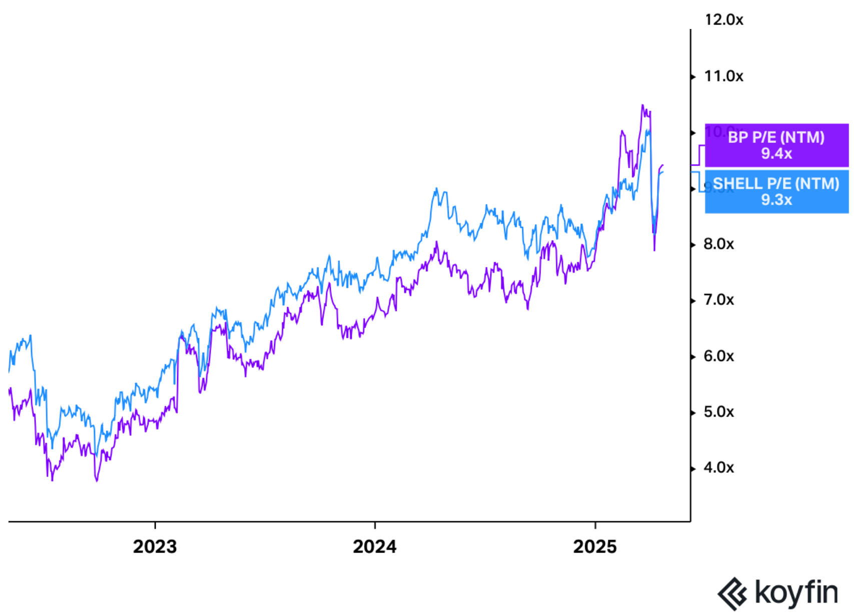
Activist Update: BP

AQUISIS

INSIGHT NUGGET, APRIL 24TH 2025

On April 22nd, one of the most well-known (or notorious?) activist investors, Elliott Management, made its 5% stake in British O&G giant BP public. There were rumors in that direction already in March. While there are multiple companies per day facing an activist investor, BP vs. Elliott is a poster child: The British company has been delivering among the worst TRS in the industry; was trading at the lower end of the valuation range of European oil majors for most of 2023 and 2024 (though it sprinted to the top with Trump's win), has consistently been having the lowest FCF margin, and has an inefficient capital structure. The cherry on top is that its business model includes activities that arguably may be better run independently: O&G exploration, O&G midstream, (petrol) retail, and various renewable energy projects (including wind parks, biogas, and EV charging). BP is not alone in being targeted by Elliott who are also in a very public and confrontational campaign with Phillips 66. Among others, Elliott wants Phillips 66 to sell off everything but its refining business and replace most of its Board of Directors.

Forward P/E of BP vs. Shell
Daily NTM forward

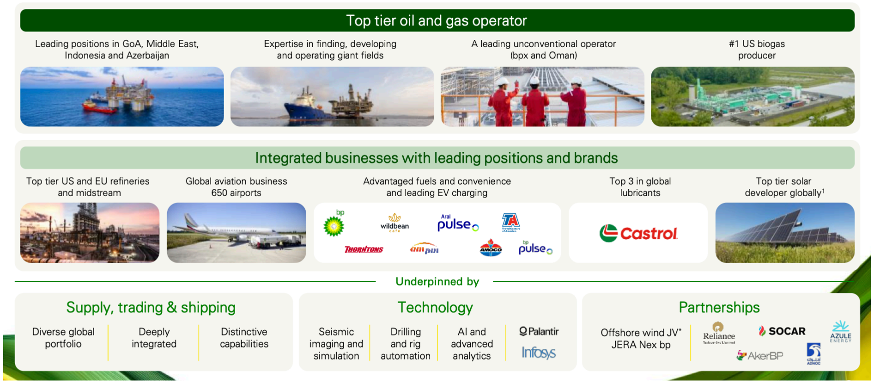


While most would agree that from a societal welfare perspective, it is a positive when O&G profits get invested into renewable energy, the same is not necessarily true from an investment perspective – particularly given the turning ESG tide. Spinning off non-core assets to a better owner and returning the cash to shareholders has been a long-time favorite of activists. Think e.g.: Cevian wanting to break up

Smith & Nephew, Elliott forcing GSK to spin-off Haleon, Nelson Peltz pushing Unilever to exit its tea business to CVC, or indeed, Third Point pushing Shell to divest mid- and downstream assets.

BP's portfolio

As shown in BP's Capital Market Update in Feb 2025



A case could be made for the possibility of know-how transfer from offshore O&G to offshore wind, as well as from petrol retail to EV charging stations. Whether this is enough to warrant keeping quite distinct business under one roof would require a deeper investigations – Elliott evidently apparently have come to a clear conclusion here. Leaving the activist investor angle aside, this leads to a deeper question about corporate strategy: If it were always optimal to divest non-core assets (as we would agree it often is), how can a firm evolve? Earlier this month, we published a piece on [adapting to changing economic and industry life cycles](), which included the example of Nokia reinventing itself when the age of the feature phone ended. There will be a million nuances in every case, but as a guiding star we resort to the best owner principle:

> If there is a high overlap in terms of assets, capabilities, market access between the business or venture in question and your core business, there is a good chance that the additional value it generates from being inside the group outweighs organizational complexity costs.

A final consideration is that of patient capital. Nokia managed its many transitions while being publicly traded, but that is likely to be the exception. When fulfilling the full value generation capacity requires major and drastic shifts in business model over a prolonged period (as is the case with an O&G like BP becoming 'green'), patient capital in the form of long-term oriented PE or family office investors may be better.