

## Shell Plc

# Underlying FCF growth showcase: Resilience of cash returns

Reiterate Rating: BUY | PO: 3,300 GBp | Price: 2,506 GBp

## Superior resilience of cash returns – remains top pick

We reiterate our Buy rating and continue to see Shell as one of our Big Oil top picks – as underlined by continued growth in its cash returns to shareholders – in-line with our [2024 Year Ahead](#) outlook and [4Q23 Playbook](#) arguing underestimated resilience of shareholder payouts will continue to drive relative outperformance among Big Oils: We see Shell's organic FCF continuing to cover >10% cash return yields – in the process cutting its share count by >6% annually and still reducing its net debt to zero by the end of the decade (see Exhibit 1). As a result, we see underlying FCF per share growth of >10% p.a. into 2030 – at normalised commodity price assumptions (see Exhibit 2).

## 4Q23 earnings beat a scared consensus

After Shell's trading update at the start of the year, we had warned about downside to consensus at the time: [Shell: 4Q23 earnings slightly soft vs. consensus – but 2024-25 hurdles easier to clear](#). However, >10% consensus downgrades for 4Q23 earnings since then had gone too far – ending up ~7% below BofA only to be beaten by >20%. We believe most of the beat vs. BofA came from gas trading performing even stronger than Shell had already indicated in its trading update. Our updated estimates for 2024 do not assume any of this trading strength to last into 2024 – while greater than expected weakness in Marketing and Chemicals means we slightly lower our 2024 earnings estimates by 3% - although they remain 5% ahead of consensus (see Exhibit 4). We raise our PO slightly from 3,200p to 3,300p based on our updated sum-of-the-parts (SOTP) valuation after fine-tuning of our estimates.

## Unchanged buyback cadence trumps poor cash conversion

4Q23 CFFO headlines were flattered by >\$3bn of net working capital inflows, adjusted for which organic CFFO missed consensus by ~\$2bn – albeit due to derivative and other charges that we do not expect to repeat in 2024. Shell signalled as much by leaving its quarterly share buyback run-rate unchanged at \$3.5bn (ahead of <\$3bn consensus expectations) – despite eating into its net debt (growing from \$40bn to >\$43bn during 4Q23). Our updated FCF estimates, however, show that Shell will continue to distribute >10% of its market cap to shareholders at \$80/bbl Brent (see Exhibit 5).

Estimates (Dec) (USD)	2022A	2023A	2024E	2025E	2026E
EPS (Adjusted Diluted)	5.38	4.15	4.19	4.73	4.67
EPS Change (YoY)	117.7%	-22.8%	0.8%	12.9%	-1.1%
Dividend / Share	1.04	1.29	1.41	1.55	1.71
ADR EPS (Adjusted Diluted - US\$)	10.8	8.31	8.37	9.45	9.35
ADR Dividend / Share (US\$)	2.08	2.59	2.82	3.10	3.41
Valuation (Dec)					
P/E	5.60x	7.69x	7.59x	6.73x	6.80x
Dividend Yield	3.26%	4.07%	4.44%	4.88%	5.37%
EV / EBITDA*	3.17x	3.84x	4.01x	3.88x	4.11x
Free Cash Flow Yield*	19.8%	9.18%	14.1%	15.6%	16.5%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 9.

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**Refer to important disclosures on page 10 to 13. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.**

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### Equity

#### Key Changes

(US\$)	Previous	Current
Price Obj.	3,200.00p	3,300.00p
2024E EPS	4.30	4.19
2025E EPS	4.48	4.73
2026E EPS	NA	4.67
2024E DPS	1.37	1.41

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### Stock Data

Price (Common / ADR)	2,506 GBp / 64.08 USD
Price Objective	3,300 GBp / 83.00 USD
Date Established	2-Feb-2024 / 2-Feb-2024
Investment Opinion	B-1-7 / B-1-7
52-Week Range	2,150 GBp-2,793 GBp
Market Value (mn)	168,742 GBP
Shares Outstanding (mn)	6,733.5 / 3,366.8
Average Daily Value (mn)	187.61 USD
Free Float	100.0%
BofA Ticker / Exchange	RYDAF / LSE
BofA Ticker / Exchange	SHEL / NYS
Bloomberg / Reuters	SHEL LN / SHELL
ROE (2024E)	14.3%
Net Dbt to Eqty (Dec-2023A)	22.7%
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

# iQprofile<sup>SM</sup> Shell Plc

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Sales	381,315	316,619	274,319	273,787	248,734
EBITDA Adjusted	83,954	69,303	66,437	68,607	64,745
Depreciation & Amortization	(18,529)	(31,290)	(22,891)	(23,077)	(23,160)
EBIT Adjusted	65,425	46,197	43,546	45,531	41,585
Net Interest & Other Income	(3,181)	(4,673)	(3,094)	(2,822)	(2,477)
Tax Expense / Benefit	(21,941)	(12,991)	(13,349)	(14,094)	(12,514)
Net Income (Adjusted)	39,869	28,249	26,853	28,365	26,343
Average Fully Diluted Shares Outstanding	7,411	6,800	6,413	6,002	5,637

<b>Key Cash Flow Statement Data</b>					
Net Income (Reported)	42,308	19,360	24,853	28,365	26,343
Depreciation & Amortization	18,529	31,290	22,891	23,077	23,160
Change in Working Capital	(9,355)	3,081	(36.6)	45.2	2,130
Deferred Taxation Charge	0	0	0	0	0
Other CFO	19,595	(9,690)	3,276	689	544
<b>Cash Flow from Operations</b>	<b>71,077</b>	<b>44,041</b>	<b>50,983</b>	<b>52,176</b>	<b>52,176</b>
Capital Expenditure	(24,833)	(24,394)	(22,577)	(22,713)	(22,890)
(Acquisition) / Disposal of Investments	(175)	1,691	46.7	0	0
Other CFI	1,654	2,842	0	0	0
<b>Cash Flow from Investing</b>	<b>(23,354)</b>	<b>(19,861)</b>	<b>(22,530)</b>	<b>(22,713)</b>	<b>(22,890)</b>
Share Issue / (Repurchase)	(19,030)	(15,506)	(14,000)	(14,000)	(12,000)
Cost of Dividends Paid	(7,611)	(9,157)	(9,074)	(9,334)	(9,636)
Increase (decrease) debt	(5,291)	(2,254)	(34,116)	(6,174)	(7,835)
Other CFF	(7,081)	(6,573)	0	0	0
<b>Cash Flow from Financing</b>	<b>(39,013)</b>	<b>(33,490)</b>	<b>(57,191)</b>	<b>(29,508)</b>	<b>(29,471)</b>
<b>Total Cash Flow (CFO + CFI + CFF)</b>	<b>8,710</b>	<b>(9,310)</b>	<b>(28,737)</b>	<b>(45.2)</b>	<b>(184)</b>
FX and other changes to cash	(5,435)	7,838	(36.6)	45.2	184
Change in Cash	3,275	(1,472)	(28,774)	0	0
Change in Net Debt	(8,566)	(782)	(5,342)	(6,174)	(7,835)
Net Debt	43,549	42,767	37,425	31,251	23,416

<b>Key Balance Sheet Data</b>					
Property, Plant & Equipment	198,642	194,835	194,580	193,691	192,901
Goodwill	16,039	16,660	16,660	16,660	16,660
Other Intangibles	9,662	10,253	10,253	10,253	10,253
Other Non-Current Assets	52,743	50,407	48,955	48,997	49,039
Trade Receivables	90,947	68,371	65,886	65,827	63,071
Cash & Equivalents	40,246	38,774	10,000	10,000	10,000
Other Current Assets	31,894	26,019	26,060	26,010	23,630
Total Assets	440,173	405,319	372,394	371,437	365,553
Long-Term Debt	74,794	71,610	37,494	31,320	23,485
Other Non-Current Liabilities	54,322	50,831	50,831	50,831	50,831
Short-Term Debt	9,001	9,931	9,931	9,931	9,931
Other Current Liabilities	110,915	85,229	83,748	83,685	80,678
Total Liabilities	249,032	217,601	182,004	175,766	164,925
Total Equity	192,596	188,362	190,390	195,671	200,628
Total Equity & Liabilities	441,628	405,963	372,394	371,437	365,553

<b>Business Performance*</b>					
Return On Capital Employed	13.4%	8.56%	9.34%	10.6%	9.88%
Return On Equity	22.0%	15.0%	14.3%	14.8%	13.4%
Operating Margin	17.8%	11.8%	15.1%	16.6%	16.7%
Free Cash Flow (MM)	46,244	19,647	28,407	29,463	29,287

<b>Quality of Earnings*</b>					
Cash Realization Ratio	1.78x	1.56x	1.90x	1.84x	1.98x
Asset Replacement Ratio	1.34x	0.78x	0.99x	0.98x	0.99x
Tax Rate	33.9%	39.8%	34.7%	33.0%	32.0%
Net Debt/Equity	22.6%	22.7%	19.7%	16.0%	11.7%
Interest Cover	20.6x	9.89x	14.1x	16.1x	16.8x

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

## Company Sector

Oils

## Company Description

Shell is engaged in the business of producing, refining, storing, transporting, supplying and distributing petroleum and petroleum products. The operating companies of the Group are engaged in various activities related to oil and natural gas, chemicals, power generation, renewable resources and other businesses in over 135 countries.

## Investment Rationale

We believe Shell will remain the most cash flow-generative in its peer group given one of the lowest breakeven oil prices in its Upstream portfolio, as well as its leading role as global LNG supplier with exposure to upside in Asian and European gas prices from tighter-for-longer LNG markets. With continued oil & gas capex discipline, Shell could grow its portfolio of low-carbon assets and shareholder distributions along its 'redemption roadmap' out of its covid-induced 2020 dividend cuts.

## Stock Data

Shares / ADR	2.00
Price to Book Value	1.1x

## Key Changes

(US\$)	Previous	Current
Price Obj.	80.00	83.00
2024 EPS	NA	8.37
2025 EPS	NA	9.45
2026 EPS	NA	9.35
2024 DPS	NA	2.82

# This decade is payback time

## Payout policy offers resilience in cash returns

At our \$80/bbl base case Brent oil price assumption, we believe Shell will sustain its quarterly buyback run rate of \$3.5bn across 2024 and 2025 (implying annual buybacks worth ~6% of market cap enhancing Shell's growing >4% dividend yield).

We conclude VA consensus for share buybacks worth <\$12bn p.a, carry significant upside – offering a virtuous cycle for consensus DPS upside, too.

### CCFO payout to remain above Shell's 30-40% policy

We assume Shell will maintain a 42-43% CCFO payout ratio (ahead of its 30-40% policy) – while leaving payouts <100% of FCF. Instead, FCF left over will help reduce net debt toward zero by 2030 (see Exhibit 1).

#### Exhibit 1: Cash flow outlook at BofA commodity price deck

Our base case estimates assume a >40% CCFO payout across this decade to result in >10% annual cash returns while reducing net debt to zero by 2030

(\$bn)	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>Brent oil price (\$/bbl)E</b>	<b>99.0</b>	<b>82.5</b>	<b>80.0</b>	<b>80.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>
CCFO - Shell headline	68.4	54.2	52.6	53.5	51.2	51.6	52.1	52.8	53.7
CCFO - BofA definition*	71.1	44.0	51.0	52.2	50.2	50.9	51.7	52.7	53.7
Cash capex	(24.8)	(24.4)	(22.6)	(22.7)	(22.9)	(22.7)	(22.6)	(23.8)	(25.3)
FCF - Shell headline CCFO - capex	43.6	29.8	30.0	30.8	28.3	28.9	29.5	29.0	28.4
FCF - BofA definition CCFO - capex	46.2	19.6	28.4	29.5	27.3	28.2	29.1	28.8	28.4
Share buybacks	18.4	14.6	14.0	14.0	12.0	12.0	12.0	12.0	12.0
Dividend payments	7.4	8.4	8.8	9.1	9.4	9.7	10.0	10.3	10.5
<b>Total cash returns</b>	<b>25.8</b>	<b>23.0</b>	<b>22.8</b>	<b>23.1</b>	<b>21.4</b>	<b>21.7</b>	<b>22.0</b>	<b>22.3</b>	<b>22.5</b>
<b>As % of market cap</b>	<b>13%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>
<b>CCFO payout - Shell headline</b>	<b>38%</b>	<b>42%</b>	<b>43%</b>	<b>43%</b>	<b>42%</b>	<b>42%</b>	<b>42%</b>	<b>42%</b>	<b>42%</b>
CCFO payout - BofA definition	36%	52%	45%	44%	43%	43%	43%	42%	42%
FCF payout - Shell headline	59%	77%	76%	75%	76%	75%	75%	77%	79%
<b>FCF payout - BofA definition</b>	<b>56%</b>	<b>117%</b>	<b>80%</b>	<b>78%</b>	<b>78%</b>	<b>77%</b>	<b>76%</b>	<b>77%</b>	<b>79%</b>
<b>Net debt</b>	<b>44.8</b>	<b>43.5</b>	<b>38.2</b>	<b>32.0</b>	<b>24.2</b>	<b>18.1</b>	<b>11.4</b>	<b>5.3</b>	<b>(0.1)</b>

Source: BofA Global Research estimates, company report

\* BofA CCFO is before net working capital changes but after net interest payments

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# Anatomy of FCF outlook into 2030

## Per share growth ahead of Shell outlook

We believe Shell's ongoing buybacks create powerful compound growth in any per share figure, specifically in Shell's DPS and FCF outlook, which we calculate can expand at a >10% CAGR (2022-30 at Shell's price-normalised commodity price assumptions) without significantly increasing Shell's absolute dividend payments (thanks to shrinking Shell's share count by ~40% by the end of the decade:

### FCF base case vs. price-normalised

Exhibit 2 shows Shell's organic FCF at our base case as well as Shell's normalised commodity deck into 2030:

- In absolute terms, our base case sees Shell's FCF at \$34bn by 2030 – vs. >\$48bn in 2022 at close to \$100/bbl Brent.
- Assuming Shell's normalised price deck across the decade leaves FCF at >\$38bn by 2030 – vs. <\$29bn in 2022 assuming \$65/bbl Brent in real terms throughout.

In both cases, our analysis shows our cash return estimates (averaging ~11% of market cap p.a.) are organically covered by Shell's FCF across the decade.

### Exhibit 2: Underlying FCF outlook: BofA vs. Shell's price-normalised FCF outlook of >10% CAGR per share from 2022 to 2030

Despite modelling a shrinking E&P footprint (-1.5% CAGR into 2030), we see 11% FCF per share CAGR at Shell's normalized commodity prices

	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2022-30E CAGR
<b>Nominal - \$bn</b>										
Brent (\$/bbl)	99.0	82.5	80.0	80.0	70.0	70.0	70.0	70.0	70.0	
Henry Hub (\$/mbtu)	6.5	2.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0	
Refining margin (\$/bbl)	18.0	12.5	7.5	6.5	7.0	7.0	7.0	7.0	7.0	
Chemical margin (\$/t)	48	133	150	200	200	200	200	200	200	
<b>Organic FCF - Shell headline</b>	<b>48.1</b>	<b>35.9</b>	<b>36.1</b>	<b>36.9</b>	<b>34.4</b>	<b>35.0</b>	<b>35.6</b>	<b>35.1</b>	<b>34.4</b>	<b>(4.1%)</b>
<b>Organic FCF per share - Shell headline (\$c)</b>	<b>6.9</b>	<b>5.5</b>	<b>5.9</b>	<b>6.5</b>	<b>6.5</b>	<b>7.0</b>	<b>7.6</b>	<b>8.1</b>	<b>8.6</b>	<b>2.8%</b>
<b>Number of shares outstanding (m)</b>	<b>6,971</b>	<b>6,486</b>	<b>6,099</b>	<b>5,688</b>	<b>5,324</b>	<b>4,994</b>	<b>4,664</b>	<b>4,335</b>	<b>4,005</b>	<b>(6.7%)</b>
Share buybacks	18.4	14.6	14.0	14.0	12.0	12.0	12.0	12.0	12.0	
Dividend payments	7.4	8.4	8.8	9.1	9.4	9.7	10.0	10.3	10.5	
<b>Total cash returns</b>	<b>25.8</b>	<b>23.0</b>	<b>22.8</b>	<b>23.1</b>	<b>21.4</b>	<b>21.7</b>	<b>22.0</b>	<b>22.3</b>	<b>22.5</b>	
Brent (\$/bbl)	65.0	66.6	68.3	70.0	71.7	73.5	75.4	77.3	79.2	2.5%
Henry Hub (\$/mbtu)	4.0	4.1	4.2	4.3	4.4	4.5	4.6	4.8	4.9	2.5%
Refining margin (\$/bbl)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	0.0%
Chemical margin (\$/t)	200	200	200	200	200	200	200	200	200	0.0%
<b>Organic FCF - price-normalised</b>	<b>28.5</b>	<b>26.7</b>	<b>30.6</b>	<b>31.5</b>	<b>34.8</b>	<b>36.4</b>	<b>38.0</b>	<b>38.4</b>	<b>38.8</b>	<b>3.9%</b>
<b>Organic FCF per share - price-normalised</b>	<b>4.1</b>	<b>4.1</b>	<b>5.0</b>	<b>5.5</b>	<b>6.5</b>	<b>7.3</b>	<b>8.1</b>	<b>8.9</b>	<b>9.7</b>	<b>11.4%</b>

Source: BofA Global Research estimates, company report

Note: We have used Shell's published cash flow and earnings sensitivities for adjustment to commodity prices between 2022-23 actuals, BofA 2024+ base case and Shell's normalised assumptions

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## 4Q23 results digest

After Shell's trading update at the start of the year, we had warned about downside to consensus at the time. However, Shell's company-collected consensus ended up >10% below where VA consensus was sitting at the time of Shell's 4Q23 trading update – only to be beaten by >20% (mostly due to gas trading performing even stronger than Shell had already indicated in its trading update).

### Earnings beat, cash conversion weighed down by derivatives and other one-offs

Clean earnings beat company-collected consensus by >20% (both in Upstream as well as Integrated Gas). Below the CFFO headline, \$1bn of derivative outflows as well as >\$1bn of other once-off charges weighed on cash conversion leaving CFFO before working capital changes ~\$2bn below consensus.

### Highlight: Buyback maintained

However, Shell's \$3.5bn share buyback into 1Q24 is ahead of <\$3bn VA consensus expectations and represents an unchanged cadence q/q. We believe Shell will turn out to be in a minority of Big Oils being able to maintain its payouts y/y – signalling confidence in its cash flow outlook in the absence of more explicit guidance.

### Exhibit 3: 4Q23 results vs. history and vs. expectations by BofA and consensus

Shell's 4Q23 earnings were 21%/13% above consensus/BofA estimates for adj. net income

(\$m)	4Q23A	4Q22A	3Q23A	YoY	QoQ	BofA 4Q23E	VA Cons. QoQ	C.-C. Cons. 4Q23E	4Q23A vs. BofA	4Q23A vs. Cons.
Upstream & Integrated Gas	7,051	9,029	4,750	(22%)	48%	6,016	7,051	5,961	17%	18%
Downstream	775	1,190	2,100	(109%)	(105%)	883	606	582	(112%)	(119%)
Other businesses and corporate	(567)	(626)	(482)	(9%)	18%	(494)	(603)	(533)	15%	6%
Minority interest	(108)	(73)	(77)	48%	40%	(74)	97	(61)	46%	77%
<b>Adj. net income</b>	<b>7,306</b>	<b>9,813</b>	<b>6,224</b>	(26%)	17%	<b>6,484</b>	<b>7,306</b>	<b>6,040</b>	<b>13%</b>	<b>21%</b>
Adj. EPS (c/share)	111.0	139.0	93.0	(20%)	19%	98.3			13%	
DPS (c/share)	34.4	28.8	33.1	20%	4%	33.1			4%	
OCF (before NWC and after interest)	8,441	11,232	11,436	(25%)	(26%)	13,386			(37%)	
Changes in net working capital	3,336	10,390	433	(68%)	670%	(1,020)	3,337	66	n.m.	4,955%
OCF (Shell headline)	12,575	22,404	12,332	(44%)	2%	12,728	11,892	11,587	(1%)	9%
OCF (Shell headline before working capital)	9,239	12,014	11,899			13,748	8,555	11,521		(20%)
<b>Shell volumes (kboepd)</b>	<b>2,827</b>	<b>2,831</b>	<b>2,706</b>	<b>(0%)</b>	<b>4%</b>	<b>2,797</b>	<b>2,771</b>		1%	
Shell average liquids realizations (\$/bbl)	78.4	81.3	77.7	(4%)	1%	77.6			1%	
Shell average natural gas realizations (\$/tcf)	7.8	12.7	7.3	(39%)	6%	9.6			(19%)	

Source: BofA Global Research estimates, company report, Visible Alpha

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## What has changed?

Reflecting 4Q23 results and Shell's updated guidance into our forecasting, we fine-tune our estimates, revising our estimates 2023-25 (down in 2024, slightly up in 2025) - still sitting mildly above consensus:

### Exhibit 4: EBITDA, EPS & DPS estimates: New vs. old vs. consensus

We revise-down our EPS, but revise-up our DPS estimates for 2024

	2019	2020	2021	2022	2023E	2024E	2025E
CCSEBITDA (old)					68,553	68,618	67,303
CCSEBITDA (new)	55,849	28,724	55,595	87,818	69,303	66,437	68,607
Change					1.1%	(3.2%)	1.9%
New vs. consensus					1.1%	(0.1%)	2.4%
CCS EPS (old) (\$c)					395.67	429.58	447.52
CCS EPS (new) (\$c)	202.92	62.16	247.08	538.01	415.44	418.72	472.62
Change					5.0%	(2.5%)	5.6%
New vs. consensus					2.4%	5.2%	18.9%
Ord. DPS (old) (\$c)					128.05	137.37	156.07
Ord. DPS (new) (\$c)	188.00	65.30	89.35	103.75	129.35	141.04	155.14
Change					1.0%	2.7%	(0.6%)
New vs. consensus					0.8%	1.4%	4.5%

Source: BofA Global Research, Bloomberg

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# Valuation still attractive

## Shell's valuation remains attractive vs. most Big Oil peers

Exhibit 5 shows FY gearing calculations including IFRS16 liabilities as well as treating hybrid bonds as debt. We believe Shell will de-gear by another 5pp FY23 -25. As a result, we still see Shell's 2024 FCF yield (above less well-financed peers such as BP) as relatively attractive.

### Exhibit 5: European Big Oil valuation matrix

We still see valuation dislocations across the European Big Oils – especially when considering greater leverage

	FCF Yield			Gearing			Dividend Yield			Total distribution yield		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
BP	11%	11%	10%	34%	34%	34%	5%	5%	5%	12%	10%	10%
Shell	8%	12%	13%	19%	17%	14%	4%	4%	4%	10%	10%	10%
TotalEnergies	12%	12%	13%	20%	16%	14%	5%	5%	5%	10%	11%	11%
Equinor	11%	13%	12%	-9%	-1%	7%	12%	11%	10%	19%	18%	17%
Repsol	9%	7%	6%	13%	15%	16%	5%	5%	5%	14%	10%	11%
OMV	6%	5%	5%	15%	15%	17%	12%	12%	11%	12%	12%	11%
Galp	7%	3%	3%	32%	36%	39%	4%	4%	4%	8%	7%	6%
Eni	12%	10%	10%	24%	24%	24%	6%	7%	7%	11%	9%	9%
<b>Average</b>	<b>10%</b>	<b>9%</b>	<b>9%</b>	<b>18%</b>	<b>19%</b>	<b>21%</b>	<b>7%</b>	<b>7%</b>	<b>6%</b>	<b>12%</b>	<b>11%</b>	<b>11%</b>

Source: BofA Global Research

NB: Gearing calculation uses net debt including IFRS16 leases and hybrid bonds

## >20% upside to new PO at \$70/bbl Brent long-term

We raise our PO slightly from 3,200p to 3,300p based on our updated sum-of-the-parts (SOTP) valuation after fine-tuning of our estimates post 4Q23 results:

### Exhibit 6: Sum-of-the-parts valuation (SOTP)

Our PO is based on our bottom-up SOTP valuation based on \$70/bbl long-term Brent oil prices

	Methodology	Valuation	% of total EV	p per share	WACC	EV / EBITDA		
						2023A	2024E	2025E
E&P (Using 25% of capex budget)	Depletion DCF implying \$8.2/boe 1P	74,743	23%	920	8.7%	2.6x	2.8x	3.1x
Midstream	DCF	46,190	14%	569	8.7%	6.5x	6.5x	6.5x
Upstream	SOTP implying 0.7x EV/CE 2024	120,934	38%	1,489	8.7%	3.8x	3.6x	3.9x
BG (acquired at \$73bn EV)	DCF implying \$15.0/boe 2P	90,570	28%	1,115	8.7%	#DIV/0!	5.3x	5.5x
Downstream	DCF @ long-term ref. margin \$7/bbl	79,594	25%	980	9.7%	5.8x	6.7x	5.8x
Renewables	Renewables DCF discounted by 50%	17,844	6%	220	5.4%	12.5x	7.6x	4.3x
Other	DCF	11,200	3%	138	8.7%	9.2x	7.5x	4.1x
<b>Total enterprise value</b>		<b>320,142</b>	<b>100%</b>	<b>3,941</b>	<b>8.7%</b>	<b>6.7x</b>	<b>4.8x</b>	<b>4.7x</b>
Less: Net debt (post IFRS16)	2024E BV (incl. lease liabilities)	(38,200)	(12%)	(470)				
Less: Net pension deficit	2024E BV	1,602	1%	20				
Less: Debt-equivalent provisions	2024E BV	(9,954)	(3%)	(123)				
Less: Minority interest	10x 2024E P/E	(2,500)	(1%)	(31)				
<b>Total equity value</b>		<b>271,091</b>	<b>85%</b>	<b>3,337</b>				
Total number of shares outstanding (m)	2024E	6,201	n.m.	n.m.				
<b>Equity value per share (p)</b>		<b>3,337</b>	<b>85%</b>	<b>3,337</b>				

Source: BofA Global Research estimates

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## Price objective basis & risk

### Shell Plc (RYDAF / SHEL)

Our price objective of 3300p/share (US\$83/ADR) is based on our sum-of-the-parts valuation breaking Shell up into its constituents (upstream, downstream and others). We value these separately from our bottom-up cash flow model via a DCF valuation based on differentiated discount rates (8.7% for Upstream, 9.7% for Downstream, 5.4% for Renewables, 8.7% Group and others). Our divisional DCF valuations are usually based on zero-growth perpetuity assumptions beyond 2030 - except for Shell's and legacy BG E&P assets: Here we run a "depletion DCF" and disregard both the income and capex attributable to future prospects while using our long-term Brent oil price assumptions of \$70/bbl.

Risks are: Changes in oil & gas prices, political / regulatory risks as well as significant exploration success or lack thereof. Other risks are exposure to swings in the global economy that could impact oil and gas prices as well as refining margins, currency moves for the US dollar, general risks of changes in taxes and tariffs and rising capex costs.

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I, Christopher Kuplent, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Capricorn Energy	CRNZD	CNE LN	Matthew Smith
	Energean	EERGF	ENOG LN	Matthew Smith
	Energean	XMQFF	ENOG IT	Matthew Smith
	Equinor ASA	STOHF	EQNR NO	Christopher Kuplent
	Equinor ASA	EQNR	EQNR US	Christopher Kuplent
	Harbour Energy	PMOIF	HBR LN	Matthew Smith
	Kosmos Energy	KOS	KOS US	Matthew Smith
	Kosmos Energy	XKELF	KOS LN	Matthew Smith
	Neste	NTOIF	NESTE FH	Christopher Kuplent
	Neste	NTOIY	NTOIY US	Christopher Kuplent
	Saipem	SAPMF	SPM IM	Christopher Kuplent
	Shell plc	SHEL	SHEL US	Christopher Kuplent
	Shell Plc	RYDAF	SHEL LN	Christopher Kuplent
	TotalEnergies	TTFNF	TTE FP	Christopher Kuplent
	TotalEnergies	TTE	TTE US	Christopher Kuplent
	Vallourec	VLOUF	VK FP	Joseph Charuy
<b>NEUTRAL</b>				
	Aker Solutions	AKRTF	AKSO NO	Christopher Kuplent
	BP plc	BP	BP US	Christopher Kuplent
	BP plc	BPAQF	BP/ LN	Christopher Kuplent
	Eni	E	E US	Matthew Smith
	Eni	EIPAF	ENI IM	Matthew Smith
	EnQuest	ENQUF	ENQ LN	Matthew Smith
	Ithaca Energy plc	XMFYF	ITH LN	Matthew Smith
	Tenaris	TS	TS US	Joseph Charuy
	Tenaris	TNRSF	TEN IM	Joseph Charuy
	Var Energi	XGZNF	VAR NO	Matthew Smith
<b>UNDERPERFORM</b>				
	Aker BP	DETNF	AKRBP NO	Matthew Smith
	Galp Energia	GLPEF	GALP PL	Matthew Smith
	OMV	OMVJF	OMV AV	Matthew Smith



## EMEA - Oil &amp; Gas Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Repsol	REPY	REPY US	Matthew Smith
	Repsol	REPYF	REP SQ	Matthew Smith
	Subsea 7 SA	ACGYF	SUBC NO	Christopher Kuplent
	Technip Energies	THNPF	TE FP	Christopher Kuplent
	Technip Energies	THNPY	THNPY US	Christopher Kuplent
	Tullow Oil	TUWLF	TLW LN	Matthew Smith

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales  
  
Basic EBIT + Depreciation + Amortization

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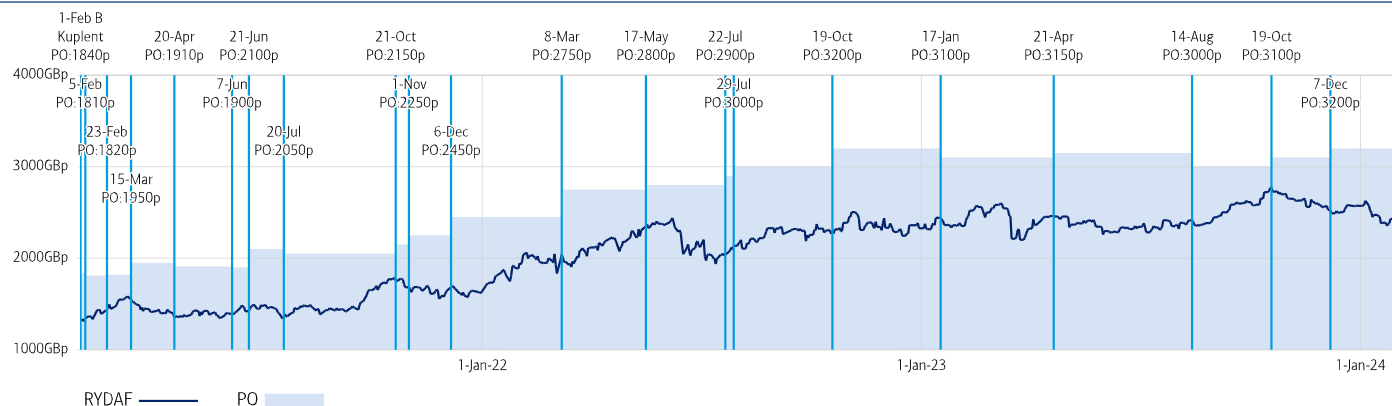
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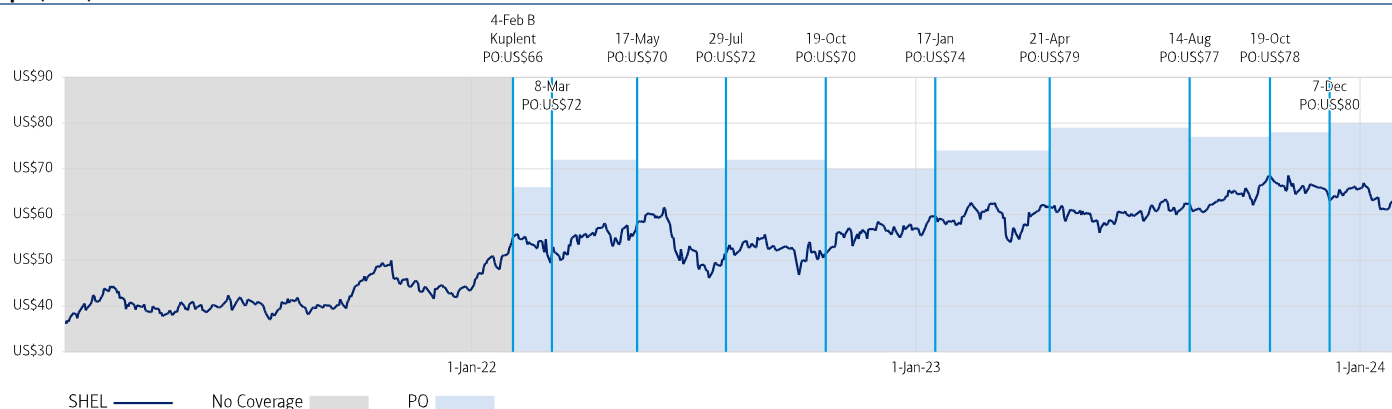
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### Shell Plc (RYDAF) Price Chart



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### Shell plc (SHEL) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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