Royal Dutch Shell plc (RDS.B)

Updated May 10th, 2019 by Jonathan Weber

Key Metrics

Current Price:	$64	**5 Year CAGR Estimate:**	14.8%	**Volatility Percentile:**	27.3%
Fair Value Price:	$66	**5 Year Growth Estimate:**	8.2%	**Momentum Percentile:**	27.5%
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.7%	**Growth Percentile:**	84.1%
Dividend Yield:	5.9%	**5 Year Price Target**	$98	**Valuation Percentile:**	58.8%
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Total Return Percentile:**	86.7%

Overview & Current Events

Royal Dutch Shell is an oil and gas supermajor, the second-largest behind Exxon Mobil in terms of annual production volumes. Shell is currently valued at $254 billion, also ranking second among oil companies behind Exxon Mobil by that measure. Shell is headquartered in London (UK) as well as in Den Haag (Netherlands). There are two types of shares of the company; RDS.A shares, listed in the Netherlands, and RDS.B shares, listed in the United Kingdom.

Royal Dutch Shell reported its first quarter earnings results on May 2. The company reported revenues of $84 billion for the first quarter, which was 6.2% less than the revenues that Royal Dutch Shell generated during the previous year's first quarter. This decline can be primarily attributed to lower oil prices compared to the previous year's period. The company's top line missed the analyst consensus by $2.4 billion. Realized oil prices that were lower year over year were also a headwind for Shell's profitability during the first quarter, but the company benefited from higher trading profits and improved LNG sales. This is why Shell managed to generate net profits of $5.4 billion, which was down only 2% year over year, despite the larger-than-expected revenue decline.

Shell generated earnings-per-share of $1.30 during the first quarter, which was unchanged from the prior year's period, as a lower share count, due to Shell's share repurchases over the last year, offset the low-single-digit net profit decline completely. Shell continued to produce highly compelling cash flows during the first quarter, as operating cash flows totaled $11.3 billion during Q1, which was up from $10.4 billion in operating cash flows during the previous year's period. Free cash flows, adjusted for the impact of working capital changes, was strong during Q1 as well, at $6.7 billion.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$4.08	$6.56	$8.67	$8.48	$5.20	$4.72	$0.60	$1.16	$3.84	$5.16	***$5.53***	***$8.20***
DPS	$3.36	$3.36	$3.36	$3.42	$3.56	$3.72	$3.76	$3.76	$3.76	$3.76	***$3.76***	***$4.50***
Shares	3060	3080	3110	3150	3150	3150	3200	4070	4170	4170	***4100***	***3800***

The earnings-per-share numbers in the above table do not look particularly enticing. From 2011's levels, earnings-per-share declined continuously until hitting an inflection point in 2015. Since then per-share profits have been rising, but are still well below the peak levels hit earlier in the decade. It would be harsh to label Shell as a bad investment due to this unfortunate development, though. Oil prices were unusually volatile throughout the last decade. The more recent, very steep oil price slump wiped out almost all profits, but Shell has recovered considerably since.

When oil prices were around their lows, Shell acquired BG Group, a deepwater oil and natural gas focused upstream company, in a $50 billion deal that was criticized by many at the time. Shell has, compared to other oil majors, recovered very successfully from the oil price slump. The company's production volumes are rising, its profits are growing steadily, and the company produces huge free cash flows. With new projects coming online in the coming years and oil prices recovering further, Shell has solid net earnings growth potential going forward. The current buyback program will lower Shell's share count by ~10% over the next three years, which will positively impact earnings-per-share growth as well.

The company's dividend growth has not been as steady as the dividend growth of Chevron and Exxon Mobil, but Shell nevertheless has an excellent long term track record, as it has not cut its dividend since World War II.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	12.7	8.7	8.1	8.4	13.3	16.7	52	44	18.6	11.6	***11.6***	***12.0***
Avg. Yld.	6.5%	5.9%	4.8%	5.1%	5.1%	4.7%	6.5%	7.4%	6.4%	6.2%	***5.9%***	***4.6%***

Shell's valuation has moved in a very wide range throughout the last decade, which can be explained by the big movements in the company's net profits. More recently, as earnings started to rise to a higher level, the valuation has come down considerably. Shares are currently trading marginally below our fair value estimate.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	82.4%	51.2%	38.8%	40.3%	68.5%	78.8%	627%	324%	97.9%	72.9%	***68.0%***	***54.9%***

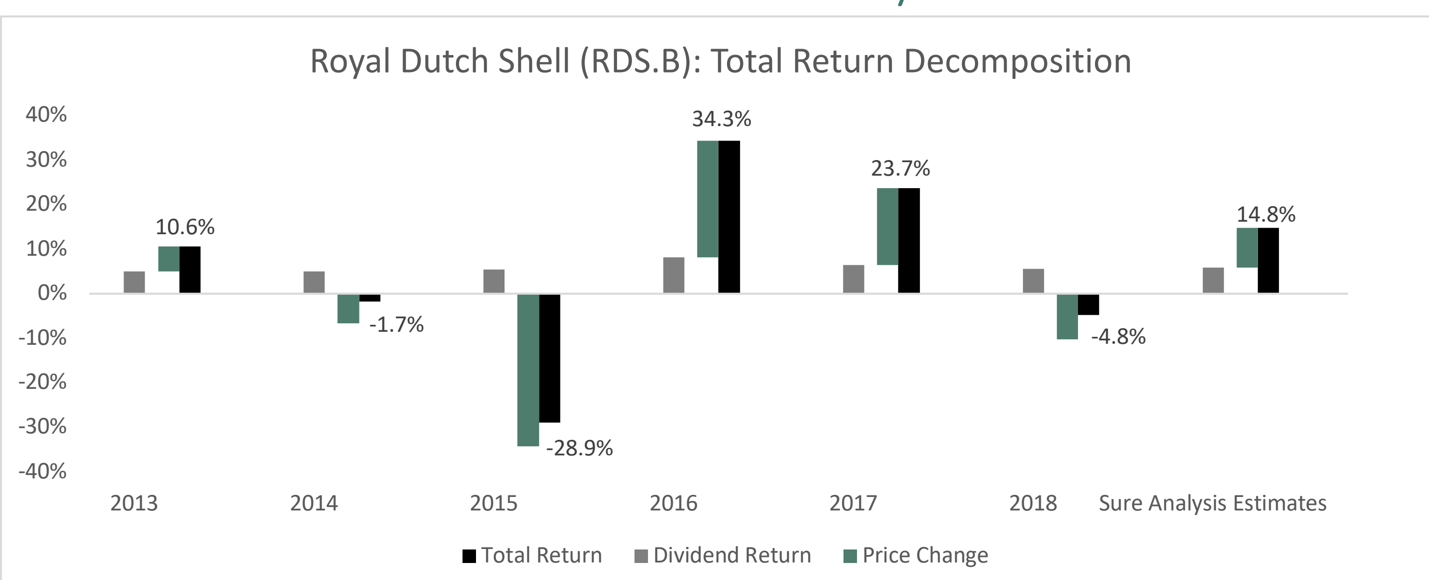
Shell's dividend payout ratio is not what we call consistent as the payout ratio has ranged between 40% and as high as 630% throughout the last decade. Even though the dividend was not covered by profits during some of those years, the risk of a dividend cut was not overly high. The company's cash flows usually are substantially higher than its net profits, and Shell's ultra-long-term dividend record – no dividend cut during the last 70 years – provides reassurance.

As one of the largest oil and gas players with a global presence not only in the upstream segment, but also in refining, trading, and the chemicals industry, Shell has massive scale which makes it less dependent on individual projects and which allows for cost synergies. Shell is a leading player among natural gas producers, and should benefit from rising natural gas demand from many countries that are seeking to replace coal power generation. Shell also makes investments into new, non-oil businesses, such as wind parks and electrical grids when it finds opportunities.

Final Thoughts & Recommendation

Royal Dutch Shell looks like it is well-positioned for the future, thanks to its takeover of BG and many growth projects that will come on line during the next couple of years. Shareholders benefit from massive cash flows through an above-average yield, and a sizeable share repurchase program. We rate Shell a buy thanks to a strong total return outlook, but investors should be able to stomach the cyclicality of the global oil markets.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue ($B)	285.13	368.06	470.17	467.15	451.24	421.11	264.96	233.59	305.18	388.38
Gross Profit	56753	44827	60346	56598	48141	39290	15507	17590	28857	44875
Gross Margin	19.9%	12.2%	12.8%	12.1%	10.7%	9.3%	5.9%	7.5%	9.5%	11.6%
SG&A Exp.	17430	15528	14359	14465	14675	13965	11956	12101	10509	11360
D&A Exp.	14458	15595	13228	14615	21509	24499	26714	24993	26223	22135
Operating Profit	21562	26244	42598	37722	26870	19879	-3261	2367	15481	31189
Op. Margin	7.6%	7.1%	9.1%	8.1%	6.0%	4.7%	-1.2%	1.0%	5.1%	8.0%
Net Profit	12518	20127	30826	26712	16371	14874	1939	4575	12977	23352
Net Margin	4.4%	5.5%	6.6%	5.7%	3.6%	3.5%	0.7%	2.0%	4.3%	6.0%
Free Cash Flow	-5028	410	10470	13564	465	13368	3679	-1501	14805	30074
Income Tax	8302	14870	24450	23552	17066	13584	-153	829	4695	11715

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets ($B)	292.18	322.56	337.47	350.29	357.51	353.12	340.16	411.28	407.10	399.19
Cash & Equivalents	9719	13444	11292	18550	9696	21607	31752	19130	20312	26741
Acc. Receivable	59328	N/A	79509	40210	39094	28393	20607	25766	30721	42431
Inventories	27410	29348	28976	30781	30009	19701	15822	21775	25223	21117
Goodwill & Int.	5356	5039	4521	4470	4394	7076	6283	23967	24180	23586
Total Liab. ($B)	154.05	172.78	177.51	174.11	176.36	180.33	176.04	222.76	209.29	196.66
Accounts Payable	67161	76550	81846	42448	41927	32131	23795	28069	33196	48888
Long-Term Debt	35033	44332	37175	33560	39417	38838	52194	77617	70141	76824
Total Equity ($B)	136.43	148.01	158.48	174.75	180.05	171.97	162.88	186.65	194.36	198.65
D/E Ratio	0.26	0.30	0.23	0.19	0.22	0.23	0.32	0.42	0.36	0.39

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	4.4%	6.5%	9.3%	7.8%	4.6%	4.2%	0.6%	1.2%	3.2%	5.8%
Return on Equity	9.5%	14.2%	20.1%	16.0%	9.2%	8.5%	1.2%	2.6%	6.8%	11.9%
ROIC	7.7%	11.0%	15.8%	13.1%	7.6%	6.9%	0.9%	1.9%	4.9%	8.5%
Shares Out.	3060	3080	3110	3150	3150	3150	3200	4070	4170	4170
Revenue/Share	93.04	119.90	151.14	149.06	143.40	133.44	82.40	59.20	73.55	93.04
FCF/Share	-1.64	0.13	3.37	4.33	0.15	4.24	1.14	-0.38	3.57	7.20

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.