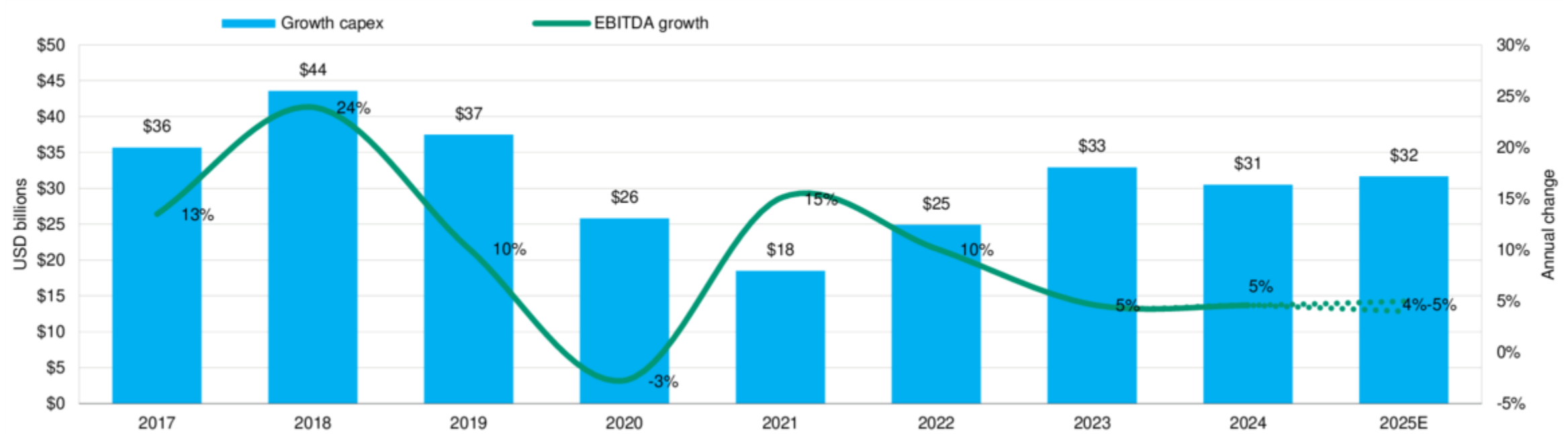
## Outlook: Stable

- Midstream EBITDA will increase by 4%-5% in 2025
- E&P capital discipline continues to restrain volume growth, limiting demand for new midstream infrastructure
- LNG's rapid capacity growth will slow with major projects slated for completion into 2026; AI-related energy demand offers another longer-term avenue for growth
- Sector's rising shareholder payouts and higher capital spending levels will slow credit improvement due to shrinking free cash flow
- Midstream M&A activity will continue, complementing organic growth prospects and focused on operational synergies



# Global Midstream Energy Outlook

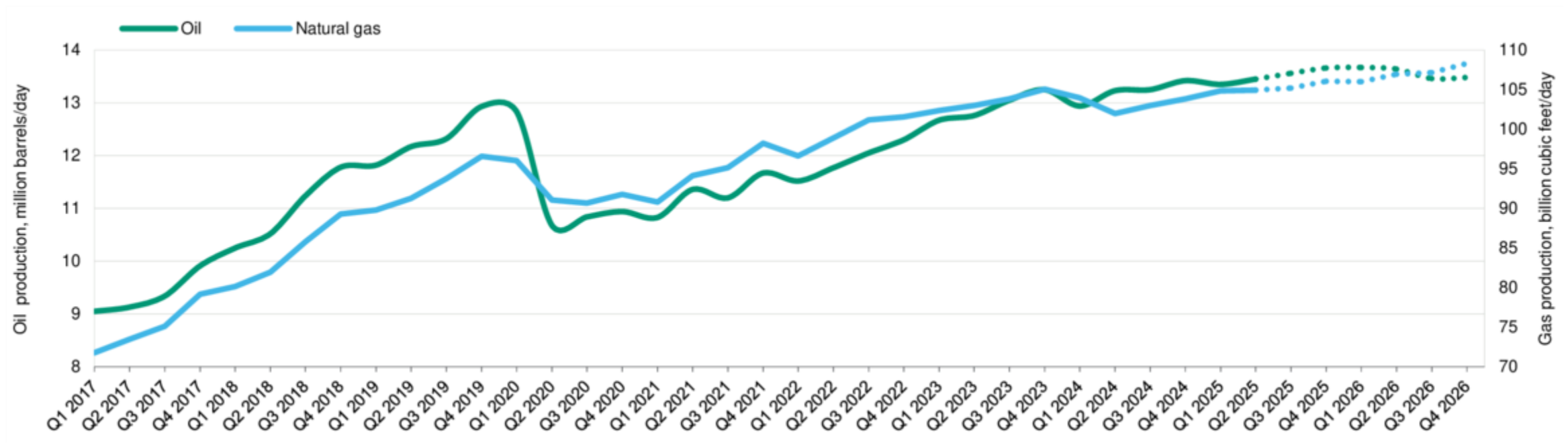
Outlook stable amid rising earnings and modest capex growth



Sources: Company reports and Moody's Ratings

# Global Midstream Energy Outlook

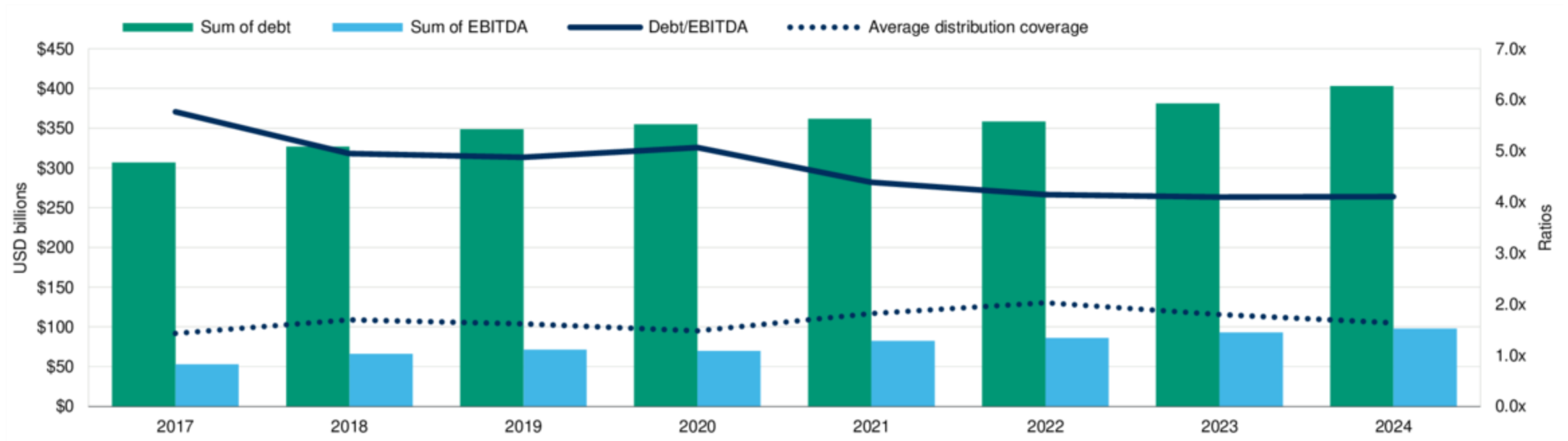
US gas production set to rise in 2025-26 while oil volumes roll over with lower prices



Source: US Energy Information Administration

# Global Midstream Energy Outlook

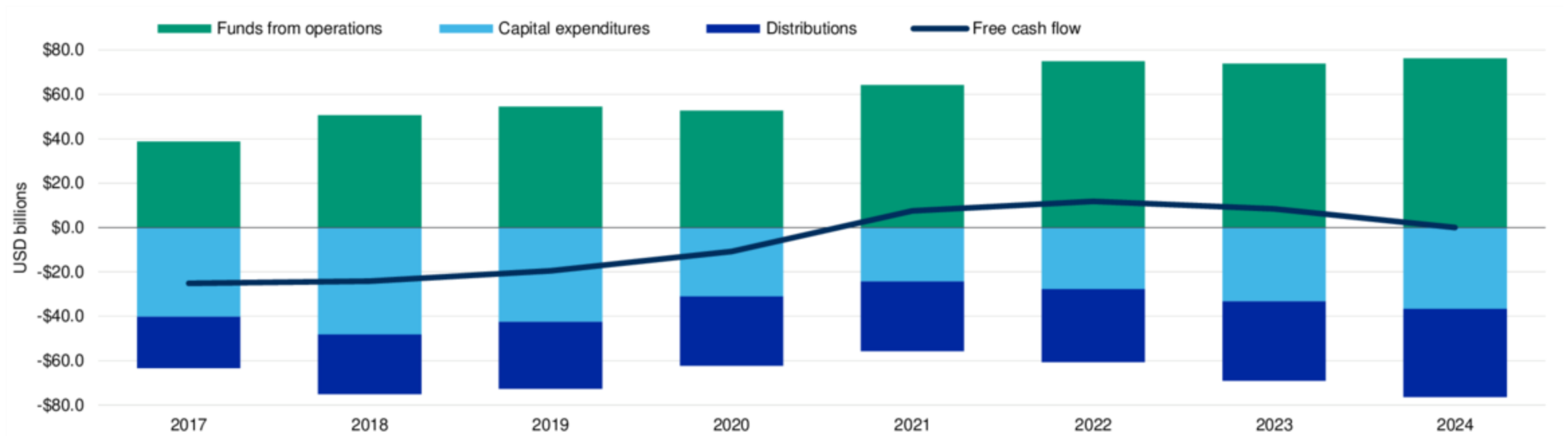
Financial profiles have improved with lower leverage and stronger distribution coverage



Source: Moody's Ratings

# Global Midstream Energy Outlook

Shift to free cash flow drove deleveraging, but trend reversing



Source: Moody's Ratings

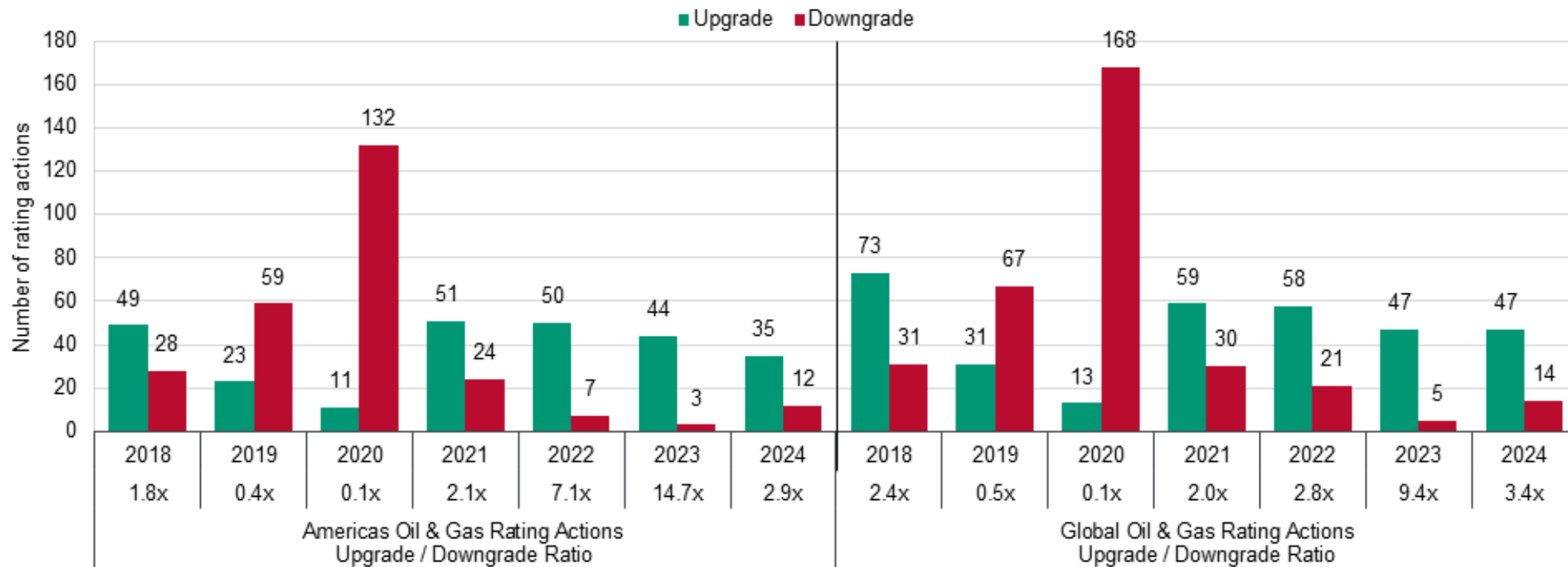
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# 4

## Oil and Gas Rating Actions

# Upgrades Outpace Downgrades, but the cycle is turning

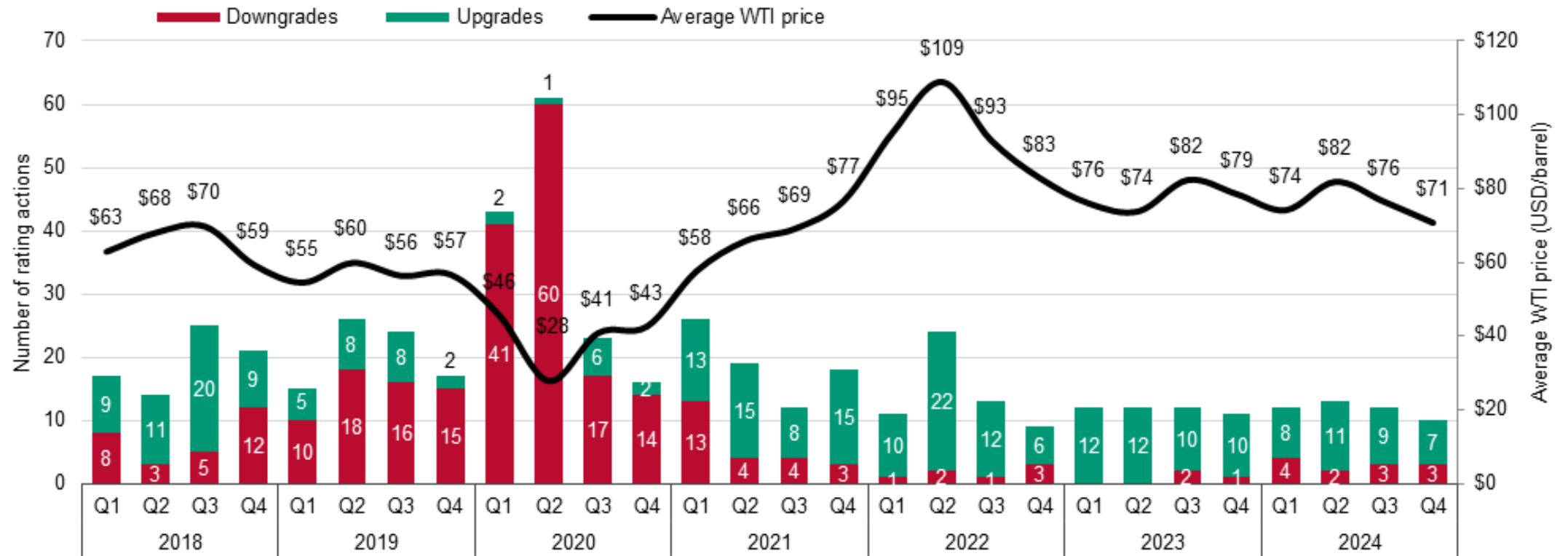
- Since 2021, upgrades have dominated as downgrades faded; but downgrades ticked up in 2024
- Companies used record cash flow to reduce debt, while continuing to lower their breakeven costs and enhance the ability to generate free cash flow at lower commodity prices



Source: Moody's Ratings

# Vast Majority of Upgrades Involved Companies in Americas

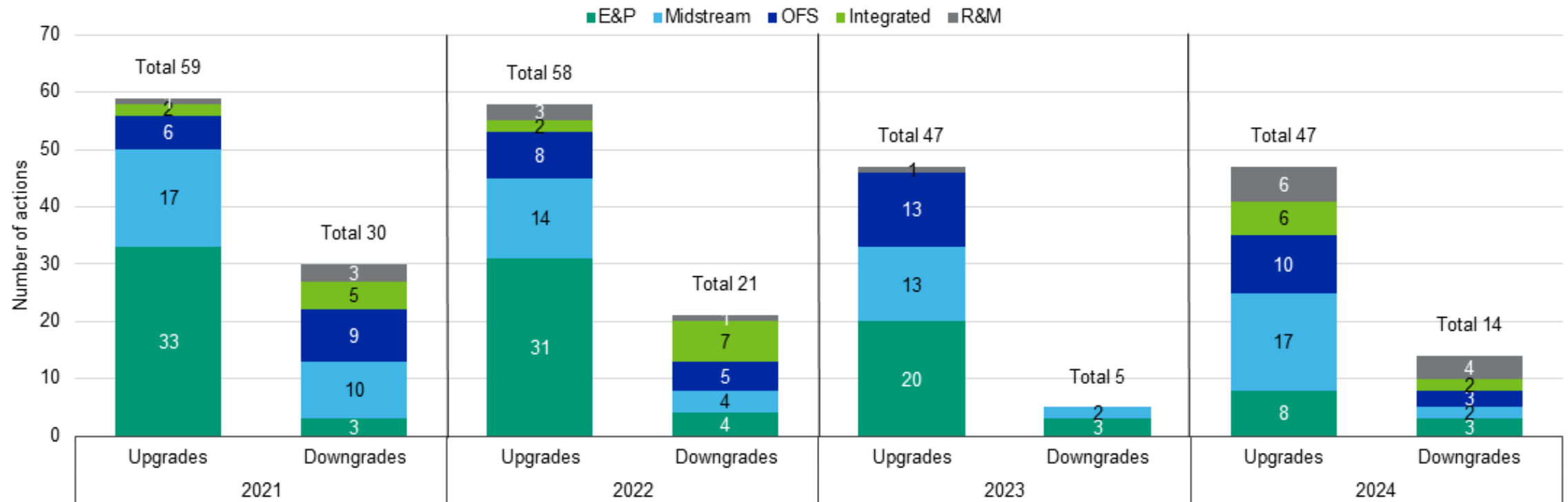
→ There were 129 upgrades and only 22 downgrades in 2022-2024



Source: Moody's Ratings

# Upgrades Moderated for E&P and Midstream Companies, but Increased for OFS Companies Between 2021 and 2023

- Increased free cash flow, debt reduction, and M&A were principal drivers for upgrades
- E&Ps earlier benefitted from higher commodity prices; midstream remains resilient



Source: Moody's Ratings

# Rising Stars and Falling Angels

→ “Rising Stars” continued to outpace “Fallen Angels” in 2024 riding the multi-year positive credit trend

Company	Sector	Date of last change in rating/outlook	Previous rating/outlook	Current rating/outlook
<b>RISING STARS</b>				
Cheniere Energy Partners, L.P.	Midstream	8-May-24	Ba1 positive	Baa2 stable
Administracion Nac. De Com, Alcohol-ANCAP	R&M	7-Jun-24	Ba1 stable	Baa3 stable
<i>TenchnipFMC plc *</i>	<i>OFS</i>	<i>23-Jan-25</i>	<i>Ba1 positive</i>	<i>Baa3 positive</i>
<i>Expand Energy Corporation *</i>	<i>E&amp;P</i>	<i>16-Apr-25</i>	<i>Ba1 positive</i>	<i>Baa3 stable</i>
<b>POTENTIAL RISING STARS AT YE 2024</b>				
ChampionX Corporation	OFS	2-Apr-24	Ba1 stable	Ba1 review for upgrade
DT Midstream, Inc.	Midstream	11-Jun-24	Ba1 stable	Ba1 positive
State Oil Company of the Azerbaijan Republic	Integrated	9-Jul-24	Ba1 stable	Ba1 positive
Petroleo Brasileiro S.A. - PETROBRAS	Integrated	2-Oct-24	Ba1 stable	Ba1 positive
<b>FALLEN ANGELS</b>				
Ecopetrol S.A.	Integrated	22-May-24	Baa3 negative	Ba1 stable
<i>SK Innovation Co. Ltd. *</i>	<i>R&amp;M</i>	<i>14-Mar-25</i>	<i>Baa3 negative</i>	<i>Ba1 negative</i>
<b>POTENTIAL FALLEN ANGELS AT YE 2024</b>				
EQT Corporation **	E&P	13-Jan-25	Baa3 review for downgrade	Baa3 negative

Source: Moody's Ratings



# 5

## **Risks on the horizon**

# Risks on the Horizon

## Near-term to long-term risks

Weakening economy, potential recession

OPEC+ supply and price support

Infrastructure constraints

Cyber risks

Climate change litigation

Cost of capital and access

Carbon transition



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6

# Question and Answer

Thank you

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# Appendix: ESG in Credit Ratings

# Four Components to Integration of ESG

ESG scores will assist in transparently and systematically demonstrating the impact of ESG on credit ratings



## Credit Ratings & Research

How is ESG integrated into credit ratings?

ESG factors taken into consideration for all credit ratings. Greater transparency in PRs, as well as Credit opinions. Credit Impact Score (CIS) is an output of the rating process that indicates the extent, if any, to which ESG factors impact the rating of an issuer or transaction.



## ESG Scores

How is a specific issuer exposed to ESG risks/benefits?

Issuer Profile Scores (IPS) are issuer-specific scores that assess an entity's exposure to the categories of risks in the ESG classification from a credit perspective. IPSs, where available, are inputs to credit ratings.



## ESG Classification

What is ESG?



Our classification reports describe how we define and categorize E, S and G considerations that are material to credit quality. New environmental classification sharpens focus on physical climate risks.

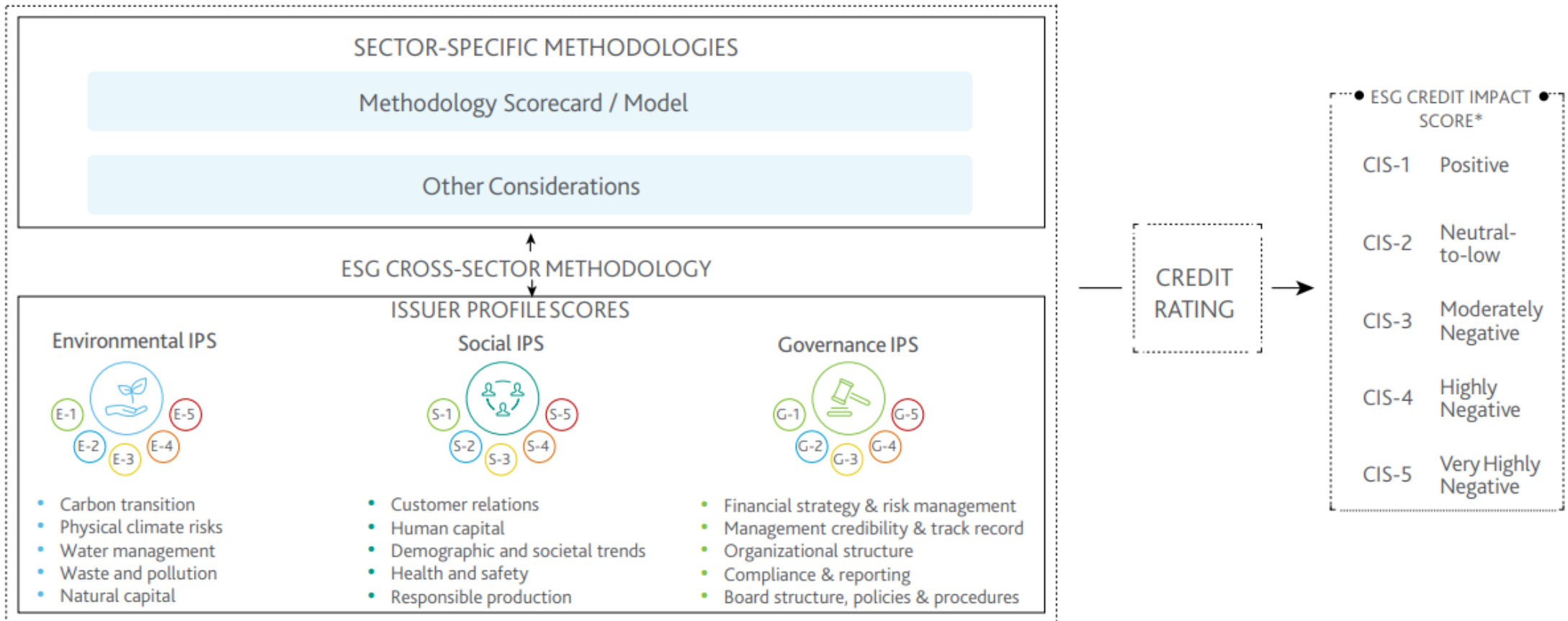
## Heat Maps

Is ESG material to credit quality?



Heat maps provide relative ranking of various sectors along the E and S classification of risks.

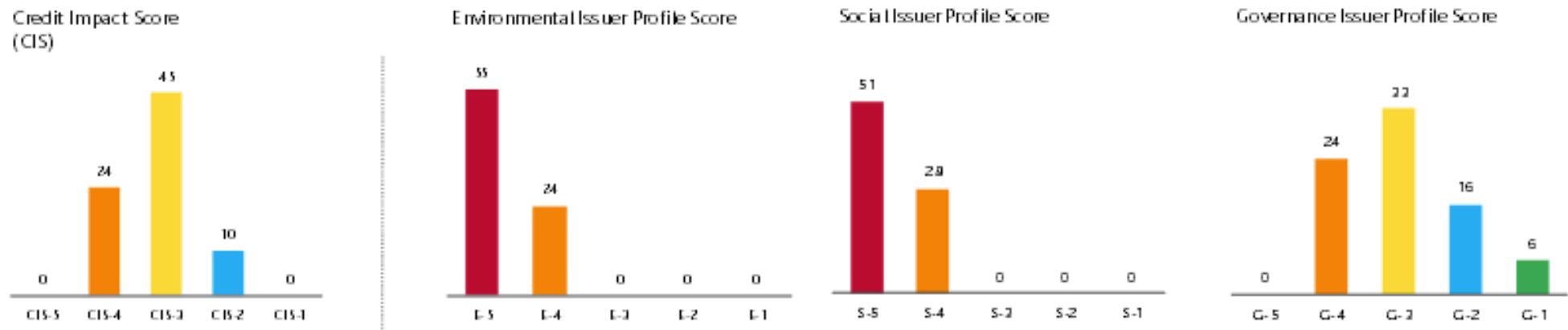
# ESG Considerations in Credit Ratings



The ESG credit impact score (CIS) is an output of the rating process that more transparently communicates the impact of ESG considerations on the credit rating of an issuer or transaction.

# Risk Category Distribution by IPS and CIS

Independent Exploration and Production



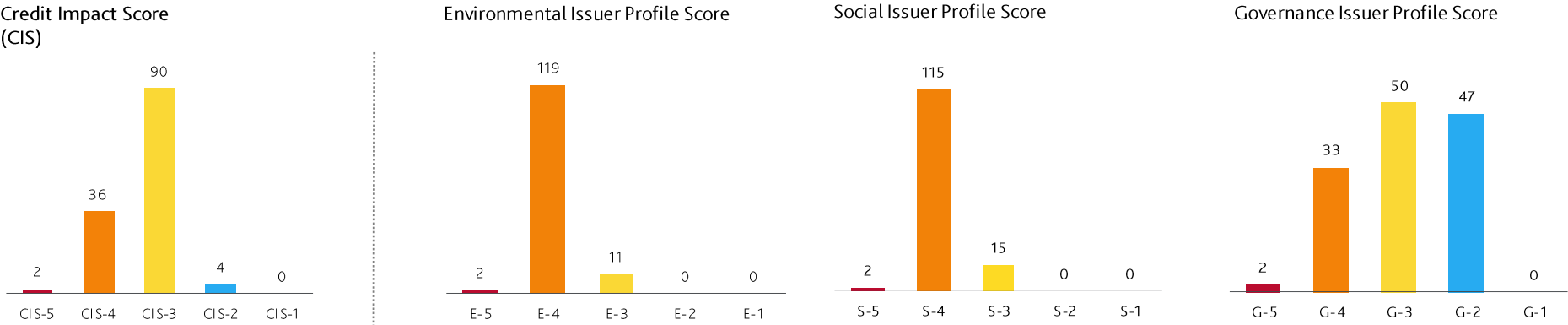
Integrated Oil & Gas



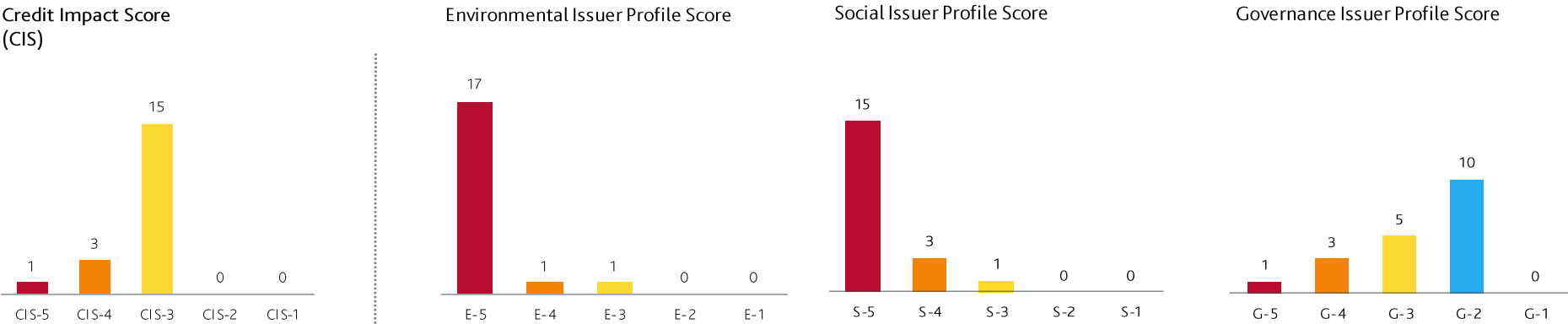
Source: Moody's Ratings; Data as of 28 April 2025

# Risk Category Distribution by IPS and CIS

## Midstream



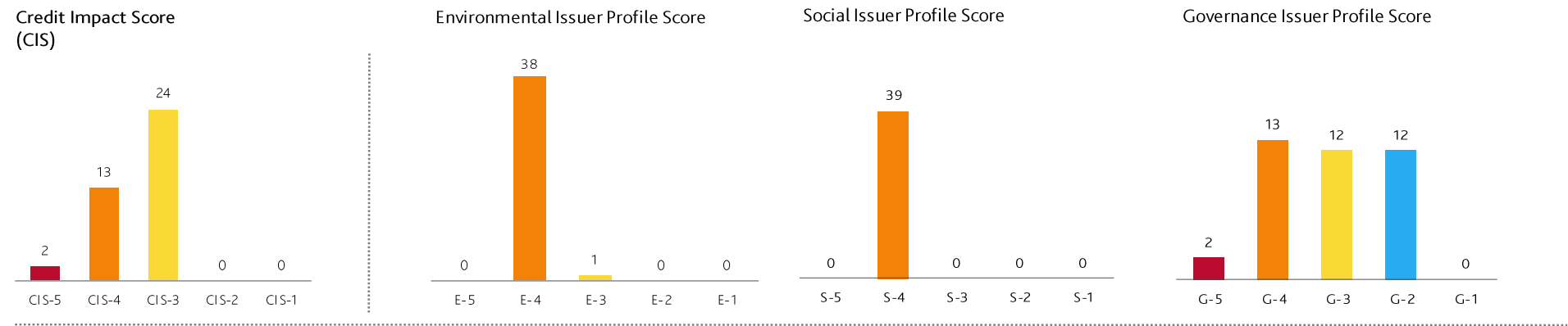
## Refining & Marketing



Source: Moody's Ratings; Data as of 28 April 2025

# Risk Category Distribution by IPS and CIS

Oilfield Services and Drilling



Source: Moody's Ratings; Data as of 28 April 2025

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# Appendix: Geographic Trends

# Regional Energy Trends

## Canada

- Further industry consolidation is likely in 2025
- Strong balance sheets as well as LNG and TMX tailwinds position Canadian producers to pursue M&A opportunities
- Larger portions of free cash flow will be directed toward shareholder returns as companies meet debt reduction targets and others loosen financial policy
- Regulation will continue to evolve and intensify as federal climate goals for 2030 near, requiring producers to shift more capital toward emissions reduction initiatives, including carbon capture
- Existing carbon tax will continue to climb and implementation of proposed framework to cap oil and gas sector emissions is underway, but political climate will likely limit near-term progress on key issues
- Completion of Trans Mountain Expansion will support stronger cash flows for heavy oil producers; the WCS discount to WTI has stabilized comfortably within the \$10-\$15 range
- Ramp up of LNG Canada will drive more capital toward natural gas production and tighten regional differentials beginning 2025
- Longer-term, lack of incentives to invest in new large-scale oil and gas pipelines will lead to regional egress constraints

# Regional Energy Trends

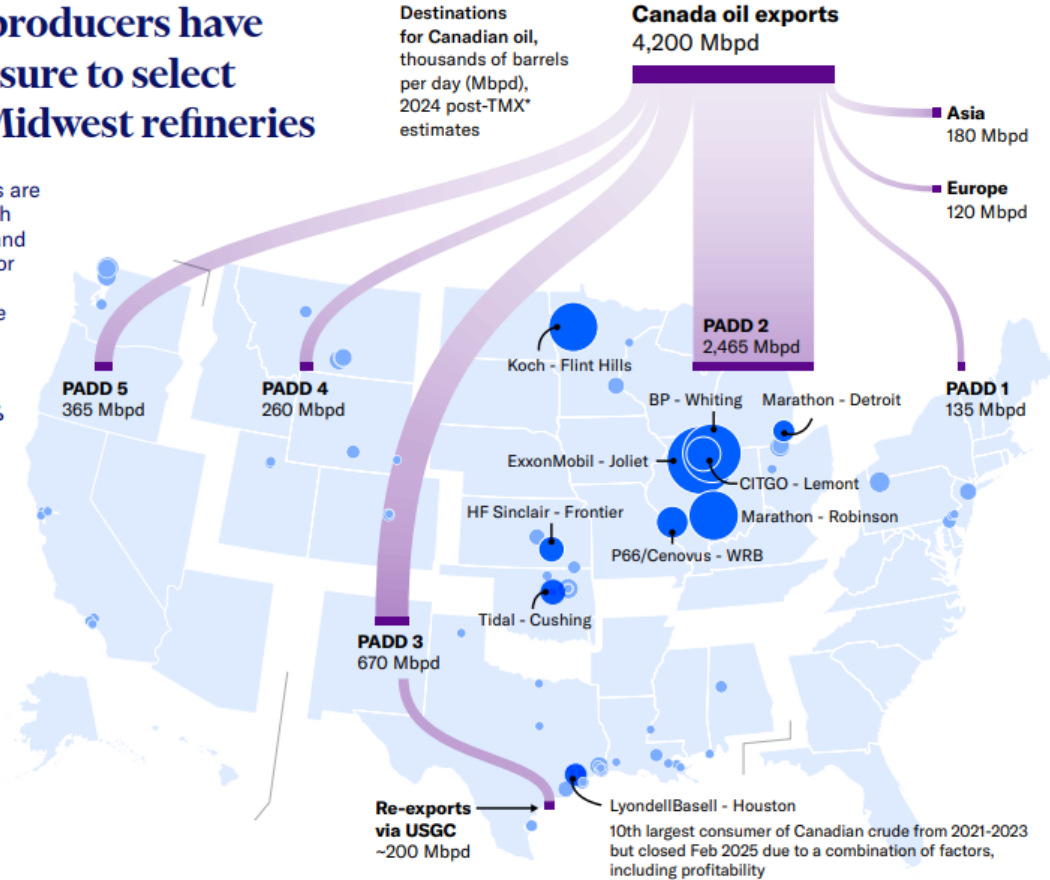
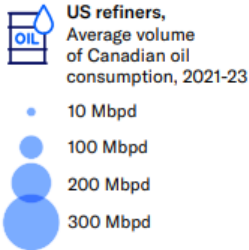
## Canada

### OIL – NORTH AMERICA

### Canadian oil producers have outsized exposure to select group of US Midwest refineries

Canadian-US energy flows are highly interdependent, with integrated infrastructure and US refineries configured for Canada's heavy crude. Ten US refineries consume over 40% of Canada's crude exports to the US.

Canada exports about 80% of its crude production, of which close to 90% is destined for the US

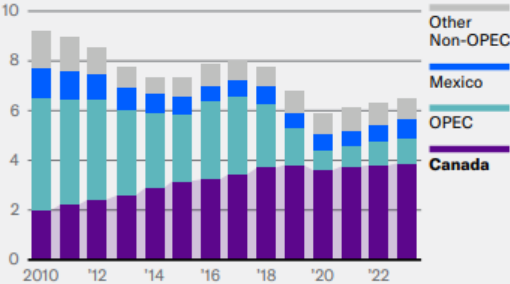


\*The expanded 890 Mbpd Trans Mountain Pipeline (TMX) came fully online in May 2024, increasing capacity for Canada oil exports to markets outside the US

Note: PADD (Petroleum Administration for Defense Districts) is the US Energy Information Administration's classification of the five US refining regions

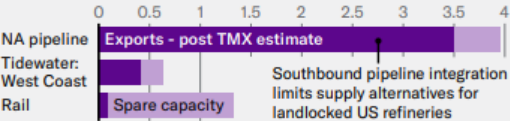
### US imports in decline but Canadian crude volumes are on the rise, displacing OPEC and others

Volumes of crude imports to US by origin, millions of barrels per day



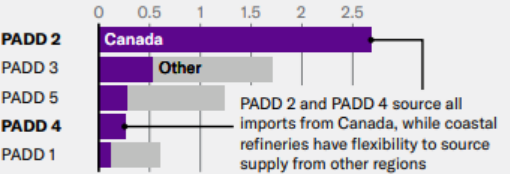
### Canada can only export a fraction of production outside of North America

Transported oil, 2024, millions of barrels per day



### Canadian heavy crude dominates PADDs 2 & 4 imports

Foreign oil imports, 2023, millions of barrels per day



Sources: US Energy Information Administration and Moody's Ratings

# Regional Energy Trends

## Latin America

- Steady oil and gas prices and volumes will continue supporting operating cash flow in 2025 for Latin American oil companies
- Fuel demand and fuel prices will remain relatively stable in 2025 reflecting mixed trends of economic growth in the region, supporting refiners' and integrated oil companies' cash flow
- Energy companies will maintain financial discipline by balancing dividends and capital investments, keeping total debt stable overall
- Investment capacity will still be limited in 2025
- Despite political risks, Latin America's major energy companies can count on support from government sponsors in case of need
- Oil companies are strategically important for Latin American governments as fuel suppliers, hard currency generators, taxpayers or employers



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