



Shell plc (SHEL)

Updated February 6th, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	4.4%	Market Cap:	\$203 B
Fair Value Price:	\$90	5 Year Growth Estimate:	-7.0%	Ex-Dividend Date:	2/15/2024
% Fair Value:	70%	5 Year Valuation Multiple Estimate:	7.4%	Dividend Payment Date:	3/25/2024
Dividend Yield:	4.4%	5 Year Price Target	\$63	Years Of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Royal Dutch Shell (RDS.B) changed its name to Shell plc (SHEL) on January 21st, 2022. It is an oil and gas supermajor, the third largest behind Saudi Aramco and Exxon Mobil in terms of production volumes. Shell is currently valued at \$203 billion, also ranking third among oil companies by that measure. Shell is headquartered in London (UK).

In early February, Shell reported (2/1/24) financial results for the fourth quarter of fiscal 2023. Oil and gas prices somewhat moderated sequentially but production rose 4.5% and gas trading profits grew 57%. As a result, Shell grew its adjusted earnings-per-share 19% sequentially, from \$1.86 to 2.22, and beat the analysts' consensus by \$0.36. As the prices of oil and gas and the refining margins have remained above average, Shell has raised its dividend three times in 15 months, for a total raise of 38%.

Due to the sanctions of western countries on Russia and the production cuts of OPEC, the price of oil has remained above-average since early 2022. However, we expect the price of oil to deflate in the upcoming years due to the cyclical nature of this industry.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$4.72	\$0.60	\$1.16	\$3.84	\$5.16	\$4.08	\$1.24	\$4.98	\$10.86	\$8.40	\$7.50	\$5.22
DPS	\$3.72	\$3.76	\$3.76	\$3.76	\$3.76	\$3.76	\$1.91	\$1.92	\$1.98	\$2.47	\$2.75	\$3.36
Shares¹	3,150	3,200	4,070	4,170	4,170	4,029	3,892	3,872	3,564	3,315	3,200	3,000

Thanks to 13-year high prices of oil and gas, earnings-per-share in 2022 were more than double those in 2013. However, Shell has exhibited a highly volatile performance record due to the dramatic swings of commodity prices. When oil prices were around their lows, in 2015, Shell acquired BG Group, a deep-water oil and natural gas focused upstream company, in a \$53 billion deal that was criticized by many at the time. Shell grew its output considerably thanks to that acquisition, but its output has somewhat stalled in the last six years. This is in sharp contrast to the other oil majors, such as Chevron, BP and Total, which have grown their production in recent years. The stagnation of Shell has resulted from the natural decline of its fields and its extensive asset divestments, which helped fund the expensive acquisition. These two factors have also caused the duration of the reserves of Shell to fall to about 9 years, which is shorter than the average duration of the peer group (~11 years).

Moreover, Shell has announced a major transformation plan, which involves a transition from oil and gas to renewable energy sources. The company will transform its refining portfolio from 14 sites to 6 energy and chemicals parks and will reduce its upstream portfolio to 9 core positions, which will generate more than 80% of the cash flows of the upstream segment. It also expects to produce ~75% of its proved reserves until 2030. This historic transition has greatly increased the uncertainty over future results, as the new business will probably have lower margins. On the bright side, Shell has drastically reduced its operating expenses in recent years and has invested in high-quality, low-cost reserves, which have rendered Shell more profitable at a given oil price. Due to the high comparison base formed by the expected earnings this year, we expect the earnings-per-share of Shell to decline at a -7.0% average annual rate over the next five years.

¹ In millions.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	16.7	52	44	18.6	11.6	15.1	27.7	8.3	5.0	7.3	8.4	12.0
Avg. Yld.	4.7%	6.5%	7.4%	6.4%	6.2%	6.1%	5.6%	4.6%	3.7%	4.0%	4.4%	5.4%

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. The stock is currently trading at a price-to-earnings ratio of 8.4. This valuation level is much lower than our assumed fair earnings multiple of 12.0. If the stock reverts to our fair valuation level over the next five years, it will enjoy a 7.4% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

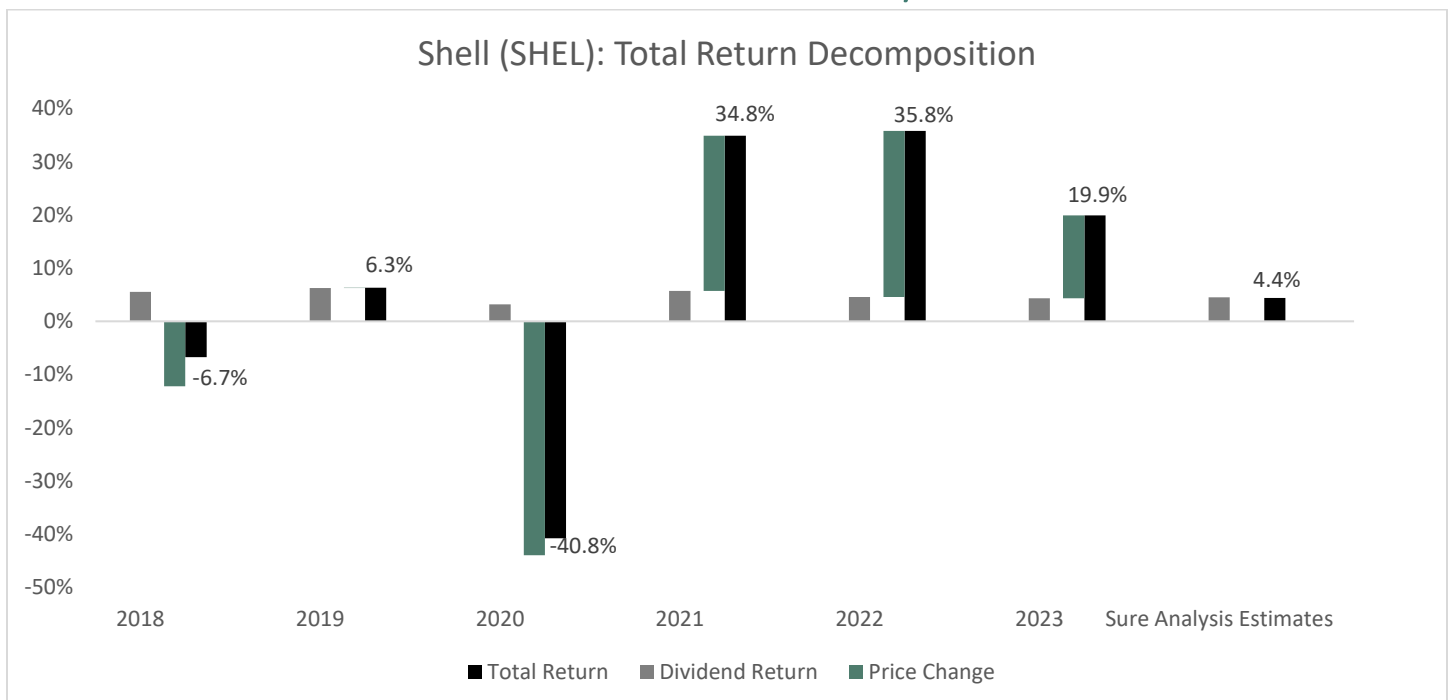
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	78.8%	62.7%	32.4%	97.9%	72.9%	92.2%	154%	38.6%	18.2%	29.4%	36.7%	64.4%

In contrast to Exxon Mobil and Chevron, which are Dividend Aristocrats, Shell froze its dividend for five years and cut its dividend in 2020, for the first time since World War II. Shell exceeded Exxon in annual operating cash flows in 2017 for the first time in about 20 years and has maintained its top position in the last five years. It is now offering a lackluster (vs. historical yields) dividend yield of 4.4% but its dividend has a wide margin of safety.

Final Thoughts & Recommendation

Shell plunged near its 20-year lows in 2020, primarily due to the pandemic, and cut its dividend for the first time in 75 years. However, it is thriving now thanks to an above average price of oil, which has resulted from the war in Ukraine and the production cuts of OPEC. The stock has rallied 34% off its bottom in 2022. As a result, it could offer just a 4.4% average annual return over the next five years, as its 4.4% dividend and a 7.4% valuation tailwind may be partly offset by a -7.0% decline of earnings-per-share. We maintain our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue (\$B)	421.11	264.96	233.59	305.18	388.38	344.9	180.5	261.5	381.3	316.6
Gross Profit	39290	15507	17590	28857	44875	36,755	-12,995	35,848	78,779	55,391
Gross Margin	9.3%	5.9%	7.5%	9.5%	11.6%	10.7%	-7.2%	13.7%	20.7%	17.5%
SG&A Exp.	13965	11956	12101	10509	11360	10,493	9,881	11,328	12,883	13,433
D&A Exp.	24499	26714	24993	26223	22135	28,701	52,444	26,921	22,393	23,106
Operating Profit	19879	-3261	2367	15481	31189	22,946	-25,530	22,282	63,109	38,921
Op. Margin	4.7%	-1.2%	1.0%	5.1%	8.0%	6.7%	-14.1%	8.5%	16.6%	12.3%
Net Profit	14874	1939	4575	12977	23352	15,843	-21,680	20,101	42,309	19,360
Net Margin	3.5%	0.7%	2.0%	4.3%	6.0%	4.6%	-12.0%	7.7%	11.1%	6.1%
Free Cash Flow	13368	3679	-1501	14805	30074	19,208	17,520	26,105	45,813	31,203
Income Tax	13584	-153	829	4695	11715	9,053	-5,433	9,199	21,941	12,991

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets (\$B)	353.12	340.16	411.28	407.10	399.19	404.3	379.3	404.4	443.0	406.3
Cash & Equivalents	21607	31752	19130	20312	26741	18,054	31,830	36,971	40,246	38,774
Acc. Receivable	28393	20607	25766	30721	42431	43,414	33,625	53,208	66,510	53,273
Inventories	19701	15822	21775	25223	21117	24,071	19,457	25,258	31,894	26,019
Goodwill & Int.	7076	6283	23967	24180	23586	23,486	22,822	24,693	25,701	26,913
Total Liab. (\$B)	180.33	176.04	222.76	209.29	196.66	213.9	220.7	229.1	250.4	217.9
Accounts Payable	32,131	23,795	28,069	33,196	30,351	29,497	22,664	63,173	79,357	68,237
Long-Term Debt	38,838	52,194	77,617	70,141	62,798	65,887	79,594	89,086	83,795	81,541
Total Equity (\$B)	171.97	162.88	186.65	194.36	198.65	186.5	155.3	172.0	190.5	186.6
LTD/E Ratio	0.23	0.32	0.42	0.36	0.32	0.35	0.51	0.52	0.44	0.44

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.2%	0.6%	1.2%	3.2%	5.8%	3.9%	-5.5%	5.1%	10.0%	4.6%
Return on Equity	8.5%	1.2%	2.6%	6.8%	11.9%	8.2%	-12.7%	12.3%	23.3%	10.3%
ROIC	6.9%	0.9%	1.9%	4.9%	8.8%	5.7%	-8.3%	8.0%	16.5%	7.5%
Shares Out.	3150	3200	4070	4170	4170	4029	3892	3872	3705	3400
Revenue/Share	133.44	82.40	59.20	73.55	93.04	85.02	46.32	66.99	102.91	93.13
FCF/Share	4.24	1.14	-0.38	3.57	7.20	4.74	4.49	6.69	12.36	9.18

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

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