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ATLANTIC CAPITAL MARKETS

BP plc Vs Royal Dutch Shell

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BP Plc

A Brief History

BP is a British multinational oil and gas company headquartered in London. It is one of the world's oil and gas supermajors.

· **1908.** The founding of the Anglo-Persian Oil Company, established as a subsidiary of Burmah Oil Company to take advantage of oil discoveries in Iran.

· **1935.** It became the Anglo-Iranian Oil Company

· **1954.** Adopted the name British Petroleum.

· **1959.** The company expanded beyond the Middle East to Alaska and it was one of the first companies to strike oil in the North Sea.

· **1978.** British Petroleum acquired majority control of Standard Oil of Ohio. Formerly majority state-owned.

· **1979–1987.** The British government privatised the company in stages between.

· **1998.** British Petroleum merged with Amoco, becoming BP Amoco plc,

· **2000-2001.** Acquired ARCO and Burmah Castrol, becoming BP plc.

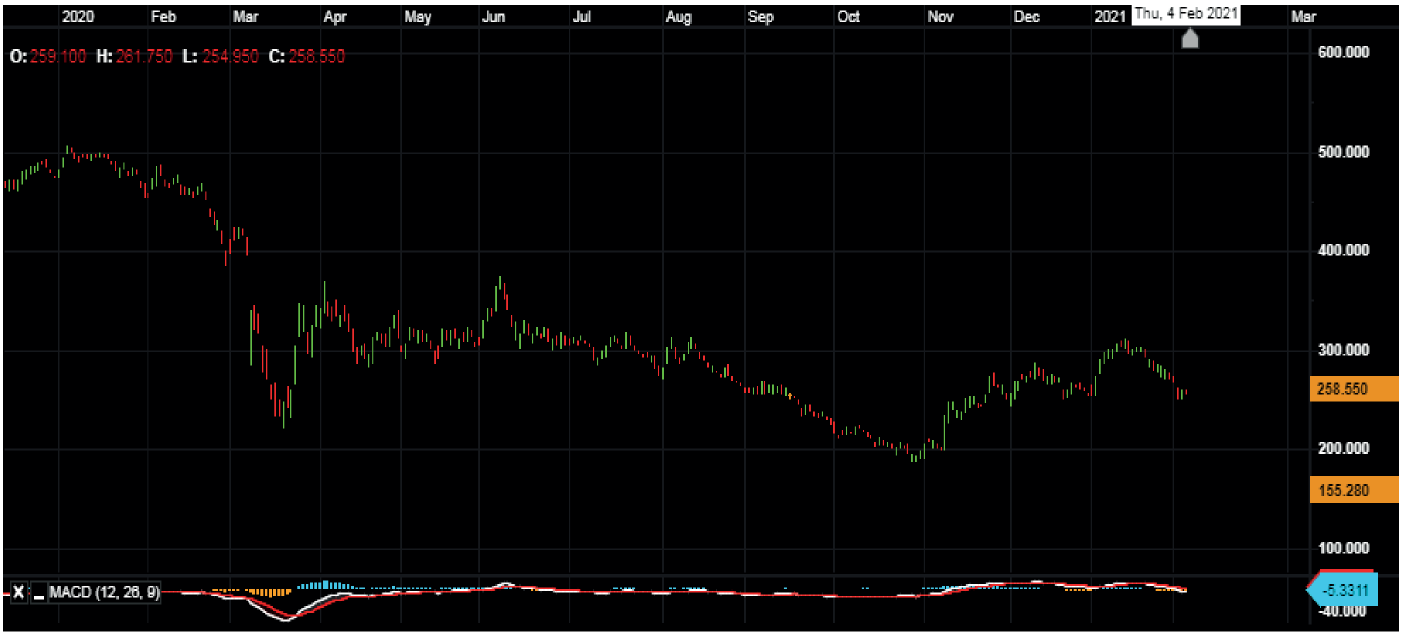
· **2003–2013.** BP was a partner in the TNK-BP joint venture in Russia.

Positioning

BP is a "vertically integrated" company, meaning it's involved in the whole supply chain – from discovering oil, producing it, refining it, shipping it, trading it and selling it at the petrol pump. BP has operations in nearly 80 countries worldwide and has around 18,700 service stations worldwide. Its largest division is BP America. In Russia, BP also own a 19.75% stake in Rosneft, the world's largest publicly traded oil and gas company by hydrocarbon reserves and production. BP has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index. It has secondary listings on the Frankfurt Stock Exchange and the New York Stock Exchange.

BP Financials		
Valuation	**Price History**	**Income Statement**
Market Capitalization**51.469B**	Average Volume (10 day)**37.941M**	Basic EPS (FY)**0.1555**
Enterprise Value (MRQ)**96.073B**	1-Year Beta**0.3379**	Basic EPS (TTM)**-0.8569**
Enterprise Value/EBITDA (TTM)**5.2964**	52 Week High**489.9500**	EPS Diluted (FY)**0.1547**
Total Shares Outstanding (MRQ)**20.184B**	52 Week Low**188.5200**	Net Income (FY)**3.156B**
Number of Employees**70.1K**	Dividends	EBITDA (TTM)**8.031B**
Number of Shareholders**230.556K**	Dividends Paid (FY)**-5.445B**	Gross Profit (MRQ)**2.893B**
Price to Earnings Ratio (TTM)—	Dividends Yield (FY)**4.8048**	Gross Profit (FY)**20.505B**
Price to Revenue Ratio (TTM)**0.3193**	Dividends per Share (FY)**0.3239**	Last Year Revenue (FY)**218.224B**
Price to Book (FY)**0.6949**		Total Revenue (FY)**218.224B**
Price to Sales (FY)**0.2384**		Free Cash Flow (TTM)**3.257B**
Balance Sheet	**Margins**	**Operating Metrics**
Quick Ratio (MRQ)**0.9030**	Net Margin (TTM)**-0.1071**	Return on Assets (TTM)**-0.0799**
Current Ratio (MRQ)**1.1413**	Gross Margin (TTM)**0.0212**	Return on Equity (TTM)**-0.2624**
Debt to Equity Ratio (MRQ)**1.2080**	Operating Margin (TTM)**-0.0275**	Return on Invested Capital (TTM)**-0.1449**
Net Debt (MRQ)**39.483B**	Pretax Margin (TTM)**-0.1256**	Revenue per Employee (TTM)**3.11**
Total Debt (MRQ)**63.499B**		
Total Assets (MRQ)**201.307B**		

Share Price Chart



The BP that we see and know now is certainly a shadow of its former self. BP was once a powerhouse in the UK Index and a major global player, but it has since dwindled to be a relatively minor player on the global stage. For example, its market capitalisation is now 'only' just over £50bn and trading around £2.50, against 20-year highs of over £7.00. Naturally BP has a broad correlation with Brent Crude prices, although many readers may be surprised to see that the relationship is not as close as you might naturally think, especially with the recovery in oil over the last 6 months and the lack of recovery in the Bp share price.

Royal Dutch Shell

Ticker :- RDSa/RDSb

A Brief History

Royal Dutch Shell PLC or as its more commonly known "Shell", is an Anglo-Dutch oil and gas company headquartered in the Netherlands and incorporated in the UK. They are also one of the worlds supermajors and the third-largest company in the world measured by 2018 revenues and the largest based in Europe.

· **1907** - Shell was formed through the amalgamation of the Royal Dutch Petroleum Company of the Netherlands and the "Shell" Transport and Trading Company of the United Kingdom.

· **2005** – The firm unified and operated as a dual-listed company, whereby the British and Dutch companies maintained their legal existence but operated as a single-unit partnership for business purposes.

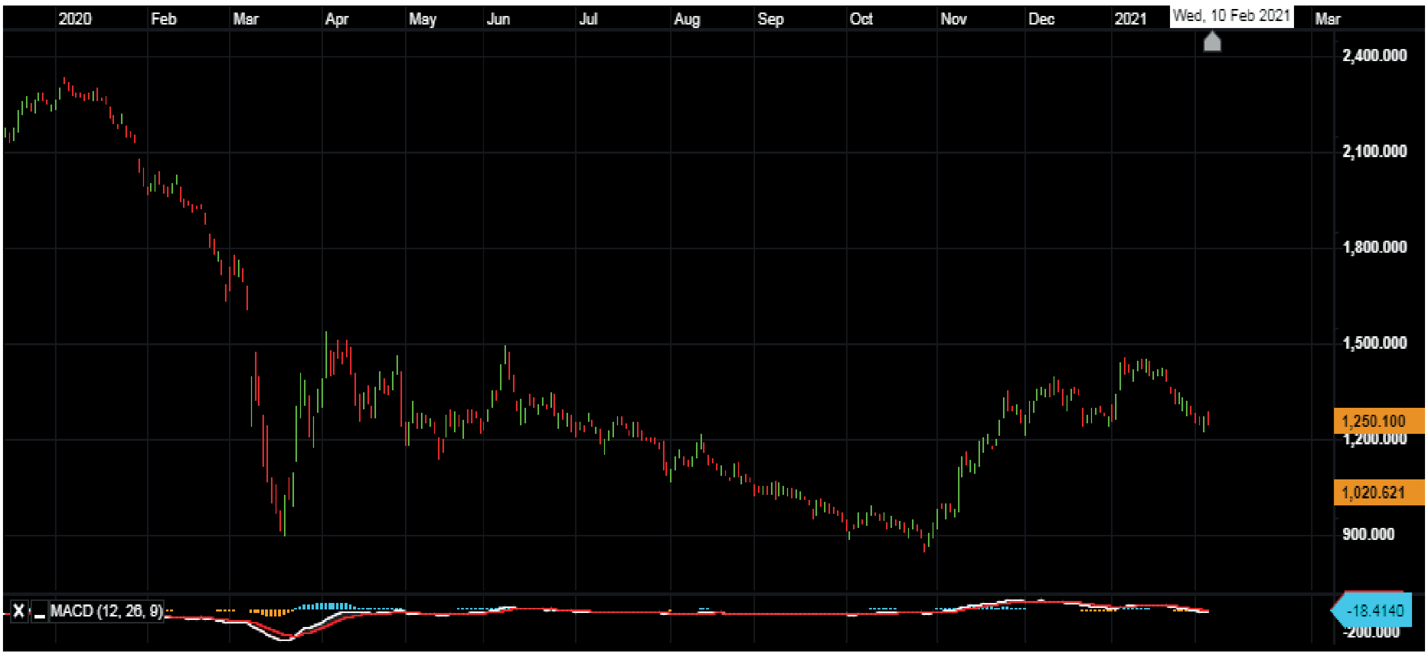
· **2016** - Shell acquired BG Group making it the world's largest producer of liquefied natural gas.

Positioning

Shell is vertically integrated, similarly to BP and is active in every area of the oil and gas industry, including exploration and production, refining, transport, distribution and marketing, petrochemicals, power generation and trading. It also has renewable energy activities, including biofuels, wind, energy-kite systems and hydrogen. Shell has operations in over 70 countries, produces around 3.7 Mn barrels of oil equivalent per day and has 44,000 service stations worldwide. Shell Oil Company, its principal subsidiary in the United States, is one of its largest businesses. Shell holds 50% of Raízen, a joint venture with Cosan, which is the third-largest Brazil-based energy company by revenues and a major producer of ethanol. Shell has a primary listing on the London Stock Exchange and is a constituent of the FTSE 100 Index. They are one of the largest of any company listed on the London Stock Exchange. It has secondary listings on Euronext Amsterdam and the New York Stock Exchange.

Shell financials		
Valuation	**Price History**	**Income Statement**
Market Capitalization**97.31B**	Average Volume (10 day)**4.683M**	Basic EPS (FY)**1.5410**
Enterprise Value (MRQ)**132.743B**	1-Year Beta**1.5086**	Basic EPS (TTM)**-1.7339**
Enterprise Value/EBITDA (TTM)**6.6468**	52 Week High**2056.5000**	EPS Diluted (FY)**1.5307**
Total Shares Outstanding (MRQ)**7.784B**	52 Week Low**845.1000**	Net Income (FY)**12.418B**
Number of Employees**83K**	Dividends	EBITDA (TTM)**18.124B**
Number of Shareholders—	Dividends Paid (FY)**-11.913B**	Gross Profit (MRQ)**2.439B**
Price to Earnings Ratio (TTM)—	Dividends Yield (FY)**3.8279**	Gross Profit (FY)**25.479B**
Price to Revenue Ratio (TTM)**0.5952**	Dividends per Share (FY)	Last Year Revenue (FY)**266.537B**
Price to Book (FY)**0.6979**		Total Revenue (FY)**266.537B**
Price to Sales (FY)**0.3**		Free Cash Flow (TTM
Balance Sheet	**Margins**	**Operating Metrics**
Quick Ratio (MRQ)**1.0633**	Net Margin (TTM)**-0.0821**	Return on Assets (TTM)-**0.0439**
Current Ratio (MRQ)**1.3086**	Gross Margin (TTM)**0.0292**	Return on Equity (TTM)-**0.0983**
Debt to Equity Ratio (MRQ)**0.6939**	Operating Margin (TTM)-**0.0232**	Return on Invested Capital (TTM)**-0.0663**
Net Debt (MRQ)**56.731B**	Pretax Margin (TTM)**-0.107**	Revenue per Employee (TTM)
Total Debt (MRQ)**84.356B**		
Total Assets (MRQ)**293.35**		

Share Price Chart



Royal Dutch Shell is understandably in a very similar situation to BP. Shell had been trading above £27.00 in 2018, and now languishes around £12.50. Shell has had its fair share of problems, but the company's strategic moves back in April give reason to believe the worst could be behind it. Shell is trying to embrace renewable energy. Unlike some of its European competitors that could turn into renewable energy stocks, Shell is targeting a modest amount of renewable investment while also focusing on making the oil and gas industry cleaner. Shell's move into CCS, carbon-neutral LNG, and reduced flaring of natural gas are all admirable, but they aren't helping Shell get through the current downturn. The big help is Shell lowering the quarterly dividend obligation.

While Shell's environmental efforts are admirable, the company hasn't figured out a way to monetize CCS or carbon-neutral LNG. For now, these efforts do little more than improve public perception of Shell. Still, they are worth keeping track of in the event Shell gains a competitive advantage in a green technology that can deliver bottom-line results. If Shell can prove that it can generate solid operating cash flow even with reduced spending, then it could emerge as one of the better oil majors from this downturn.

As of March 31, 2019, it had approximately 650 million mobile customers, 19 million fixed broadband customers, and 14 million TV customers. The company was founded on July 17, 1984 and is headquartered in Newbury, the United Kingdom.

How Do They Compare

- BP has more cost-efficient upstream operations than Shell
- BP's operations are more environmentally friendly when compared to Shell
- BP's upstream faces threats from Shell's aggressive capital expenditure plans over the next five years
- Shell has a clear competitive advantage in the near future

Who is better placed to absorb an oil price crash?

BP's higher focus on upstream and lower offset from downstream makes their profitability more sensitive to oil price changes than Shell.

When oil prices crashed between 2014 and 2016, Shell's profits were less affected and recovered quicker than BP. The oil price slump during this period had a very similar impact on revenues at both the companies, but the overall profit decline was much higher for BP at 261%, compared to Shell, which saw just an 85% decline.

During all the three years of rapid oil price fall in 2014 to 2016, BP's net profit fell at a much higher rate compared to Shell exposing its extreme sensitivity to oil price crashes. During the recovery, BP returned to profits recording a 101% growth in profits in 2016 with a 17.89% revenue decline while Shell's revenues declined at a lower rate of 11.84% and profit grew at a higher rate of 117%.

2021 Recent Figures

Recent figures from both the UK super majors have grabbed headlines as they both posted eye watering losses. Both companies are certainly counting the cost of the Covid-19 induced oil price collapse and massive write-offs as well as the drop in demand for oil and the longer reaching concern on how oil and the industry will recover and evolve.

The pair are also facing major challenges ahead as the industry starts to move away from fossil fuels in a global energy transition. One positive for the longer-term outlook is that oil itself has bounced back and is now trading around $50 a barrel, however this bounce back hasn't really translated into a bounce back in either Bp or Shell's share price. This highlights a couple of factors, there is a heavy dose of scepticism around the bounce back in oil prices and its sustainability and equally can both Bp & Shell really make the transition to clean fuel companies.

BP

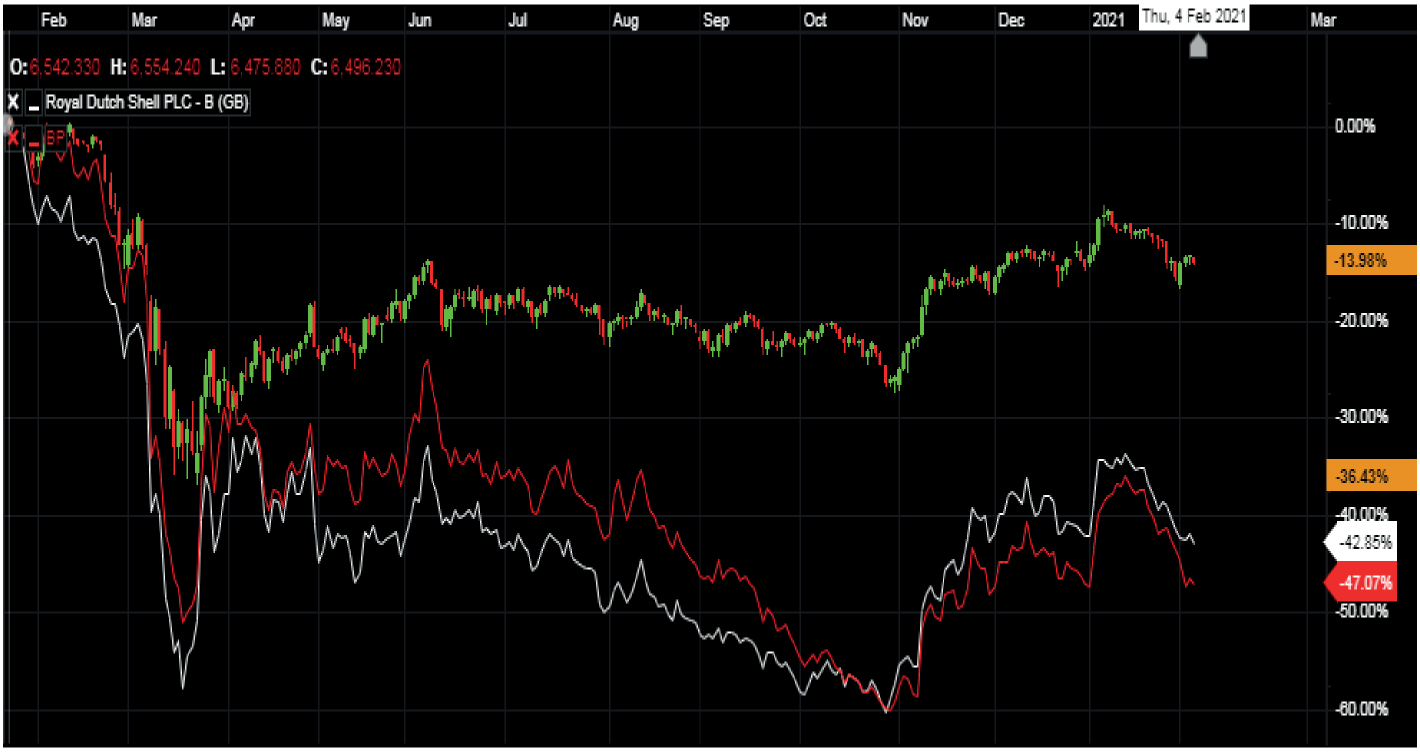
Bp's figures where a shocker for the market and the share price action on the day of the announcement goes to show how much of a shock it was, BP posted a full-year underlying loss of $5.7 billion. That compared with a net profit of $10 billion for the 2019 fiscal year just shows how deep the hit has been. This is the first loss for the firm in a decade and the biggest loss in its history. In response BP highlighted full-year results were driven by lower oil and gas prices, significant exploration write-offs, pressure on refining margins and depressed demand. It warned the ongoing coronavirus pandemic would continue to impact its performance. BP's figures showed the impact of 17.5 billion US dollars (£12.8 billion) in write-offs made in the summer after Brent crude oil prices plummeted during the crisis.

Royal Dutch Shell

Royal Dutch Shell posted a $21.7 billion US dollar full-year loss after hefty write downs, a world away from last year's profit of 15.8 billion US and comes after it was forced to slash the value of the oil in its fields last year as prices collapsed. Shell have been far more aggressive with cost cutting announcing in September plans to axe between 7,000 and 9,000 jobs worldwide as well as reducing dividends. However, Shell did give investors some pause for optimism as Chief executive Ben van Beurden said "We are coming out of 2020 with a stronger balance sheet, ready to accelerate our strategy and make the future of energy," , "We are committed to our progressive dividend policy and expect to grow our US dollar dividend per share by around 4% as of the first quarter 2021."

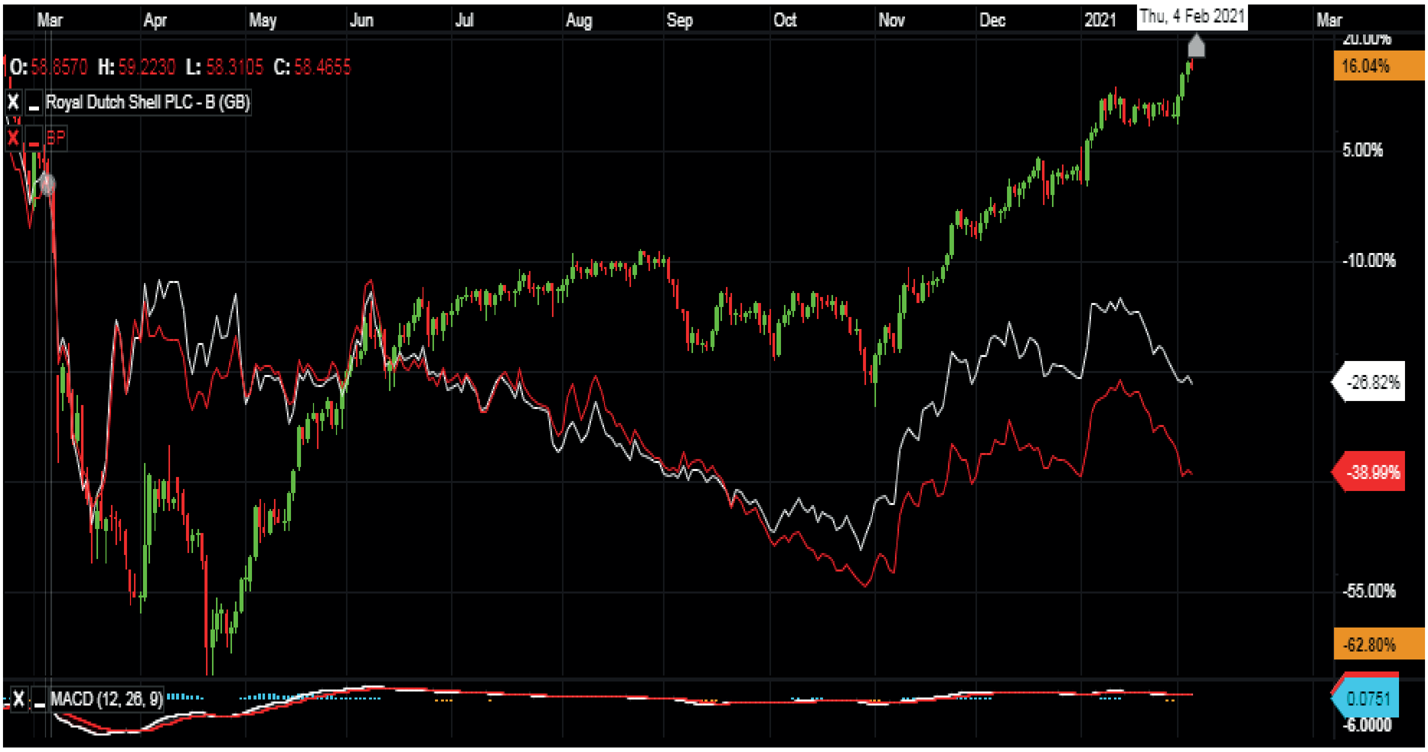
Share price Vs Index performance

By first looking at the share price of both in absolute terms, it is evident that both have underperformed the market since the start of the pandemic. That being said both shares continue to trade with a high degree of correlation as shown below. This highlights the markets overall view that despite the differences both trying to suggest that one is ultimately better than the other based on this year's performance is really splitting hairs and the reality is both have underperformed the broader index considerably.



This deviation was certainly more noticeable in the performance of the shares on the respective days of their announcements, providing a truer gauge of investor sentiment to the underlying performance of the businesses. BP shares dropped hard, whilst Shell shares held around flat.

Share Price Vs OIL Price



What is also interesting to note is that despite Oil prices bouncing back since the pandemic(shown above) both Bp and Shell's share price has not recovered in line. This highlights a couple of factors in the market, firstly that investors may well feel that the rally in oil is unsustainable and that there are long term concerns on how the pair will really transition to more eco friendly fuels.

Shell's Edge Over BP

Back in April 2020, Royal Dutch Shell cut its dividend by 66%, mostly to survive the pandemic. Importantly, the move has made it possible for the integrated energy major to lower annual dividend payments by a massive £7.7bn, thereby creating additional financial flexibility. The sizable manoeuvre helped Royal Dutch Shell maintain a more resilient stance to weak oil.

Shift to Renewables

With the considerable reduction of oil demand and associated fall in oil prices, the focus on renewables has increased for both BP and Shell. Both companies have strategies to increase the proportion of clean power they produce, and when assessing the relative value of each over the long term, this must be central to any valuation thesis. However, with revenue from renewables limited in both companies, the judgement of their low carbon activities falls to natural gas. In this respect, Shell has a far larger exposure to natural gas and would be judged to be ahead of BP in becoming a greener energy producer.

One of the biggest trends of the last 12 months has been the rise of EV's and EV stocks. Electric vehicle makers have seen waves of fresh investors over the past few years, with the likes of Tesla now having a market capitalisation of over £800bn. Major freight operators are increasingly planning for electric futures, with talk growing about electric powered container ships, trucks and even air freight in the coming years. California has announced that by 2035 all vehicles sold must be emission free, If California was a country it would be in the G7. It is quite clear then that both BP and Shell are selling a 20th century product, rather like tobacco. This undeniable fact has been another contributing factor to the under-performing share prices, and without a serious pivot from the firm it is hard to imagine how this long-term outlook will change. As a result, the oil majors now need to stop talking about the shift to renewables and make it happen. Otherwise the best outlook for the oil stocks is bargain hunting on the belief that the understandable selling pressure has been overdone. Due to the breakdown in the correlation between BP, Shell and Brent you can start to make this argument.

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