Business Environment Case Study

Impact analysis of oil prices on an equipment manufacturer's entire value chain

Situation

After the sharp decline of oil prices in the second half of 2014, an equipment provider to the oil and gas industry wanted to better understand the impact of sustained low oil price environments on its customers' capital spending. The client retained IHS Markit to examine the impact of oil prices on the capital spending requirements for the client's equipment across all segments of oil & gas value chain – upstream, midstream (LNG, pipelines), refining, and petrochemicals, with full global coverage, over the period 2015-2020.

Action

Upstream Oil & Gas Consultants:

- Established three price scenarios for the next five years: high, mid and low, and provided the client with an overview of the oil price dynamics, reasons for possible oil price movements, key signposts to watch for in the coming years, as well as qualitative descriptions of capital trends under low oil prices
- Developed capital expenditure outlooks for next five years under each oil price scenario. Based on IHS Markit forecasted activity levels in each geographical region, IHS Markit estimated the committed capital, the spending that will go ahead under various price scenarios, and the oil price impact on "uncommitted" capital expenditure. The analysis was carried out using a bottom-up approach (i.e. project activity and capacity additions) for midstream and downstream, and cost curves in the upstream
- Assessed the percentage of capital expenditure that was likely to be delayed or cancelled as a result of sustained low oil price on a year by year basis by geography and industry market segment

Result

The client used the spending outlook under various oil price scenarios to build its multi-year operating plan and budget. IHS Markit also contributed to the client's Board level discussions on the potential strategic implications for the client's industrial and geographic markets under various oil price scenarios.

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