Deutsche Bank

22 Royal Dutch Shell – Lucas Herrmann, BUY, close 2561p, 2700p tgt, 5% upside

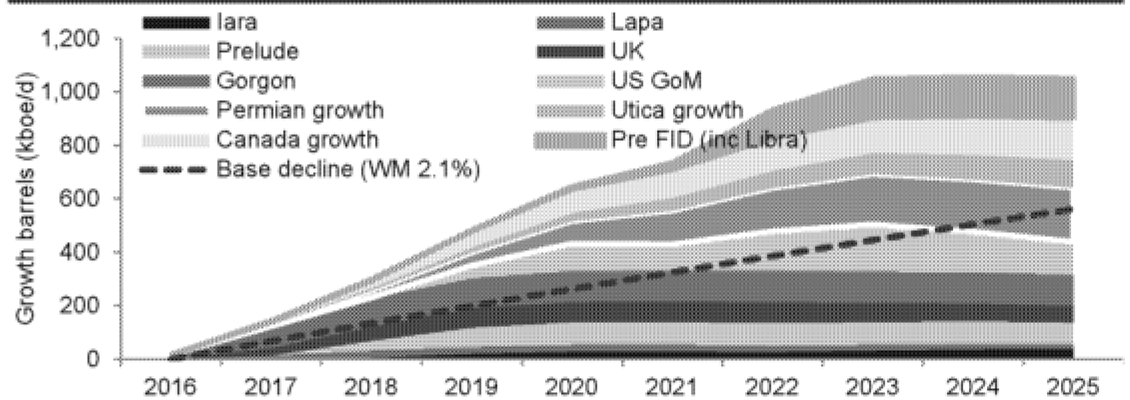
- **Best-in-class absolute cash generation** with $25-30bn FCF guided for 2020.
- **This drives substantial shareholder return.** Between the c6% dividend yield and c$25bn of buy-backs, Shell is **set to return c$70bn to shareholders over the next three years**. Moreover, the dilutive scrip dividend is gone, earlier than expected.
- **Strong optionality and deep resource base.** In addition to conventional sources, Shell has broad portfolio optionality.
  - The BG acquisition is firmly embedded, giving Shell an unsurpassed position in LNG
  - We expect strong volume growth in US Permian shale (towards 250kboe/d by late 2020s, with breakeven at c$45/bbl)
- Shell downstream FCF alone in 2017E is enough to cover almost half the dividend, at c$7bn.
- **Decline rates to 2025 are lowest in the sector** at c2%, in part from Deepwater's growth potential – most particularly Brazil.
- **Further restructuring potential** from divesting Shell's 'long tail' of largely mature territories in the upstream portfolio. This would simplify the business and improve R/P ratios.
- **Shell is attractively valued** at a 5.7% 18E dividend yield versus the 2.8% of its only true global peer, Exxon.
  - It trades on 14.4x 18E P/E, versus Exxon's 22.5x.

Related DB Research:

Royal Dutch Shell: Clear direction and purpose (Herrmann)

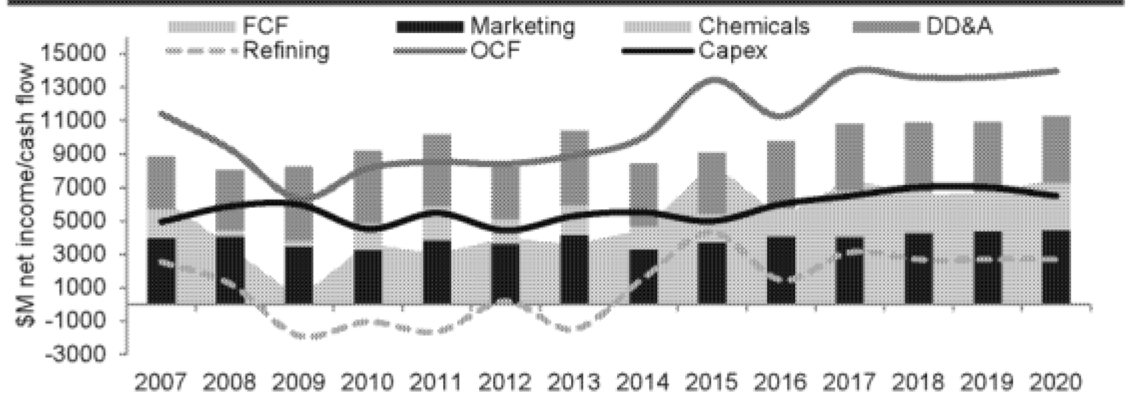
European Integrated Oils: 2018 Outlook cash jaws set to open (Herrmann)

Production outlook indicates substantial growth, driven by unconventional



Source: Deutsche Bank

Cash flow growth driven by more than just refining



Source: Deutsche Bank, Company data