



ATLANTIC CAPITAL MARKETS



BP plc Vs Royal Dutch Shell Which one to buy right now

01872 229 000

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BP Plc

Ticker	BP.
Objective	Capital growth and income
Dividend Yield	6.71%

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.

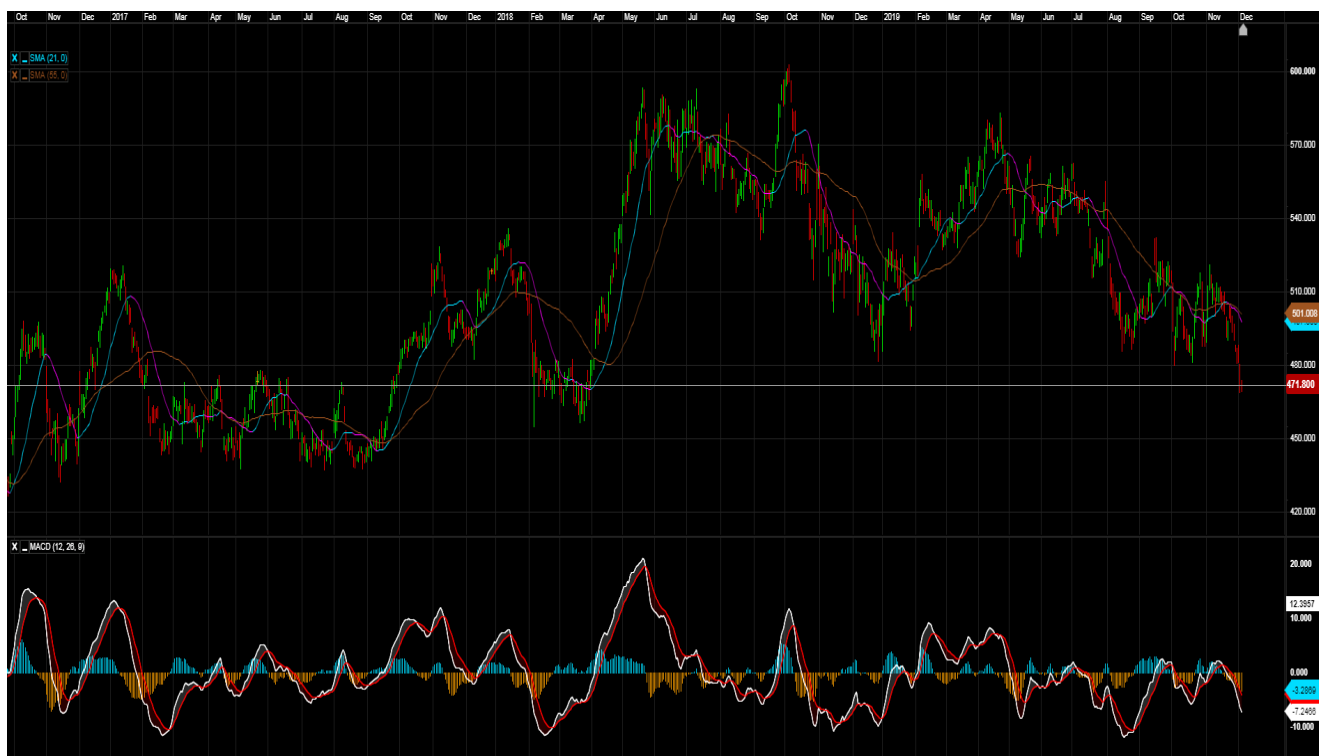
Positioning

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, produced around 3.7 million barrels per day (590,000 m³/d) of oil equivalent, and had total proven reserves of 19.945 billion barrels (3.1710×10⁹ m³) of oil equivalent. The company 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.

Key Fundamentals

Key Fundamentals	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Revenue (\$ m)	357783	225316	185474	243372	303282
Pre-Tax (\$ m)	4950	-9571	-2295	7180	16723
EPS	20.55¢	-35.39¢	0.61¢	17.20¢	46.98¢
PE	31.2	n/a	1027.55	40.4	13.51
PEG	-0.37	n/a	n/a	0.01	0.08
EPS Growth	-83.41%	n/a	n/a	2727.40%	173.14%
Dividend Cover	0.53	-0.88	0.02	0.43	1.16
Dividend Yield	6.08%	7.63%	6.38%	5.76%	6.38%

Chart



Royal Dutch Shell

Ticker	RDSa/RDSb.
Objective	Capital growth and income
Dividend Yield	6.76%

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.

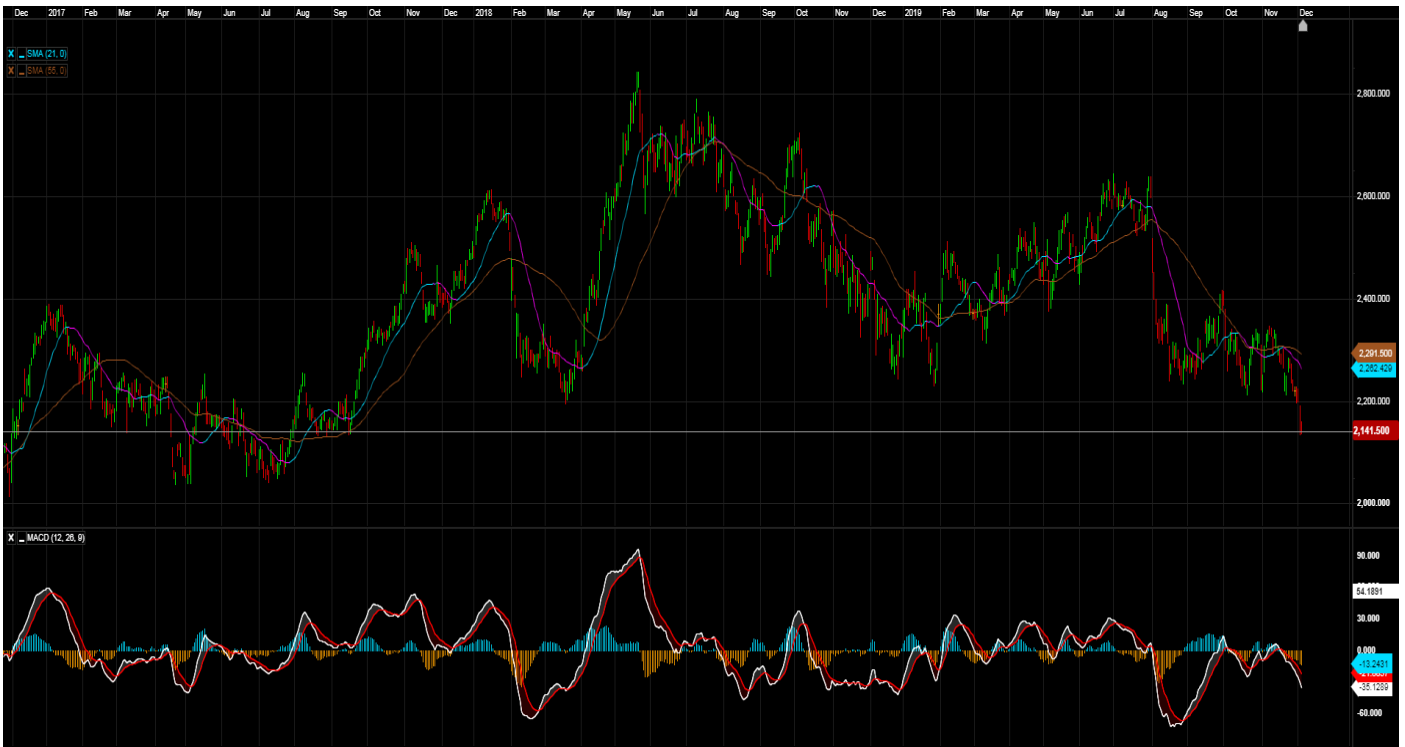
Positioning

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. It had a market capitalisation of £216bn. They are the largest of any company listed on the London Stock Exchange. It has secondary listings on Euronext Amsterdam and the New York Stock Exchange.

Key Fundamentals

Key Fundamentals	31-Dec-14	31-Dec-15	31-Dec-16	31-Dec-17	31-Dec-18
Revenue (\$ m)	431344	272156	240033	311870	396556
Pre-Tax (\$ m)	28314	2047	5606	18130	35621
EPS	236.00¢	31.00¢	58.00¢	158.00¢	282.00¢
PE	14.76	73.67	49.92	21.09	10.62
PEG	-1.6	-0.85	0.58	0.12	0.14
EPS Growth	-9.23%	-86.86%	86.59%	173.16%	78.48%
Dividend Cover	1.26	0.16	0.31	0.84	1.5
Dividend Yield	5.40%	8.23%	6.49%	5.64%	6.28%

Chart



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

Business Scale

Shell has consistently earned higher revenues than BP due to the larger scale of its operations. Over the last ten years, Shell's revenues were an average of 22.2% higher compared to BP.

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%.

Overall it is safe to say that BP's profitability is more sensitive to oil price crashes than Shell's.

Who has more oil and gas assets?

BP has more proved reserves compared to Shell and has been consistent in maintaining its reserve volumes over the last ten years. The average proven oil and gas reserves of BP over the last ten years are approximately 20% higher compared to Shell.

BP's proven reserves in 2018 were 72% higher than Shells.

BP also has a 100% reserves replacement ratio (RRR) in 2018, supported by project investments and revision of existing projects. The company has maintained an average RRR of more than 100% over the last three years. Shell has an RRR of 53% in 2018, attributed to divestment and the plan to reduce production from the Groningen field in the Netherlands. However, over the last three years the company has maintained an average RRR of 96%.

Dividend Masters

Both shares produce a steady and appealing dividend yield and are both really seen more as a dividend-generating stock by most shareholders and market participants, rather than shares primed for capital growth. If you are looking for the potential for larger capital gains in this sector, then there is an absolute plethora of micro caps. These companies do of course go hand in hand with the high risk associated in exploration.

Both BP and Shell are under pressure from investors to grow cash flows, reduce their debt and continue to return value to shareholders with rising dividends. Easy to say but perhaps harder to achieve when the price of your underlying commodity is under pressure. Oil prices will ultimately determine their ability to maintain dividends and whilst both companies are firm and robust the geopolitical backdrop for oil prices isn't.

Third Quarter Earnings - Shell and BP

Royal Dutch Shell and BP's earnings both fell in the third quarter. Although BP's profits fell 41%, which seems more aggressive than Shell's earnings which fell 15% analysts expected a steeper fall in both companies' earnings, so a lower-than-expected fall in the profits was a positive surprise for the market.

As always it is not the number posted that triggers the move, it is more how it compares to expectations – but that is something you will read more on in another trading strategies report.

So, both Shell and BP beat earnings estimate even though both posted a terrible number

- Shell's adjusted earnings fell 15% to \$4.9bn. Better than the 26% fall forecasted by analysts. With the adjusted EPS of \$1.18 beating the estimate of \$0.99.

- BP's adjusted earnings fell 41% to \$2.3bn. Again, better than analysts' forecasted fall of 48%. With the adjusted EPS of \$0.66, beating the estimate of \$0.59.

Another surprise for the market was the rise in the earnings in Shell's Integrated Gas and Downstream segments. Both divisions showed a rise of 17% YoY and 7% YoY respectively. This part of the business saw earnings rise despite the fall in oil, gas, and LNG. This was offset somewhat as Shell's upstream earnings fell 52% YoY in the quarter due to lower realizations.

BP's earnings fell across its business segments. The company's Upstream, Downstream, and Rosneft segments' adjusted EBIT fell 47%, 11%, and 8% YoY, respectively. However, the company's upstream volumes rose in the quarter.

Production: - Shell down V's BP up

- Shell's upstream production fell 0.9%,
- BP's upstream production rose 4.4%.

Shell's upstream production was 3.56 MMboed (million barrels of oil equivalent per day) in the third quarter. The global production fell due to natural declines, increased maintenance activities, asset sales, and weaker operational results. However, more production from assets in Trinidad and Tobago and Australia supported the total output.

BP's upstream production was 2.57 MMboed despite the disruptions caused by Hurricane Barry in the US Gulf of Mexico.

Summary

While both shares have some striking similarities, not only on the share price charts and dividend yields but also with the drop in earnings as well, even though Shell's earnings fell less than BP's both were in the red. Shell at least did show some profit increases in a few of its segments, despite harsh business conditions and a very poor oil price backdrop. At least Shell's increase shows the company's operational strength. Although Shell's upstream volumes fell marginally, they're still higher than BP's upstream volumes. The numbers show that Shell's upstream portfolio is strong. Overall the upside potential is similar, the yield is similar leaving only performance and resilience to oil price drops as the difference.

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