

Royal Dutch Shell Plc

Buy → | Target 2750.00 p

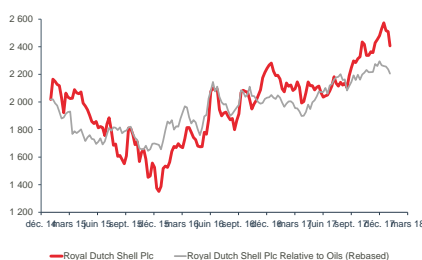
Price (01/02/2018) : 2406.50 p | Upside : 14 %

Est.chg	2018e	2019e
EPS	0.0%	0.5%

Q4 results in line but disappointment at cash flow

Publication date 02/02/2018 08:52

Writing date 02/02/2018 08:51



Source : Oddo BHF Securities, Fininfo

Capital

RDSA LN RDSa.L	
Market Cap (USDm)	213 820
Enterprise value (USDm)	349 025
Extrema 12 months	1 993 - 2 574
Free Float (%)	97.7

Performance (%)	1m	3m	12m
Absolute	-3.0	2.0	12.6
Perf. rel. Country Index	-4.0	2.8	3.9
Perf. rel. Oils	-3.9	3.6	9.5

P&L	12/17	12/18e	12/19e
Sales (USDm)	305 179	332 120	348 568
EBITDA (USDm)	44 170	49 847	54 433
Current EBIT (USDm)	17 947	25 730	28 290
Attr. net profit (USDm)	12 977	17 194	18 979
Adjusted EPS (USD)	2.01	2.07	2.34
Dividend (USD)	1.88	1.88	1.88
P/E (x)	14.0	16.5	14.7
P/B (x)	1.1	1.5	1.5
Dividend Yield (%)	6.7	5.5	5.5
FCF yield (%)	10.3	9.3	9.6
EV/Sales (x)	0.98	1.05	1.00
EV/EBITDA (x)	6.8	7.0	6.4
EV/Current EBIT (x)	16.6	13.6	12.3
Gearing (%)	33	28	27
Net Debt/EBITDA(x)	1.5	1.1	1.0

Next Events

26/02/2018	Conference/Presentation
21/03/2018	Conference/Presentation
26/04/2018	Q1 Results
22/05/2018	AGM

Q4 2017 results 1.4% higher than forecast

Adjusted attributable net profit in Q4 totalled \$ 4.3bn, +4.9% q-o-q/+140% y-o-y, i.e. +2.6%/+1.4% ahead of our expectations and those of the consensus. However, adjusted cash flow came in at \$ 8.4bn, shy of the forecasts of \$ 10bn, impacted by one-off taxes related to disposals.

Excellent performance in upstream and integrated gas

Upstream, earnings came to \$ 1.65bn, up 193% q-o-q, i.e. 49% higher than forecast, despite a 7% drop in production y-o-y with the impact of disposals (Canada, North Sea and Gabon), but up 1% y-o-y organic. This result is buoyed by a rise in Brent prices and a drop in amortisation charges. The group is gaining momentum and issued FIDs for the first FPSO for Libra in Brazil (180kboe/d; Shell: 20%), Tyra in Denmark (60 kboe/d; Shell: 36.8%) and Penguins in the North Sea (45 kboe/d; 50%). It has also just acquired (two days ago) nine exploration blocks in Mexico, which is a very promising basin. This will improve the reserve renewal rate currently at 27% (127% organic). In integrated gas, profit came in at \$ 1.63bn, 7.6% higher than forecast. It was buoyed by the rise in the price of oil and LNG along with lower taxation and amortisation. For Q1 2018, the group forecasts a positive impact of +210kb/d in integrated gas, offset by a contraction of -230kb/d upstream related to disposals and maintenance with volatility in Nigeria and the Netherlands where downtime might continue in a field due to recent earthquakes.

Downstream: typical contraction in Q4 accentuated by the drop in margins

Earnings came in at \$ 1.396bn (-47.7% q-o-q/+4.3% y-o-y). This is 34% shy of forecasts, attributable to a contraction in margins. But this is typical of Q4 which is traditionally lower than the other quarters, particularly for oil products.

Confirmed discipline but disappointment at CFFO

The group confirmed its discipline in terms of opex which came to \$ 37.5bn this year, much better than the guidance of \$ 40bn. The figure should stabilise at this level. Capex came to \$ 24bn (in line with our forecasts). The group reiterated its guidance of \$ 25bn-30bn (our forecast: \$ 25bn in 2018), but estimates that unit development costs will continue to drop by over 20% in 2018 after a contraction of 45% in 2014-2017, which puts the group in a stronger position to kick off new FIDs. Cash generation was disappointing in Q4. It came in at \$ 8.4bn while the group normally posts \$ 10bn. This difference is due to one-off taxes on disposals and we still forecast CFFO of \$ 41bn in 2018. This should more than cover capex and the full-cash dividend based on a Brent price of \$ 58/b, giving breakeven of \$ 53/b in 2018 which will decrease subsequently. Management wants to reduce its gearing to 20% vs 24.8% at present. This level should be reached towards end-2018 with the finalisation of \$ 6bn in asset disposals. The group can then kick off its buyback programme of \$ 25bn (towards end-2018 or early 2019 at the earliest in our view) which will be the next catalyst.

Buy recommendation and target price of 2,750p confirmed

The group is making progress despite the blip in CFFO in Q4. The valuation is in line for 2018, but attractive for 2019 with P/E of 16.5x/14.7x in 2018/2019 vs 16.9/15.2x for the sector. The next catalyst will be the start of the asset disposal programme, probably at end-2018. We confirm our Buy recommendation but now favour Eni which offers potential for a re-rating in the shorter term.

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Breakdown of results by division

(\$ m)	Q4 16	Q3 17	Q4 17A	QoQ%	YoY%	Q4 17E	Cons.
Integrated Gas	907	1 282	1 636	+27.6%	+80.4%	1 526	1 520
Upstream	54	562	1 650	+193.6%	+2956%	1 105	1 102
Downstream	1 339	2 668	1 396	-47.7%	+4.3%	2 015	2 115
o/w Oil Products	823	2 018	884	-56.2%	+7.4%	1 425	1 556
o/w Chemicals	516	650	512	-21.2%	-0.8%	590	559
Net operating profit from segments	2 300	4 512	4 682	+3.8%	+103.6%	4 646	4 717
Corporate and Minority interest	(505)	(433)	(379)	n/m	n/m	(450)	(478)
Net Adjusted Attributable Profit	1 795	4 103	4 303	+4.9%	+139.7%	4 196	4 242
Production (kboe/d)	3 905	3 657	3 756	+2.7%	-3.8%	3 715	
Brent (\$/bbl)	49.3	52.1	61.3	+17.6%	+24.2%	61.3	
Western Canada Select (\$/bbl)	35.3	38.2	38.7	+1.3%	+9.5%	38.7	
Henry Hub (\$/MBtu)	2.94	2.99	2.87	-4.0%	-2.4%	2.93	

Sources: Company data, Oddo BHF Securities

RDSa.L | RDSA LN
Oil Companies | UK

	Buy		Upside		14.27%		Price 2406.50GBP		TP 2750.00 p	
PER SHARE DATA (USD)	12/12	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e		
Adjusted EPS	4.01	3.10	3.57	1.67	1.03	2.01	2.07	2.34		
Reported EPS	4.25	2.60	2.38	0.61	0.58	1.64	2.07	2.34		
Growth in EPS(%)	1.1%	-22.8%	15.4%	-53.2%	-38.4%	94.8%	3.2%	12.8%		
Net dividend per share	1.72	1.80	1.88	1.88	1.88	1.88	1.88	1.88		
FCF to equity per share	3.15	0.24	3.69	1.39	0.07	2.89	3.18	3.30		
Book value per share	30.11	28.62	27.27	25.81	23.57	24.63	23.61	23.60		
Number of shares market cap	6 241.47	6 593.82	6 347.71	6 311.61	8 174.39	7 891.67	8 298.99	8 372.64		
Number of diluted shares	6 386.98	6 412.58	6 389.31	6 394.83	7 854.32	8 170.66	8 298.99	7 994.99		
VALUATION	12/12	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e		
12m highest price	37.15	36.37	41.70	33.47	28.53	33.52	35.79			
12m lowest price	30.37	31.49	31.13	22.08	19.71	25.40	33.58			
(*) Reference price	34.54	33.30	37.40	28.53	25.28	28.17	34.26	34.26		
Capitalization	215 590	219 579	237 405	180 096	206 634	222 308	284 307	286 830		
Restated Net debt	19 204	34 866	23 933	26 627	73 346	65 353	54 942	51 825		
Minorities (fair value)	1 644	1 282	1 124	1 370	1 961	3 868	4 155	3 751		
Financial fixed assets (fair value)	4 867	4 715	4 115	3 416	5 952	7 222	7 222	7 222		
Provisions	6 700	11 564	16 695	12 937	14 585	13 841	13 841	13 841		
Enterprise Value	238 271	262 576	275 042	217 614	290 575	298 149	350 022	349 025		
P/E (x)	8.6	10.8	10.5	17.0	24.5	14.0	16.5	14.7		
P/CF (x)	5.1	5.6	6.1	7.4	7.4	5.7	6.9	6.2		
Net Yield (%)	5.0%	5.4%	5.0%	6.6%	7.4%	6.7%	5.5%	5.5%		
FCF yield (%)	9.1%	0.7%	9.9%	4.9%	0.3%	10.3%	9.3%	9.6%		
P/B incl. GW (x)	1.15	1.16	1.37	1.11	1.07	1.14	1.45	1.45		
P/B excl. GW (x)	1.17	1.18	1.40	1.13	1.20	1.28	1.63	1.63		
EV/Sales (x)	0.51	0.58	0.65	0.72	1.24	0.98	1.05	1.00		
EV/EBITDA (x)	4.1	5.3	5.6	8.7	9.6	6.8	7.0	6.4		
EV/EBIT (x)	5.5	9.4	11.3	57.8	55.2	16.6	13.6	12.3		
(*) historical average price										
PROFIT AND LOSS (USDm)	12/12	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e		
Sales	467 153	451 235	421 105	303 487	233 591	305 179	332 120	348 568		
EBITDA	57 713	49 468	48 781	25 033	30 257	44 170	49 847	54 433		
Depreciations	-14 615.0	-21 509.0	-24 499.0	-21 268.0	-24 993.0	-26 223.0	-24 117.0	-26 142.5		
Current EBIT	43 098	27 959	24 282	3 765	5 264	17 947	25 730	28 290		
Published EBIT	43 098	27 959	24 282	3 765	5 264	17 947	25 730	28 290		
Net financial income	-1 757.0	-1 642.0	-1 804.0	-884.8	-3 203.0	-4 042.0	-2 105.2	-1 868.4		
Corporate Tax	-23 449.0	-17 066.0	-13 686.0	-2 447.3	-829.0	-4 695.0	-11 330.9	-12 514.4		
Net income of equity-accounted companies	8 948	7 275	6 116	3 238	3 545	4 225	4 702	4 864		
Profit/loss of discontinued activities (after tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Minority interests	-248.0	-155.0	144	171	-202.0	-458.0	198	208		
Attributable net profit	26 592	16 371	15 052	3 842	4 575	12 977	17 194	18 979		
Adjusted attributable net profit	25 139	19 492	22 562	10 676	8 227	16 660	17 194	18 979		
BALANCE SHEET (USDm)	12/12	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e		
Goodwill	3 181	3 181	3 181	3 181	20 865	21 078	21 078	21 078		
Other intangible assets	1 289	1 213	3 895	3 102	3 102	3 102	3 102	3 102		
Tangible fixed assets	172 293	191 897	192 472	182 838	236 098	226 380	217 263	209 120		
WCR	23 345	23 535	13 587	8 836	14 022	18 429	18 429	18 559		
Financial assets	68 828	57 878	53 688	57 678	64 641	61 133	61 133	61 133		
Ordinary shareholders equity	188 494	180 047	172 144	162 876	186 646	194 356	195 948	191 660		
Minority interests	1 433	1 101	820	1 245	1 865	3 456	3 158	2 850		
Shareholders equity	189 927	181 148	172 964	164 121	188 511	197 812	199 106	194 510		
Non-current provisions	59 805	57 625	66 344	60 359	76 871	66 957	66 957	66 957		
Net debt	19 204	34 866	23 933	26 627	73 346	65 353	54 942	51 825		
CASH FLOW STATEMENT (USDm)	12/12	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e		
EBITDA	57 713.0	49 468.0	48 781.0	25 033.0	30 257.0	44 170.0	49 847.4	54 432.9		
Change in WCR	3 391.0	2 988.0	6 125.0	5 521.0	-6 289.0	-3 158.0	0.1	-429.7		
Interests & taxes	-25 206.0	-18 708.0	-15 490.0	-3 332.1	-4 032.0	-8 737.0	-13 436.0	-14 382.8		
Others	10 242.0	6 692.0	5 628.0	2 588.2	679.0	3 375.0	4 701.8	4 863.9		
Operating Cash flow	46 140.0	40 440.0	45 044.0	29 810.0	20 615.0	35 650.0	41 113.4	44 484.4		
CAPEX	-26 230.0	-38 933.0	-21 981.0	-21 411.0	-20 044.0	-12 037.0	-15 000.0	-18 000.0		
Free cash-flow	19 910.0	1 507.0	23 063.0	8 399.0	571.0	23 613.0	26 113.4	26 484.4		
Acquisitions / disposals	-2 330.0	-1 000.0	2 737.0	-620.0	-11 186.0	1 582.0	0.0	0.0		
Dividends	-7 682.0	-7 450.0	-9 560.0	-9 487.0	-9 857.0	-11 283.0	-15 702.1	-15 367.2		
Net capital increase	-1 526.0	-5 565.0	-3 096.0	-448.0	-160.0	-717.0	0.0	-8 000.0		
Others	-1 221.0	3 867.0	-820.0	12 677.0	7 743.0	-14 439.0	0.0	0.0		
Change in net debt	7 275.0	-14 249.0	11 554.0	-4 746.0	-23 696.0	13 011.0	10 411.3	3 117.1		
GROWTH MARGINS PRODUCTIVITY	12/12	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e		
Sales growth	-0.6%	-3.4%	-6.7%	-27.9%	-23.0%	30.6%	8.8%	5.0%		
Lfi sales growth	-0.6%	-3.4%	-6.7%	-27.9%	-23.0%	30.6%	8.8%	5.0%		
Current EBIT growth	-10.8%	-35.1%	-13.2%	-84.5%	39.8%	ns	43.4%	9.9%		
Growth in EPS(%)	1.1%	-22.8%	15.4%	-53.2%	-38.4%	94.8%	3.2%	12.8%		
Net margin	5.4%	4.3%	5.4%	3.5%	3.5%	5.5%	5.2%	5.4%		
EBITDA margin	12.4%	11.0%	11.6%	8.2%	13.0%	14.5%	15.0%	15.6%		
Current EBIT margin	9.2%	6.2%	5.8%	1.2%	2.3%	5.9%	7.7%	8.1%		
CAPEX / Sales	-7.0%	-8.9%	-7.6%	-8.6%	-9.5%	-6.8%	-6.9%	-6.6%		
WCR / Sales	5.0%	5.2%	3.2%	2.9%	6.0%	6.0%	5.5%	5.4%		
Tax Rate	56.7%	64.8%	60.9%	85.0%	40.2%	33.8%	48.0%	47.4%		
Normative tax rate	-56.7%	-64.8%	-60.9%	-85.0%	-40.2%	-33.8%	-48.0%	-47.4%		
Asset Turnover	2.4	2.1	1.9	1.5	1.0	1.1	1.3	1.4		
ROCE post-tax (normative tax rate)	35.2%	22.0%	18.0%	3.4%	3.1%	8.8%	14.4%	16.3%		
ROCE post-tax hors GW (normative tax rate)	35.8%	22.3%	18.3%	3.4%	3.3%	9.6%	15.6%	17.7%		
ROE	14.0%	10.6%	12.8%	6.4%	4.7%	8.7%	8.8%	9.8%		
DEBT RATIOS	12/12	12/13	12/14	12/15	12/16	12/17	12/18e	12/19e		
Gearing	10%	19%	14%	16%	39%	33%	28%	27%		
Net Debt / Market Cap	0.09	0.16	0.10	0.15	0.35	0.29	0.19	0.18		
Net debt / EBITDA	0.33	0.70	0.49	1.06	2.42	1.48	1.10	0.95		
EBITDA / net financial charges	32.8	30.1	27.0	28.3	9.4	10.9	23.7	29.1		

Source: ODDO BHF Securities, Fininfo

Royal Dutch Shell Plc

Friday 02 February 2018



• Valuation method

Our target prices are established on a 12-month timeframe and we use three valuation methods to determine them. First, the discounting of available cash flows using the discounting parameters set by the Group and indicated on Oddo BHF' website. Second, the sum-of-the-parts method based on the most pertinent financial aggregate depending on the sector of activity. Third, we also use the peer comparison method which facilitates an evaluation of the company relative to similar businesses, either because they operate in identical sectors (and are therefore in competition with one another) or because they benefit from comparable financial dynamics. A mixture of these valuation methods may be used in specific instances to more accurately reflect the specific characteristics of each company covered, thereby fine-tuning its evaluation.

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Buy: performance expected to exceed that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Neutral: performance expected to be comparable to that of the benchmark index, sectoral (large caps) or other (small and mid caps).

Reduce: performance expected to fall short of that of the benchmark index, sectoral (large caps) or other (small and mid caps).

• The prices of the financial instruments used and mentioned in this document are the closing prices.

• All publications by Oddo BHF concerning the companies covered and mentioned in this document are available on the research site: www.securities.oddobhf.com

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Date	Reco	Price Target (GBP)	Price (GBP)	Analyst
10/11/17	Buy	2750.00	31.89	Ahmed Ben Salem
13/12/16	Buy	2450.00	27.11	Ahmed Ben Salem

In accordance with Article 20 of European Regulation No. 596/2014 (Market Abuse Regulation), a list of all recommendations on any financial instrument or issuer that have been disseminated over the past twelve months is available by clicking on the following link www.securities.oddobhf.com

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		Buy	Neutral	Reduce
Our whole coverage	(409)	48%	41%	11%
Liquidity providers coverage	(132)	40%	53%	7%
Research service coverage	(57)	51%	47%	2%
Investment banking services	(52)	73%	19%	8%

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