

Europe Satellite*

Recommended since 14.01.2025

14.01.2025



Country GB	Market capitalization (bn) EUR	163.7	Perf. since reco. (%)	
Sector Oil & Gas	Free float	98.1%	Shell Plc	0.0
Factset SHELL-NL	Closing price EUR	32.02	Sector	0.0
ISIN GB00BP6MXD84	ESG Risk score*	38.1	High risk	

Profile

Shell Plc produces oil and natural gas and operates in Integrated Gas, Upstream, Marketing, Chemicals and Products, Renewables and Energy Solutions. Shell is Europe's largest oil and gas company in terms of production, market position in liquefied natural gas and market capitalisation. The company was founded in February 1907, employs 87,000 people and is headquartered in London, UK.

Strengths/opportunities

- Focus on cash generation
- Low breakeven point and induced dividend security
- Debt-free balance sheet and potential for share buybacks

Weaknesses/threats

- Volatility of oil and gas prices and refining margins and impact on profits
- Environmental risks specific to the oil and gas industry

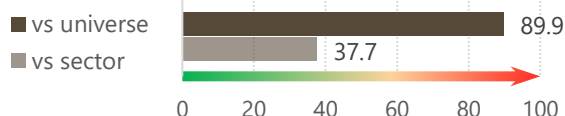
Investment case

- This recommendation provides relatively secure exposure to the Energy sector, which accounts for c.5% of the European market, at a time when the new US sanctions on Russian exports are having a positive impact on market prices for oil and gas.
- Since 2023, when the new CEO took office, the Group has been focusing on controlling capital expenditure and operating costs, while nevertheless aiming for profitable growth in its production (with an estimated free cash flow breakeven point of \$30/bl on additional production), and capitalising on its positions in LNG, which is set to play a central role in the energy transition phase in 2040.
- The result is a low breakeven point, estimated at \$40/bl for the ability to maintain the dividend and \$50/bl for the ability to maintain the share buybacks made possible by a virtually debt-free balance sheet, according to our meeting with the company in December 2024.
- Despite the share's recent outperformance, Shell's superior free cash flow generation translates into a free cash flow yield of around 9-10% over a visible horizon, which is higher than its peers. The operating indicators published at the beginning of January were disappointing (as they are for BP today) and are leading to (the end, probably) downward revisions to 4Q-2024 earnings, which will be published on 30.01.2025. This does not, however, call into question the investment case, which will be given a further boost by the Capital Market Day scheduled for 25.03.2025, when the Group could announce further efforts to reduce the organic level of its capital expenditure, thereby helping, at the very least, to maintain the target of distributing 40% of its operating cash flow to shareholders.

Valuation

The current price indicates a free cash flow yield of 10-9% over 2024-25e, compared with an average of c. 8% for European peers, with Shell leading the majors.

ESG risk vs. universe & sector (percentile)*



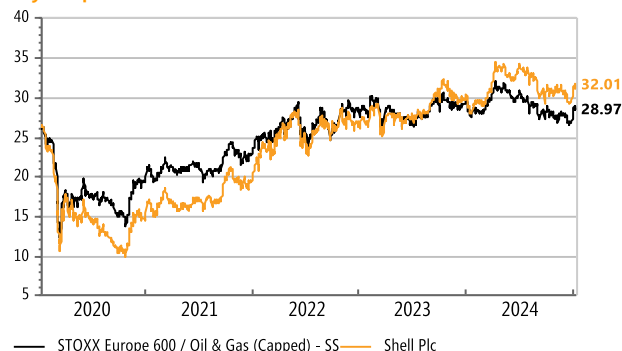
USD	12/2023	12/2024e	12/2025e
Sales revenue (mio)	292 382	288 121	280 997
Sales growth	-20.9%	-1.5%	-2.5%
EBIT adjusted (mio)	39 252	37 796	34 861
% of sales	13.4%	13.1%	12.4%
Net income (mio)	26 087	23 552	21 274
Net income growth	1324.8%	-9.7%	-9.7%
FCF/Sales	9.1%	10.4%	9.3%
Net debt/Ebitda	0.9x	0.6x	0.6x
Dividend yield	4.0%	4.2%	4.4%
PE	8.3x	8.6x	8.7x
P/BV	1.2x	1.1x	1.0x

Factset estimates

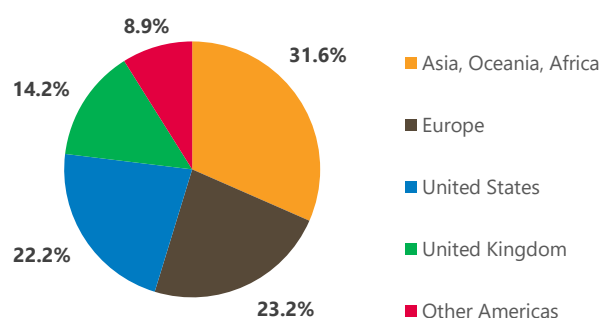
ESG - risks and key points

- Shell's ESG risk is rated 'high', despite its strong corporate governance, due to the specific risks associated with the oil industry (discharges, effluents) and the financial stakes associated with the risk of oil spills, as well as the associated risks relating to employee health and safety.

5-year performance vs sector



Sales breakdown - 12/2023



*: see overleaf

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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