Royal Dutch Shell PLC

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Shell is still a 'buy' despite commodity slump and coronavirus impacts - analyst

European bank Berenberg is keeping its confidence in Royal Dutch Shell Plc (LON:RDSB) despite broad sector-wide expectations that coronavirus impacts could dent the financial performance of major oil producers.

Analyst Henry Tar, in a note, described a "sharp" in deterioration in the sector's economics, as the China originated coronavirus outbreak has resulted in weaker demand for crude and gas.

Tar presently reckons the negative impacts will be temporary but noted that the IEA has cut its demand growth forecast by 365,000 barrels per day to 825,000 bopd, which is the slowest rate of growth for almost a decade.

"Given the sharp deterioration in macro environment year to date, we have run a sensitivity analysis to show our earnings at a bearish scenario of US$55 per barrel Brent, US$3 per thousand cubic feet (mcf) for European gas, US$2 per mcf US gas and US$4 per barrel European complex refining margins.

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"We estimate that in aggregate, our coverage would see earnings (EBIT) downgrades of more than 40%, EPS downgrades of more than 45% and cash flow downgrades of more than 20%," the analyst said.

Looking ahead, the analyst reckons this transient dent in crude economics could be arrested by some or all of the following price supporting actions - OPEC+ quota cuts in March, a reaction (ie a reduction) of activity in US production operations in the second half of 2020, production outages in Libya, impact of ongoing sanctions on Venezuelan exports exports.

Tar said: "These factors increase our confidence in a recovery in crude prices to USD65/bl-plus for 2021 and beyond, assuming that demand normalises. Refining margins could also pick up, helped by refinery maintenance and International Maritime Organization (IMO) rules.

Price: 1241.4

Market Cap: £96.92 billion

1 Year Share Price Graph

Share Information

Code:		RDSB
Listing:		LSE
52 week	**High**	**Low**
	2647	**8.8907**
Sector:		**Energy**
Website:		**www.shell.com**

Company Synopsis:
Royal Dutch Shell consists of the upstream businesses of Exploration & Production and Gas & Power and the downstream businesses of Oil Products, Chemicals and Oil Sands with 104,000 employees in more than 110 countries.

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"We do not expect a near-term improvement in the environment for gas and petrochemicals, however, with both segments struggling with overcapacity."

Shell is deemed a 'top pick'
Berenberg rates Shell as a 'buy', with a price target of 2,680p suggesting some 50% upside to the current price of 1,817p.

Specifically, Tar highlighted that Shell is exposed to weak markets in liquefied natural gas and Asian downstream, but, the analyst said the Berenberg team still sees attractive underlying cash flow growth, driven by low-cost upstream projects in Brazil, Australia and the Gulf of Mexico.

"Shell has underperformed this year due to its relatively high exposure to Asia and LNG, along with its sensitivity to lower commodity prices," he said.

"The company still faces headwinds, with weak gas and LNG prices expected to persist through 2020, and exposure to Asian downstream expected to negatively impact results through Q1.

"However, we believe that much of this is now in the price and that the company has the opportunity to surprise positively, delivering the highest total shareholder return of the peer group, provided we see a normalisation of oil prices as we head through the year."

The analyst added: "Shell will benefit from the ramp-up of Appomattox and Prelude, as well as continued growth in the Permian in 2020.

"The company is targeting value growth rather than incremental volume, and production has been flat since 2016.

"However, it could achieve almost 5% volume growth (before any disposals) in 2020."

The addition of the Prelude and Appomattox project's alone could boost Shell's cash flow by more than US$2bn, according to the Berenberg analyst.