

# **Shell plc (SHEL) Q2 2024 Earnings Call Transcript**

Seeking Alpha - Earnings Call Transcripts

August 1, 2024 Thursday

Copyright 2024 Seeking Alpha Provided by Syndigate Media Inc. All Rights Reserved

**Length:** 10232 words

**Byline:** SA Transcripts

**Body**

Shell plc (SHEL)

Q2 2024 Results Conference Call

August 01, 2024 09:30 AM ET

Company Participants

Wael Sawan - CEO

Sinead Gorman - CFO

Conference Call Participants

Lydia Rainforth - Barclays

Biraj Borkhataria - RBC Capital Markets

Paul Cheng - Scotiabank

Giacomo Romeo - Jefferies

Roger Read - Wells Fargo

Michele Della Vigna - Goldman Sachs

Christopher Kuplent - Bank of America

Matt Lofting - JPMorgan

Lucas Hermann - BNP

Irene Himona - Societe General

Peter Low - Redburn Atlantic

Josh Stone - UBS

Kim Fustier - HSBC

Presentation

Operator

Welcome to Shell's Second Quarter 2024 Financial Results Announcement. Shell's CEO, Wael Sawan will present the results, then host a Q&A session alongside Shell's CFO, Sinead Gorman. [Operator Instructions] We will now begin the presentation.

Wael Sawan

Welcome, everyone, and thank you for joining us today. Before going into our second quarter results for 2024, I'd like to update you on our Capital Markets Day progress, which, together with our recent energy transition strategy update shows how we intend to generate more value with less emissions. If I take you back to June of last year, we committed to our guiding principles of performance, discipline and simplification. The aim was to drive a culture shift in our organization and we are seeing the results play out. We set four financial targets and we're making solid progress against each and every single one of them. We also talked about the importance of establishing a track record of delivery. And today, I hope you can see this track record developing and gathering momentum. In short, we're turning our words into actions. Now let me give you some examples. In our Integrated Gas business, we said we would continue to grow our LNG portfolio by increasing both our liquefaction and access to third party volumes, and that is what we have done. We've extended existing valued partnerships like in Oman and entered into new ones, such as the ADNOC Ruwais LNG project in Abu Dhabi. We've also invested in backfill such as in Manatein Trinidad and Tobago and we've agreed to acquire Pavilion Energy in Singapore to increase our portfolio length. At the same time, we're working hard to achieve first production from our large LNG joint venture project in Canada by middle of next year. These investments add significant volumes and flexibility to our leading global LNG portfolio. We also saw operational performance improved across our Integrated Gas business. Prelude, for example, significantly increased its controllable availability since its turn around last year, while Pearl GTL in Qatar continues to build on its impressive track record.

Moving to Upstream, where we want to ensure cash flow longevity. We said that by 2025, we would bring projects online with a total peak production of more than 500,000 barrels of oil equivalent a day, and we are making good progress. We have successfully started up several projects like Vito and Rydberg in the Gulf of Mexico, Mero-2 in Brazil, Block 10 in Oman and Timi and Jerun in Malaysia. And around the end of this year, we expect to see the start-up of Whale in the Gulf of Mexico, along with Brazil's Mero-3 and Penguins in the North Sea. Looking further ahead, we have taken final investment decisions on Atapu-2 in Brazil and Sparta in the Gulf of Mexico. These investments, along with others in the funnel, will help us maintain our liquids production at roughly 1.4 million barrels a day until the end of the decade as we communicated at Capital Markets Day, allowing us to continue to provide the energy security that the world needs. And just like in our Integrated Gas business, Upstream has also improved its operational performance, both in deepwater and conventional oil and gas. Now let's take a look at downstream and Renewables and Energy Solutions, where we said we would high grade the portfolio to support a profitable energy transition. In chemicals and products, we have agreed to sell our Energy and Chemicals Park in Singapore and our shareholding in the PCK Refinery in Germany. In mobility, with a focus on value, we continue to high grade our network and drive premium fuel growth, which is reflected in the improved V-Power margins.

Lubricants also saw higher margins and improved performance, helping marketing adjusted earnings to grow. We said that this management team is prepared to take some tough decisions. And with the backdrop of disappointing market conditions, we paused on-site construction at our biofuels plant in Rotterdam where we will now seek to address project delivery and ensure future competitiveness. We've also said that we will focus on areas where we have a competitive advantage. That's why in Renewables and Energy Solutions, we exited the Home Energy business in Europe last year and continue to employ a disciplined and selective approach to power. But we are growing our downstream Renewables and Energy Solutions portfolio where we see attractive returns, demonstrated by our final investment decision on Polaris, CCS in Canada. We are staying true to what we said at Capital Markets Day. We are maintaining capital discipline, improving operational performance across the board and we are becoming more predictable, delivering on our targets, take the structural OpEx reduction target, where we have already delivered $1.7 billion out of the $2 billion to $3 billion that we committed to deliver by the end of 2025. I'm proud of the efforts of our staff across every part of the organization and the progress that we are making. Our strong overall performance has given us the ability to continue to deliver enhanced shareholder returns. As a result, this quarter, we have again been able to exceed our distributions range of 30% to 40% of CFFO through the cycle.

Now let me tell you about our financial results in the quarter. We had a strong quarter driven by good operational performance. Our adjusted earnings were $6.3 billion and we generated $13.5 billion of cash flow from operations. In Integrated Gas, once again, we achieved high controllable availability from QGC in Australia, an asset that has been performing exceptionally well. In our Chemicals business, Shell Polymers Monaca had significantly higher utilization with all three polyethylene trains now fully operational. And in the products business, we also had strong operational performance and delivered another set of robust trading and optimization results. Before moving on to our financial framework, I'd like to come back to the structural OpEx reduction that I mentioned earlier. In the first half of this year, we've delivered an additional $700 million reduction, on top of the $1 billion reduction from last year. The majority of the contributions this year have been realized through performance initiatives across the organization, such as focusing on operational excellence and lowering overheads. The remainder was achieved through portfolio choices and this does not yet include the impact of announced divestments like Singapore. We will continue to take cost out as we progress towards achieving the target that we have set at Capital Markets Day.

Now moving on to our financial framework. Our cash CapEx outlook for the full year of 2024 remains unchanged. We continue to invest only in those projects that exceed our hurdle rates and meet our strategic intent. Our balance sheet remains strong. And today, we have announced yet another $3.5 billion share buyback program, which we expect to complete in time for our Q3 results in October. This makes it the 11th consecutive quarter in which we have announced $3 billion or more in buybacks, showing that the strong performance of the business results in compelling returns to our shareholders. To summarize, with us now a little over a year since Capital Markets Day, I'm incredibly proud of the progress that we are making against all of our financial targets, the focus that we are bringing to our investments and the improvements across the company. Today, we announced another strong set of results, making the first half of this year one of our best. And with so much untapped potential and so much more to achieve, we will continue to move forward, take bold steps and build a track record of delivery. Guided by our principles of performance, discipline and simplification, we aim to be the investment case through the energy transition, delivering more value with less emissions. Thank you.

Question-and-Answer Session

Operator

[Operator Instructions]

Wael Sawan

Thank you very much for joining us today. We hope that after watching the presentation, you've seen how we delivered strong results and how we continue to focus on operational performance. Today, Sinead and I will be answering your questions. And now please, could we have just one or two questions each so that everyone has the opportunity. With that, could we have the first one, please, Luke?

Operator

Our first caller is Lydia Rainforth from Barclays.

Lydia Rainforth

We are, as you talked about in the presentation, Wael, just over a year since the announcement of the first [indiscernible] and it's rare that things go entirely according to plan, although I admit it looks like it might be. So can you just talk about what's been better than you thought, what worked out, where you wanted to be and areas you think need more focus than originally planned? I think just at the end now, you talked about untapped performance. Is there any of chance you quantifying that for me? And then secondly, probably more for Sinead. Ex leases, the gearing level is now, I think, just about over 5%. The free cash flow generation is impressive. How do you think about the evolution of the balance sheet and how you use that free cash flow? Do you save it for [Sprint-2]? Or do you think about the additional shareholder returns at that point?

Wael Sawan

Lydia, let me take the first one and then I'll hand over to Sinead for the second one. Look, it's been in the 12 months since the announcement in Capital Markets Day. And what I would say is we're very, very pleased with the momentum that we have been building. I mean at the time, just to sort of take us back, we said at the time that we wanted to really solidify the company to build a lean, very agile, very strong organization and one that allows us to focus on a handful of things, deliver the operational performance improvement that you see starting to come through, continue to reduce costs, which you see, including today's structural cost reduction of $1.7 billion against the $2 billion to $3 billion target, the capital discipline that we're talking through as well as the focus on making sure that we continue to enhance the portfolio. So all that is playing out. The biggest thing that I continue to focus on with my executive committee is the culture change because we want to make sure that this is not a one-off, this has to be a new way of life. And I'm particularly pleased to see that there is multiple green shoots that we are seeing in the organization, prioritization is starting to kick in, in a lot firmer way than maybe was there in the past.

So for example, in our IT program, we've had to focus on a handful of key areas and we've managed to release some 4,000 contractor staff on the back of that. So that's one step forward in the right direction with more to go. In addition to that, I would say we are looking at how we can continue to de-bureaucratize the company in areas like the standards that we have that can be a bit challenging for the organization to implement. So those are some of the things we're working. But I'd say there's a lot more to do Lydia, and that's where the challenge is, to keep that drumbeat of focus with good results that are coming in, to make sure that we do not take our foot off the pedal. It's about the stamina that we have as a company and our ability to be able to really institutionalize these changes, that is what I would say is the biggest thing that I'm focused on with my leadership team over the coming months. Sinead?

Subscribe to Seeking Alpha for more content like this

Sinead Gorman

Indeed, our debt on our balance sheet, particularly the balance sheet is incredibly strong at this moment in time. And it's important to me in the sense that it enables both us to follow through on opportunities that combine for value, but also to provide resilience in case things change. It also allows us to be confident in terms of our shareholder distributions as you alluded to. With respect to those, for me it's all about being consistent and predictable. And as you know, we tend to look through the quarter and you've seen us do that a few times. You've seen us, of course, with Q4 with our debt levels rising as well. So you saw it go up $3 billion in Q4 and of course, now you see us come down and that will change over time. And there will be volatility to our debt levels and that will occur naturally. As an example, with LNG Canada as we move towards and that being commissioned we see the pipeline coming first of all. And with the pipeline coming in that will occur and that will come on the balance sheet before the first LNG cargoes. So indeed, it allows us to have a track record of consistent delivery and you'll see that continue Lydia.

Operator

Our next caller is Biraj Borkhataria from RBC Capital Markets.

Biraj Borkhataria

The first one just on CapEx guidance. So first half of the year looks to be running well light relative to the full year guidance, and usually have some seasonality in there. But it does look like even with the ramp-up in the second half of the year, you'd be probably closer to the bottom end or the top end of the guidance. So could you just give a sense of where I'm wrong here, is there any specific inorganic bullets that you expect to [sprint] in the second half of the year? And then the second question is on Nature Energy. So you acquired a business a couple of years ago for $2 billion. At the time, you said that was going to be accretive to your earnings and the latest reports say it's not. And I just want to understand as we think about CMD 2025 and you kind of rationalizing your portfolio and thinking about where you can be competitive. Is biogas an area where you still think you can generate [acceptable] returns going forward, and what does that experience on that acquisition teach you and what you learned going forward?

Wael Sawan

Let me start with the second question and maybe hand over to Sinead for the first one. And start saying I'm a very, very firm believer in the future of biogas and biofuels by the way, more generally, as a drop in fuel without having to change out the capital stock, I do think something like biogas will have a massive role to play in the niche plays where it will apply. And in particular, biogas into bio LNG which we see as the most expedient and the most affordable way to start to decarbonize, for example, the marine sector as well as the trucking sector. So strong belief in that market. Having said that, that is looking sort of a decade or two out. We see that is going to grow in a big way. And what we have done with Nature Energy is, in essence, taken a platform that allows us to win in that space. And the win is really the combination of being able to play on the production side, of course, our trading and then ultimately, our customer end. What's happened since we have acquired that platform, now of course, as you can see in the market, the prices aren't where they need to be. Natural gas prices have come down and feedstock prices have actually gone up. So it squeezed the margins in that business.

We're also in a growth phase. We continue to invest to be able to bring more and more of these facilities online. We're not looking at this, Biraj, from a six to 12, to 18 months basis. I have to be looking at this in multiple years as we're building a platform really for the late 2020s into the 2030s. And that's what we continue to have conviction around that this is a great investment for that winter. I think when it comes to CMD 25, we will, as a minimum, look to continue to echo our belief in the bio market but it's a question of where do we deploy the capital now to make sure that we can achieve the returns we expect out of that market in line with the hurdle rates that we shared in CMD 23, which was the 12% plus IRRs. So continued confidence but we need to be able to make sure that now we set up that platform for success. Sinead?

Sinead Gorman

I fully understand the question. You are right, we are running low on CapEx numbers as to middle of the year. However, that's actually very similar to what we saw last year as well. So we've got a number of payments that have to come through towards the end of the year. And if you remember, actually, last year, we were sitting at Q3 on roughly speaking, around $17 billion of CapEx but we actually ended up at [$24 billion], so well within the range. And we expected this moment to be in that range. So that still stands at 22 to 24, just given the number of payments that are still to come, both in terms of just that things that are already out there and final payments on some of the projects that need to reach completion have been commissioned at the moment.

Operator

Our next caller is Paul Cheng from Scotiabank.

Paul Cheng

Wael, if we look at the global oil demand seems like it's continued rising at least through the remaining of the decade. So from that standpoint, you've been always saying that you guys are going to be dramatic. Should the company revisit whether that you should be targeting your liquid production to be flat or that further shift in investments so that you can grow the production in line with the global oil demand growth? That's the first question. The second question is that you continue to make good progress in your chemical operation. So that we have seen net income, so that's great. So when we look at Monica the chemical compact in Philadelphia in terms of [Indiscernible]. Is that now that you're seeing a good operating state or do you actually see further improvement can be made from there? And if it is the latter case, where's that further improvement going to come from?

Wael Sawan

Let me take both of those. I think on your first question around liquids. What we have -- where we have deep conviction is that the energy system of the future will require liquids, oil or bio-based liquids as well as gas and potentially multiple other energy sources, electron based, of course, nuclear and so on and so forth. We also see that in order to be able to win, we need to be the players that have the highest margin and are at the lower end of the cost curve. And so when we established our value over volume strategy, which is now a few years old, what we look to do is to make sure we cut the tail of our portfolio and focus on high grading the portfolio. So we get off this treadmill of ever growing need to be able to go acquire someone to keep our production going up, but actually to be able to stabilize the production and continue to drive the competitiveness of that production and the margin of that production. So there is no intent to move away from that balanced sort of keeping our liquids flat through 2030. We'll decide what we do beyond 2030 but no change in that philosophy for now. In addition to that, you asked the question around chemicals. Very pleased with where the team has progressed the chemicals, the Pennsylvania Chemicals business over the last few months. I had the opportunity to be there at what we call our Safety Day, which is an opportunity to reflect on safety across the company. And what I took away is this is an asset now that has achieved stable production.

So we are on all three polyethylene trains were within a very good operating window. Is there more opportunity for improvement? No question. And the improvement is going to come predominantly from a value basis. We continue to high grade the product slate that we have as we certify more and more of these chemical products that we are producing. We continue to challenge ourselves on our cost structure, not just within that facility but the overhead cost structure that sits above it. So there are multiple opportunities that we are pursuing, which we deem as being no regret and very much in line with the Capital Markets Day a promise we have made. I would say, and I take you back to Capital Markets Day, we still believe that the chemicals market is an attractive market for the future. We believe that some of the facilities that we have, which are going to be in the portfolio are very strong facilities. And at the same time, there are certain assets which we have chosen to pass on to a more natural owner such as, for example, the Energy and Chemicals Park in Singapore, which we have now sold or in the process of sort of completing the transaction to Chandra Asri as well. So there's a lot happening in that space as we continue to improve the bottom line in our Chemicals business in what continues to be a very difficult macro environment there.

Operator

Our next caller is Giacomo Romeo from Jefferies.

Giacomo Romeo

If we can stay on chemicals, first of all, what would have been the -- what's the impact of Singapore in your chemicals and refining earnings? Just trying to understand what sort of uplift we should expect once you complete the sale? And second question on your -- the good progress you are showing towards your $2 billion to $3 billion OpEx reduction target. I suspect that upon completion of the Singapore divestment, you should see a good contribution towards this. And are you able to quantify this at this stage?

Sinead Gorman

I'm going to, unfortunately, be able to say very little, as you can imagine, we're going through a divestment at this moment in time. What I can say to you, of course, is that with respect to the Singapore divestment, it's one that doesn't fit our portfolio, but of course, it fits and the buyer is very well given the specialty and the focus in that area. It is not one that we are finding attractive to us at this moment in time. And remember, our chemicals portfolio overall is currently in a breakeven state for this quarter, roughly speaking. So you're correct that with the divestment, we will, of course, take OpEx side, and you will see that flow through in terms of that $2 billion to $3 billion. It's not in those numbers yet, of course. So what you've seen from us so far is hitting $1.7 billion in terms of that target towards $2 billion to $3 billion for OpEx. And of course, in that $1.7 billion, what we're seeing at the moment is more of a move towards the non-portfolio elements. But we will have Singapore flowing through when that deal completes. So we're expecting that deal to complete more or less at the end of the year into Q1. So you'll see that flow through then and we'll be able to give you more details at that point.

Subscribe to Seeking Alpha for more content like this

Operator

Our next caller is Roger Read from Wells Fargo.

Roger Read

I guess, kind of one big question I have. Balance sheet wise, given the performance here, the cash balance, the net debt and I know you'd like to keep a healthy cash balance, but seems like improvement is probably a little ahead of schedule. Just curious how you're thinking on what the right cash balance is as you look at the overall cash returns. And then the other question I had was on Slide 8 where you lay out the growth projects here. Is there anything we should think about given performance to date and what's left to come online as an overall impact on any changes in the way you're thinking about volume performance, volume growth or lack of volume shrinkage maybe?

Wael Sawan

Thank you for those two questions. Let me start with the second one and then hand over to you Sinead. Very little that has changed, Roger, from what we described in Capital Markets Day. At the time, what we said was we expect it to bring online at peak around 500,000 barrels of oil equivalent per day. Today, we update the to fact that, indeed, that is 250,000 barrels of oil equivalent per day has already been brought online, and the rest to come through between now and 2025. So no major changes there. And those are, by the way, good, high margin barrels, in particular in our deepwater space that you see those coming through in the Gulf of Mexico as well as in Brazil and beyond, by the way, in places like Oman and the like. And so very little to add to that. And we continue to focus very much on the opportunities, in particular in the basins where we see we have competitive advantage to look at opportunities for tiebacks, backfills, to recent, for example, announcements, Jerun, which is the Malaysian gas field, which was brought on stream just a couple of weeks ago. We've just recently taken a final investment decision on Atapu-2 and another FPSO in that block in Brazil, not to mention all the LNG opportunities that we've mapped out there from the [Pavilion] volumes we're bringing in, the Ruwais LNG in Abu Dhabi, the FID on the Manatee project in Trinidad, Tobago. All of that is giving us that next wave of growth that we very much look forward to that takes us to the end of the decade and continues that healthy balance on our liquids while looking to grow our LNG volumes by 20% to 30% by that date. Do you want to talk about cash?

Sinead Gorman

And I think there's two elements to this, there's both a cash element to it and the overall balance sheet strength. So on the second part on the balance sheet strength, as you know, we have an incredibly strong balance sheet. So we're very comfortable with the levels of debt that we have at the moment. And that varies a little bit like I was saying to Lydia, it goes up in time from quarter-to-quarter. But given the levels it's a very natural place to be. What we will see, of course, is that leases will go up, as Pavilion comes on and LNG can comes on, that allows us given the strength of the balance sheet to be able to look through it as we think about distributions. One of the points you bring was around cash specifically. And of course, indeed, we sit on a significant amount of cash, but the net -- that flows into the net debt number. Reason for sitting on that cash is pure and simple that the debt levels that we have at the moment they're very attractive rates, many of them hedge, et cetera, and it wouldn't make sense to buy that out at this point in time. So therefore, the net debt position sits with a gearing level of around 17%. So I'm quite comfortable with where we are at the moment and recognize that it will go up and done a few billion quarter-to-quarter, Roger.

Operator

Our next call is Michele Della Vigna from Goldman Sachs.

Michele Della Vigna

And again, congratulations on the strong results. Two questions, if I may. The first one is about your buyback. You are clearly highly free cash flow positive at the moment after even after cash distribution, you've lowered net debt by $5 billion in the first half. I was wondering what would give you the confidence to potentially increase the buyback rate up from the $3.5 billion you're doing as at the moment? And then secondly, I was wondering, given the success you've had in exploration in Namibia, what are your next moves there? And when you -- and what you would need in order to move to an FID of a development there in the coming years?

Wael Sawan

Do you want to take buyback questions…

Sinead Gorman

Indeed, we have said time and time again that we will look through the quarter, and I think that's very, very key for us. When I'm looking through the quarter, I'm looking at, of course, the cash generation in the quarter, but also, of course, beyond that, it's very much about ensuring that we have the discipline to be able to execute quarter after quarter. And we're continuing to build that track record, as you know. We're seeing that predictability 11 quarters above $3 billion, of course, at this moment in time. And when we speak to our owners, to our investors, but specifically around this topic, what we see is they're very happy with those levels of distribution because they see that drumbeat coming through. Now five quarters into a 10-quarter sprint and of course, there's a lot more running room. So what you will see, of course, is complete transparency and making sure that when we move our share buyback number, it will be clear what has changed. The fundamentals will be there.

Wael Sawan

Michele, your question around Namibia, indeed we have progressed well on both the exploration wells as well as the appraisal wells. We are, at the moment, evaluating. It's a complex subsurface, as I've said in the past, there is no shortage of volume. The question is going to be the commercial producibility and the mobility of those molecules. What's very helpful is that there are a number of players in the region, all of whom are active in the spot. So we are all learning as we go to be able to really better understand the reservoir and the contours of the reservoir. What would be required, what we would need is line of sight towards the sort of returns that we would expect. This is, of course, relatively new area to invest in. And so you need quite a bit of infrastructure to be able to make it work. And we need to be able to assure ourselves that we have investable projects in the sort of returns ranges that we indicated in Capital Markets Day 23. And so that's why we're taking our time thinking through it, making sure that we have a good enough picture before we commit our shareholders' capital to that development. And time is our friend here as we learn from both our own analysis and the analysis of others and the activities about this as well.

Operator

Our next caller is Christopher Kuplent from Bank of America.

Christopher Kuplent

Just two quick questions, please. Building on your growing cash balance, Sinead, but I think it's a question to you as well, Wael. How is -- can you give us an update how the mood is like internally? You said it halfway through your 10 quarter sprint. Inertia initially in the company, has that turned into excitement? And how difficult is it to continue to tell your staff that they should tighten their belts when the cash balance keeps growing and growing? So maybe another way of tackling that question. But ultimately, I'd like to explore a little bit more where you see most potential still to come in your OpEx, particularly the nonportfolio driven OpEx savings? And will there come a point, to be precise, when you can actually break down where these savings that you are calling out here on the slide come from, whether it's by project or at least by segment. Is that something you think is realistic as we look into the CMD next year?

Wael Sawan

Let me kick off and then Sinead if there's areas you'd like to add to. I mean it's -- let me start with the mood firstly. I think it's great to be on a winning team. And I do think that post Capital Markets Day 23, post energy transition strategy 2024, we've now been able to build a holistic picture of where we want to go as a company and staff see the momentum. Our Board sees the momentum that we are on, but no one is complacent because we also recognize that we have a lot more to do to be able to achieve the full potential of the company. Cost is an outcome in my mind, right? What we are trying to do is to prepare ourselves to transform the culture of the company to one that is able to outcompete in the coming years. And the competition is changing, right? This is not just in the oil and gas space but within oil and gas, we are having to add digital capabilities, AI capabilities. We're looking to leverage knowledge in a different way than we have in the past. For example, today, some 40% of our staff globally, 30% to 40% are staff in what we call Shell business operations in places like Curacao, in India, in Kuala Lumpur. We're learning how to be able to actually use some of the emerging technology in ways that we wouldn't have imagined before. And that's allowing us to be much more productive, enhance reliability and of course, also reduce costs.

Beyond that, where are the -- what are the areas that we're seeing sort of playing up, and that also plays to the staff mood. This is about competitiveness, right? First and foremost, this is about competitiveness and we want to be able to be a competitive company. It's not good enough to just generate cash and be a third quartile player. We want to win and this is what this company can do and has line of sight towards. What does competitiveness look like? It means that we cannot simply get everything that we want as a company. So we're being much more conscious of the pots we can spend, for example, in IT, you have to make choices. In some of the standards that we have, we've had to simplify, there are sometimes cutting 60% to 70% of the standards, which liberates parts of the organization to be able to really sort of flourish. We're trying to simplify the way the organization works. So one of the things we are looking to do is to be able to consolidate roles at management level, expand next line role so that people cover more than one market, sometimes two to three markets and for frontline staff, allowing multiskilling rather than going through the individual silos that create interfaces that sometimes slow down the work and actually don't reward people in their jobs.

So this is a high level story that I'm sharing with you but at the heart of it is the culture change that we are driving. And there are multiple examples from the very, very basic one around travel, where today, we are still at 60% of the 2019 travel spend. That's small in the bigger scheme of things but that's a couple of hundred million dollars and that's an important part, an important indicator of discipline all the way through to the way we're thinking about capital projects and how we think about spending the feasibility expenses on it. Really being clear, we need to get projects through the funnel quicker if we believe in them and stop them earlier if we don't and not put entire teams on them if we don't see the fundamentals work. So hopefully, that gives you a flavor of some of the things. I think the mood continues to be a robust one. But at the same time, there's a lot of organizational change. So I'm also conscious of the load that, that puts on people because change is never great. And so we're trying to move as quickly as we can on that front while at the same time, give the clarity that our people need as we move into the next phase of this journey. What did you want to add Sinead to it?

Subscribe to Seeking Alpha for more content like this

Sinead Gorman

I think you said it very comprehensive. The only one line sentence, I would say it's exciting, and there's so much more to go.

Operator

Our next caller is Matt Lofting from JPMorgan.

Matt Lofting

Two quick ones, please. First, you struck me looking at the numbers this morning that if we combine the key integrated gas and upstream businesses, in aggregate they've beaten consensus now for four straight quarters, average about 10% over that period. So I wondered if you could about the sources of that and the extent to which you think that, that reflects the enhanced delivery and operational performance that you've talked about driving through the company? And then secondly, specifically on LNG. I think you showed in the slide deck that Shell has now filled the prior gap that existed into' '25,'26 on purchases versus sales. Part of that is the Pavilion transaction. Could you talk about what made that an attractive asset for Shell and particularly perhaps linking into the flexibility point that, Wael, you mentioned during your opening comments?

Wael Sawan

Which one do you want to take, Sinead?

Sinead Gorman

I'm happy to take the second one.

Wael Sawan

Let me start then with the first one around IG, Integrated Gas and upstream and the strong delivery over the last four quarters. I'll put first and foremost on to a lot of hard work, a lot of focus and this performance culture that we have spoken about, Matt, starts with a fundamentally different cadence, a different performance cadence that Zoe as the Head of the Integrated Gas Upstream division is really driving with her team, really just getting back to what they call the brilliant basics. Getting back to what we need to be able to do to drive the fundamentals right, how do we maintain our assets, are we doing the right walks around the facilities to be able to make sure that we pick up any issues before they happen, how do we leverage proactive technical monitoring and so on and so forth. So really good work in that space. In addition to that, what I would say is really focusing on the big assets that were potentially weakening as in the past. Prelude, you've seen from the charts we provided to you is now running at the IG average utilization and availability levels, which is great news. Queensland Gas company outstanding performance there. Pearl GTL continues very, very strong performance. Deepwater is running well. Conventional oil and gas is running well. So across the patch, what you are seeing is more and more consistent delivery, something we talked about 12 months ago and something that I think is coming through in the results quarter after quarter. The only other thing I'd add is continued focus on the costs that we talked about earlier. As we drive competitiveness that team is really looking at how do we hone in on the costs that actually add value and really sharpening their focus on that, and you're again seeing the results of that come through.

Sinead Gorman

Indeed, the Pavilion, what you're seeing on that slide really is showing there was a number of things in there. There was first for that gap basically to 2025 and the Pavilion acquisition basically add 6.4 MTPA of additional supply that helps deliver against the 15% to 25% growth we talk about in there about purchase volumes. So we've got that aspect of it. But we also, of course, have the Ruwais LNG project, which also are shares on MTPA, which will help to deliver against the future growth that will come as well. So you'll see roughly speaking between now and 2025 about two MTPA coming in. That's helpful, of course, because we have reduced length as you're aware, coming into sort of the end of this year and into next year, which helps us just build as we go longer term. But of course, that's always helpful as those opportunities are given more and more to us. So an attractive acquisition to us as we come through, particularly as we see price normalizing in terms of really back towards prewar levels, so back to 2022 levels. And of course, we're also seeing with that a little bit of the seasonality less pronounced. So we're seeing less volatility as a result, and therefore, less trading optimization opportunities that combined with reduced lengthenings of the portfolio has been a little bit more balanced over the next couple of quarters, that's what we would expect potentially to see, but it depends on the opportunities that come through and how quickly we get Pavilion in. But clearly, from our perspective, if we look through the quarters that's how we manage the company, it's a long term look and you can see that as well in how we actually deliver on the distributions as well.

Operator

Our next caller is Lucas Hermann from BNP.

Lucas Hermann

I want to touch on the res business, because I guess, personally, I probably tended to ignore it. It's been very steady or it had been very steady. This is the first quarter where we've actually seen a relatively sizable loss. And sitting at this desk, it's incredibly difficult to get a sense of what the number would look like. So I wonder whether you could give us any help in terms of how we should think about numbers, profit/loss, whatever going forward? And also help us or help me better understand what comprises the $17 billion, $18 billion or so of capital that's tied in, in that business? And another slightly abstract question, but I'm sure you're conscious or you've seen E&I look to divest a part of its mobility business over the course of the last several weeks at I'd say, a pretty attractive multiple. It obviously highlights the inherent value in your business, not least the marketing business, of which I know you're aware. Where does it leave you in terms of thinking of ways of perhaps more rapidly or more aggressively realizing the potential of the marketing assets, which obviously our stock markets trade at substantially higher multiples than the parent does?

Wael Sawan

Did you want to take the res question first, Sinead…

Sinead Gorman

So with respect to the res portfolio, there's two elements to your question. So first of all, on the result, Lucas, there as well. So you're right in the sense that this quarter what you saw was numbers which were much more around this sort of medium term expected range per previous guidance, but actually, these last couple of quarters, we've just seen exceptional volatility. And we've seen, as a result, quite high results coming through. This quarter, we saw basically, from a range of different things, Europe having plenty of you have been -- long some of the gas not much volatility playing out, lower generation, et cetera, all that played into very little T&O, or trading optimization opportunities, and that's where it occurred. The second part of your question was -- your first part was around the capital employed and how much is sitting there. Of course, there's a combination of things in there. There's both the assets that we've invested in, whether those are the wind farms or the solar aspects in there but there's also a healthy amount of working capital that tends to sit in there and that's what causes the volatility as you go through and Lucas, because the volatility is, of course, linked -- the working capital is linked to the volatility around the T&O business that we have there. So you'll see that vary and that's why you've seen the numbers come in quarter-on-quarter.

Lucas Hermann

Sinead, I don't know if you can hear. Just to get a sense of, look -- how do I think about the base level of profitability in that business then going forward? Is Q3's level something I should be thinking, okay, broadly 3 times, 4 times that is what we're going to be doing for the time being…

Sinead Gorman

So Lucas, what you've seen in the last couple of quarters have been high. So I would go for -- Q2 is basically close to zero or slightly negative, that's what we would expect to see on average with that volatility into the market.

Wael Sawan

Lucas, to your second question on mobility in general. As you know, what we have said in this first sprint is, first and foremost, we want to change the culture of the company, reduce costs, get tighter on capital. And we want to rebuild the confidence in some of the underperforming parts of our business, one of which at the time we felt was marketing, including the mobility, and that's why we have spent a lot of time, and we've talked about this as well on how we can enhance that. So we're doing a few things in the mobility business, which in my mind are no regret. That's a business that today is a ROACE that's under 10% and is a business that should be looking at a ROACE that's closer to double digit mid teens. And so what we're trying to do there and you, by the way, start to see some of that coming through in the second quarter results is really focused on a value over volume strategy and you've seen that with enhanced margins. We're looking at premiumization so setting more of the premium products that we can. We've taken costs out of that business of late and that's helping us start to really improve the bottom line. And we are indeed also divesting tail assets that no longer have a place in our portfolio. We've announced Pakistan as an example, South Africa, Mexico and others. So what we're doing in this sprint is really getting these businesses to their full potential. That, of course, does not exclude, which we will always be looking at, how do we continue to create maximum value and unlock value for our shareholders from holding some of these assets or not. And that's something for a future date to discuss. But at this stage, it's all about how do we turn around that business to its full potential.

Operator

Our next call is Irene Himona from Societe General.

Irene Himona

My first question is on the German biofuels plant cancellation. Clearly, one of those capital projects that did not offer you the returns required. Just wanted to understand what was the role behind that decision, the role of the technology chosen initially has been a problem versus the parent oversupplied European biofuels market, and also how you see that market evolving in the next few years? My second question, clearly, you're very successfully moving to deliver the 20% to 30% LNG growth, which you targeted last year. Of course, globally, the LNG markets will have something like 45% of new capacity in the next two or three years. Can you share your thoughts around the impact you see on Integrated Gas from what may well be material weakness in spot gas prices for a couple of years?

Subscribe to Seeking Alpha for more content like this

Wael Sawan

Let me take both of those. I think starting with the biofuels one. I'd start off by once again sort of just emphasizing the fundamental conviction we have in this biofuels business overall. And this is already today, by the way, a very profitable business for us. Last year alone, we sold some 9.7 billion liters of -- or we blended it with many of the products that we are selling our customers in our worldwide network, a third of which, by the way, came from Raízen, which is our joint venture with Cosan. So we still very much like the business. I don't think we can separate the complexity of the plant, the engineering and the like from where the market conditions are. We have a value tracking system as part of this sort of cultural evolution that we've referred to as we aim to be superior allocators of capital. We have implemented this system. And what that has shown us is given market conditions and given some of the challenges we were seeing in the facility itself, including engineering and execution that it was time to pause, not to stop but to pause to really just reflect on for that incremental dollar of capital that we want to spend, is this the best place to spend it or in a market where many of these asset prices have come down, we could look at other options and be able to source the molecules we need in different ways. Remember, today, we are somewhere around 10 times -- selling 10 times what we actually produced. And so I wouldn't separate Irine, between the two as clearly as that it wasn't this or that. It was the sum total of the value proposition that we saw.

To your question around where the market goes, big question mark in my mind. At the heart of this market is mandates. And so with the softening mandates that we have seen or the retrenchment in certain mandates plus the oversupply, it's clear that steel or biorefining is not where you're going to make a lot of money right now but you can still create value through the entire value chain, and we are looking to strategically position ourselves in parts of the value chain where we think we can create longer term value and to make sure that, that capital is deployed in the best way possible. On the LNG side, I don't have the luxury, in my role, Irine, to look at sort of just the next three, four years. And all honestly, I start from the perspective of, is this energy vector a very interesting one for us to play in. And with a 50% growth trajectory between now and 2040, with this being really the only serious credible solution that gives you both energy security as well as decarbonizing the energy system in the particular sectors in which it works. I continue to be very bullish about the role of LNG. And we will go through cycles, we will undoubtedly go through cycles.

And cycles are a good thing for us because we are both on the length and on the short, we have a number of supply points, we have a number of demand points. And this allows us to be able to end the lows of the cycle pick up well priced supply and in the highs of the cycle, sell to our customers and be able to build the portfolio that you have seen create so much value for us and makes us the leading LNG player in the world. And so I do think when I look through individual periods of time, this is a very, very strong business. And we continue to make sure that we are well balanced in the way we do this. We have, for example, Henry Hub linked offtakes into Brent markets. We look at locking in long term agreements so that we do not have the volatility of the market in the short term while still having some exposure to spot and so on and so forth. And so I do think this is one for us where we can create opportunities where many others can't. And that plays, I think, to one of the reasons why we were successful with the Pavilion Energy deal as well.

Operator

Our next caller is Peter Low from Redburn Atlantic.

Peter Low

The first one's on marketing. At the time of the 2Q update note, you expected earnings to be in line with 1Q. What ended up coming in better than you had expected, which led to the strong results? And then perhaps just quickly on the dividend, you've kind of committed to the 4% per annum growth but the share count is annualizing 6% lower, thanks to the buyback. Will that be a consideration when the Board considers the next increase? And is it too simplistic to simply think of it as one of those numbers plus the other?

Wael Sawan

Do you want to take those two, Sinead?

Sinead Gorman

Yes, absolutely. And I may have to ask the second one again, if the team could just type up the question was for me. In terms of the marketing side of things, Peter, yes, really pleased with how the results showed up as you saw just premium volumes coming through and coming through really strongly towards the end of the year -- the quarter. Difference between what we said in the quarterly update note and what actually you saw coming through, it was higher, definitely the right way to go in, just in the same way as with other segments, you also have moves as you close the books. For example, in our chemicals and products business, of course, you saw that some of the trading managing the flows between those segments moves between them, that's really what it occurs, and we see it between res or renewables business, our C&P business and marketing. So when we go out to you, of course, we give our expectations of where it's going to be but we haven't closed the books and we haven't allocated across this. What you typically see at the top level at the Shell, is that the right number and it's just high trading is allocated across it. So yes, marketing was a bit higher. But overall, really, really pleased with those results, not only the premium volumes, but as Wael was talking to earlier, but just the moves that, that business are making in terms of high grading the portfolio, but also ensuring they go after OpEx really, really firmly.

The second question, I'm just being noted here is you talk about the share buybacks leading to an increase over time, et cetera, on that, and can you link the two? No, you can't, here is the answer. So when you see with us, of course, is we've been very open and almost about the fact that we have a 4% dividend, aggressive dividend that comes through on that. And with the share buybacks what we're looking at is it's basically about allocation of value. This is where do we put capital to the most value accretive area. So what you see us doing, of course, is really trying to do that drumbeat that consistency. You're seeing, of course, this is the 11th quarter of over $3 billion share buybacks actually since Q3 of last year, we're doing $3.5 billion of buybacks as well. So we continue to do that and allocate accordingly. And of course, what you also see is there's nothing particularly unusual about it if we have to borrow, obviously 3 a quarter, which we did in Q4, you see that coming through as well. So whilst the share price is where it is, you'll see us continue to go after the share buybacks.

Operator

Our next call is Josh Stone from UBS.

Josh Stone

Two questions, please. First, I just wanted to ask about liquids trading in your product division. It was another good quarter for Shell and liquids trading. Can you just talk about what some of the drivers for that were you appear to have out for some of your peers at least. Is this strip more by products or crude and anything to think about for the outlook on that part of the business? Second, I want to follow up on CapEx. Clearly, you have been reducing some investments inside the organization, and I appreciate this is seasonality as well. But how comfortable would you say, Shell is at this rate of spending, do you think this level of activity is enough to sustain cash flow?

Sinead Gorman

I'll start with the second one with respect to CapEx. And actually, just linked to that, so in terms of the spend level, it is not a linear spend level. So that was the discussion that we had earlier. So I wouldn't take the first half of the year as being indicative as to just doubling it from where we end up, that is not the if. So as you say, we will have -- and you rightly point out that we'll have different payments as we come through. Are we comfortable with where we are? Absolutely. And we have a very healthy range of $22 billion to $25 billion. And as you can see, this isn't about underinvesting. We're making very significant moves as we go through, whether that's waste, which you just saw coming through on the LNG side, whether it's Pavilion as a transaction, whether it's the FID. So we've taken numerous ones of them such as Refine 2, which, of course, is the hydrogen plant in Germany, whether you also see it come through as Polaris in terms of CCUS in Canada as well. So there's considerable investment going into this company. And I'll be comfortable with the cash flows, absolutely. You saw us, of course, through CMD give you a number of targets. Actually, we only give you four financial targets at the end of the day. But two of those were linked to free cash flow. Of course, that's what we're managing overall. So that's the second one.

And of course, we will continue to give you updates as we go through -- on that first one in terms of how we're meeting those targets, but great progress so far. Your second question was around liquid trading. And overall -- and that flows through really in our Chemicals and Products segment. In Q2, it was very strong. It was driven by a combination of both crude and products there. What I would say, of course, is that products are slightly less than crude and that's just due to less volatility, because we're seeing those tensions from both the Middle East and Red Sea in last quarter were a little bit more dampened than they have been the quarter before. We'll see how it plays out in future. I certainly won't predict it right now.

Operator

Our final caller is Kim Fustier from HSBC.

Kim Fustier

I've got two, please, on low carbon businesses. Firstly, on hydrogen, you've FID'd hydrogen electrolytes in Germany. Is this investment purely driven or mostly driven by the RMB [deal] legislation, i.e., essentially, it's about avoiding cost rather than generating revenue. And also curious, while you're producing your own green hydrogen rather than procuring it via tender as one of your peers is doing. Secondly, you've sanctioned the Polaris CCS product in Canada. Could you talk about the business model and the rationale for this investment? And just from, I guess, a bigger picture perspective, where does CCS sit in the context of you scaling back in renewable power and pausing in biofuels?

Subscribe to Seeking Alpha for more content like this

Wael Sawan

Let me take the second question and then come to you for the final word, Sinead, on the refined too. Where does CCS can fit into our broader strategy? And maybe just to unpack a bit your broader question around the different low carbon strands. Firstly to say, we have talked about $10 billion to $15 billion of investment between 2023 and 2025 in the low carbon space. We have also said that these are nascent businesses, suspending that amount of money, we have to really be conscious of the business cases that we are driving. And critically, I would say, we are doing this for shareholder value creation. So we have to really be clear that we have line of sight to be able to actually get accretive value as a result of this. Now we are learning through the process. I will admit to you that there are certain things which we have gotten into where we said, let's pause come out of such as, for example, our Power Home business. At one point, we got out of it, hydrogen into mobility. We've gotten out of it. So we're really trying to make sure that we lean in, we learn and then we focus. What do we see that creates the most opportunities right now, biofuels, as I've talked about earlier, my convictions, including, by the way, renewable natural gas such as our Nature Energy platform. Green hydrogen has to come in within the right context of regulatory support. I'll leave Sinead to unpack that a bit more.

We do like the nexus of power trading, including with flex generations of battery storage, combined cycle gas turbines, et cetera. Those are areas where we are continuing to lean in because we are now seeing that we can create value out of them. Where does CCS fit into that? CCS, we think in the -- for the coming years is a critical part of our own decarbonization journey to get to the 50% reduction in Scope 1 and 2. The Polaris one, which was in Canada, is linked to our Scotford asset, where we expect to capture some 650,000 tonnes per year from that facility. And the reason we like that is we've done it in Canada before. We've done it with Quest. We've done it for that facility. So it's derisked. We know what we're doing in that space. And the business model is one where the credits in Canada allow us to be able to create value from that investment. So it's very much the ability to be able to monetize some of those opportunities and to sell the products, the low carbon products to our customers at a premium is what we go after. Did you want to touch on the…

Sinead Gorman

Absolutely, and I think it's a great one to end on Kim. So refine 2, it's actually -- and the 2 is important. We've already done refine one in Germany. So this is back to, as Wael said, playing where we have differentiated capabilities where we understand this technology, where we know what we need to do. And in Germany, of course, you've got the best of all worlds. You have a country which has set itself up with respect to green hydrogen in terms of incentivizing and people could use it. So we've got two options here, as you say, one to sell directly towards revenue to customers, and that will be something longer term that we hope to get to. But at the moment what we're doing is actually generating the green hydrogen for our own facilities, for our own petrochemical production. And this is roughly speaking, about 10% of actually our own need for hydrogen, of course, by putting green hydrogen, you're correct, we managed to avoid some cost there, but we also lower the carbon footprint of the products that we actually produce, which makes them more attractive to customers and allows us to sell them for higher numbers. So it fits from the perspective of government incentives, a country that is very much stable and has regulations that allow you to do that, a capability that we already have with proven technology because we've actually done it before as well. This is bigger than we have done before but at least it's something we've done. And then it links to our own needs and our own capabilities, allowing us to ensure that we're actually creating value and delivering above the hurdle rates that we want.

Wael Sawan

And then to the point around why don't we buy it? I mean, I think the opportunity to continue to develop, I mean we are the biggest player in LNG. One day, these low carbon gases will actually backfill the needs of our customers there. And so what a fantastic opportunity to use our own demand to be able to develop that capability in a way that actually is accretive from a returns perspective. So Kim, thank you for that question. And let me thank you all for your questions and for joining the call. In conclusion, we have delivered yet another strong quarter. We announced another $3.5 billion of share buybacks, which makes this 11 quarters in a row with announced buybacks at least $3 billion. We're building a track record of delivery and are progressing well in our first sprint to deliver more value with less emissions, and we are aiming to be the investment case through the energy transition. We have a lot more to do and look forward to engaging with you in future sessions like this. Wishing you all a happy end of the week. And for those taking summer break, be safe, be well, and hopefully, we'll see you after the summer. Thank you, everyone.

**Load-Date:** August 1, 2024

**End of Document**