Shell transitions well

Abdul Davids - Portfolio Manager

Founded in 1833 as a trading business, Shell began importing exotic seashells from Asia after founder, Marcus Samuel, identified a substantial demand from the interior design industry. Following his death in 1870, his sons expanded the business into oil trading. In 1892, Shell became the first company to trade and import oil via the Suez Canal using a fleet of steamboats. This reshaped the oil industry and revolutionised the transport of oil.

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Over the next century, the business transitioned into the world's largest oil and liquefied natural gas (LNG) trading company. We delve into the investment case for Shell and the influential role it has played in shaping the industry.

Shell's history

Bulk shipping substantially reduced the cost of oil due to the scale benefits of the larger volumes transported. The world's first oil tanker, the Murex, was used in the maiden voyage through the Suez Canal and was one of Shell's most prized assets. At this time, Shell's primary competitor was Standard Oil (now known as Exxon), a company founded in 1865 by John D Rockefeller. Exxon is famous for the blue cans of kerosene that, when empty, could be used for anything from roofing to bed pans.

To differentiate their product from Standard Oil, Shell painted their cans bright red, marking the inception of their brand identity. This simple yet innovative early branding strategy was highly effective and, by 1896, Shell's kerosene trade was earning more than its other trading businesses combined. In 1897, the business changed its name to Shell Transport and Trading and, shortly thereafter, won the transport and distribution rights from Standard Oil.

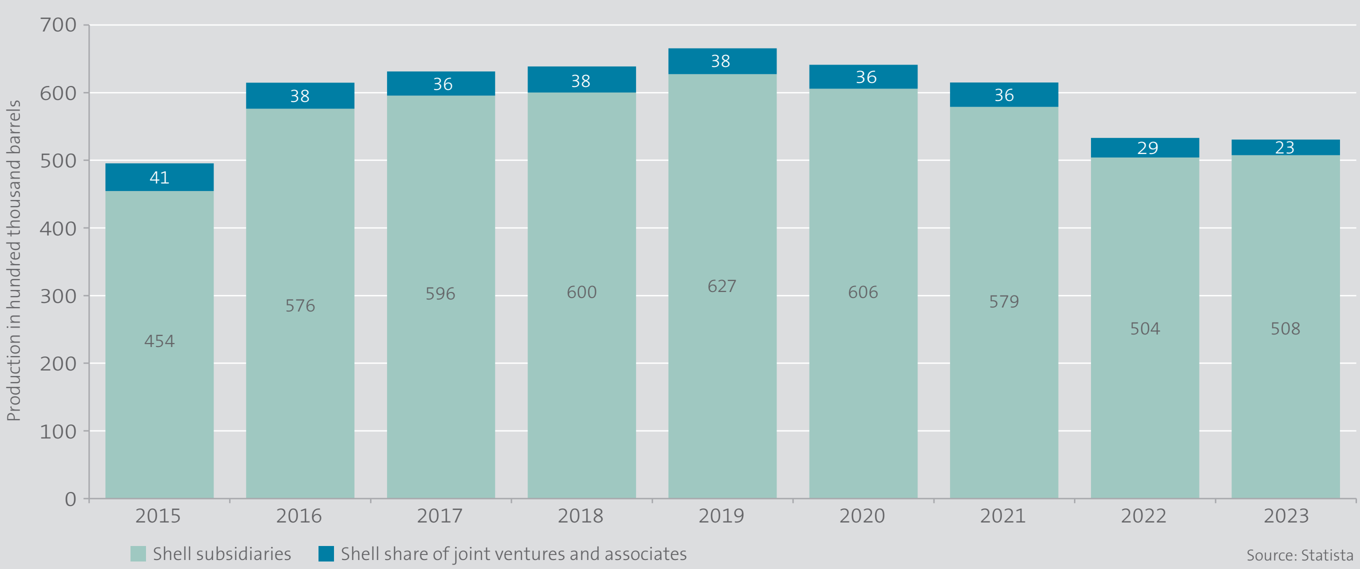
By 1902, however, half of Shell's shipping fleet was idle and underutilised, while a smaller competitor, Royal Dutch, had begun operating its own fleet of tankers. Shell Transport and Trading merged with Royal Dutch to form the Royal Dutch Shell Group, by which stage the shortened name of 'Shell' had been adopted. During both World Wars, Shell availed its ships to the British army and was their main fuel supplier. The recent renaming of the business to Shell Plc was prompted by the relocation of its head office from The Hague to London in 2021.

Pioneering new markets

The 20th century was a period of rapid expansion and diversification for Shell, characterised by venturing into and creating new domains within the energy landscape. The discovery of oil fields in regions such as the Middle East and Africa powered the company's ascent to the forefront of the oil and gas industry. Strategic acquisitions and partnerships further bolstered its positioning, cementing it as a formidable force in the global energy market.

Alongside its exploration and production activities, Shell also made significant strides in refining its operations to meet evolving consumer needs. The company's commitment to steering industry advancement through technological innovation is evident in their pioneering of the production

Shell's oil and LNG production



Source: Statista

of fuels and lubricants that have enhanced efficiency and performance across various use cases - from automotive to aviation.

Shell's portfolio unpacked

Today, Shell is a global group of energy and petrochemical companies with over 100 000 employees and operations in more than 70 countries. It operates through a diversified and integrated portfolio, structured into its core business segments: Upstream, Integrated Gas, Downstream, and Renewables and Energy Solutions (R&ES).

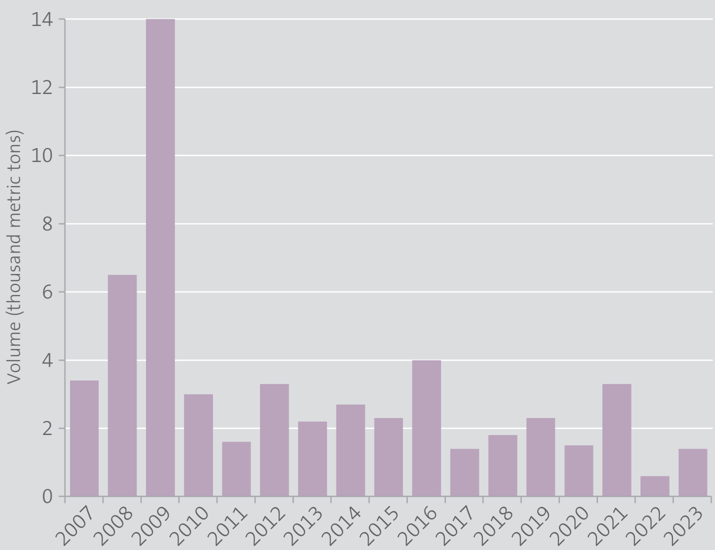
Upstream: This segment focuses on the exploration for, extraction of and production of hydrocarbons - primarily oil and natural gas. Operations span the globe, from traditional oil-rich regions like the Middle East and North America to newer frontiers in deep water and unconventional resources. Shell's leadership role in developing new ways to explore, extract and process hydrocarbons has bolstered the company's resilience and adaptability in the face of geopolitical tensions, the ongoing oil crises and shifting environmental paradigms. In 2023, Shell produced and sold over 500 million barrels of oil and its equivalents, solidifying its position as one of the top five integrated oil producers globally, as indicated in the *chart on the previous page*.

Despite the global shift towards renewable energy, the Upstream segment remains a significant contributor to Shell's revenue, reinforcing its financial stability and capacity for investment into sustainable energy solutions.

Integrated Gas: This segment incorporates the liquefaction and transportation of gas, transforming it into LNG for safer and more efficient global transportation. It also plays a crucial role in the movement towards cleaner energy sources, given the lower carbon footprint of natural gas compared to coal and oil. Shell pioneered the large-scale commercialisation of gas to liquids (GTL) technology and currently operates the world's largest GTL plants that convert natural gas to liquid petroleum products. Shell is one of the world's largest natural gas producers and has a substantial presence in the LNG market, producing around 30 million tons of LNG annually.

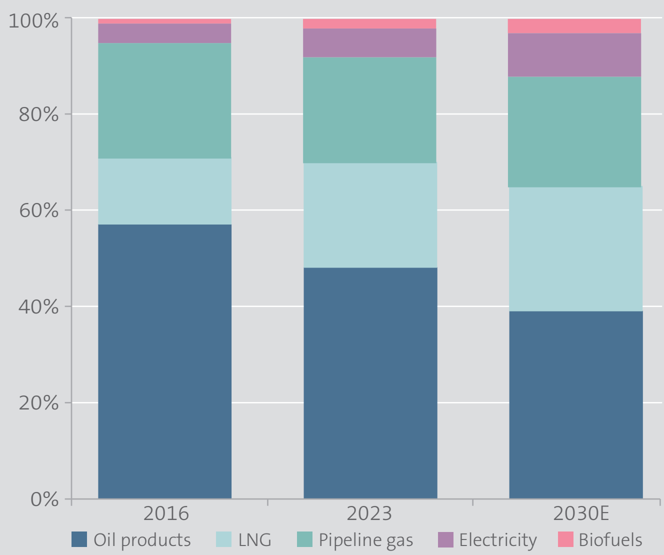
Downstream: This segment involves refining, distribution and marketing activities for oil products and chemicals, including Shell's extensive global network of service stations, its petrochemical manufacturing and marketing operations, and activities in biofuels and hydrogen. Downstream generates consistent cash flows and integrates Shell's value chain from production to consumer sales.

Volume of Shell's operational spills



Source: Shell reports, Statista

Estimated share of Shell energy sales



Source: Shell presentation

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Renewables and Energy Solutions: This segment plays a pivotal role in Shell's long-term strategy, aiming to transform the energy landscape and lead the industry in low-carbon energy solutions. Investment into renewable energy projects (biofuels, wind and solar, electric charging networks and new energy technologies) has highlighted Shells commitment to mitigating greenhouse gas emissions, supporting the transition towards a low-carbon future.

Furthermore, the company's initiatives to promote energy efficiency and reduce its own carbon footprint signalled a paradigm shift in its approach to business operations. In recent years, it has intensified efforts to align the business strategy with the goals of the Paris Agreement, pledging to achieve net-zero emissions by 2050. The aim is to halve emissions from its operations by 2030, with over 60% already achieved at the end of 2023.

Environmental impact - a slippery slope

Drilling for oil and gas and the burning of fossil fuels to produce energy have a significantly negative impact on the environment. The reputations of oil companies are tarnished by high profile oil spills from drilling operations and transportation. Oil spills resulting from Shell's drilling operations have, however, seen a decline over the last 15 years (*previous page left*).

Operational oil spills reached a high in 2008, when Shell was responsible for spills amounting to 8.8 thousand metric tons after the Trans-Niger pipeline (owned by Shell Nigeria) leaked, spilling oil into the Niger Delta. Shell reached a settlement of $84 million with the local community and cleaned up the spill.

Climate change mitigation

Shell's greatest challenge of the 21st century is addressing sustainability and adopting what is needed to mitigate the environmental impact of what it produces. The energy sector has a key role in shaping the planet's future.

Shell has embarked on a transformative journey towards a more sustainable energy portfolio and committed to investing $10-15 billion in low-carbon energy solutions between 2023 and 2025. With LNG being a cleaner fuel source than oil, Shell started transitioning (2016) from an oil-dominant sales mix to favouring LNG. As illustrated on the *previous page (right)*, by 2030, LNG is expected to account for over a quarter of Shell's energy sales.

A well-managed transition

On the path to becoming a zero-emissions business, Shell's transition efforts have positioned it as leader among the larger oil companies - focusing on best practice to reduce negative environmental impact. Unlike some of its competitors, Shell has not embarked on extensive investment into renewable energy (where it has no competitive advantage) organically or by acquisition. Shell has rather focused on reducing cost and capital expenditure budgets in favour of reducing future production and generating greater cash flows. Shell expects to grow cash flow by more than 10% over the next few years and distribute between 30% to 40% to shareholders. We see Shell's well-managed transition as profitable and not fully reflected in its share price and our clients are therefore invested. UP

Camissa Asset Management (Pty) Limited

Fifth Floor MontClare Place
Cnr Campground and Main Roads
Claremont 7708

PO Box 1016 Cape Town 8000

Tel +27 21 673 6300 Fax +27 86 675 8501

Email info@camissa-am.com

Website www.camissa-am.com

Footnote: [1]Annualised (ie the average annual return over the given time period); [2]TER (total expense ratio) = % of average NAV of portfolio incurred as charges, levies and fees in the management of the portfolio for the rolling three-year period to 31 March 2024; # over 12 months to 31 March 2024.[3]Transaction costs (TC) are unavoidable costs incurred in administering the financial products offered by Camissa Collective Investments and impact financial product returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of financial product, the investment decisions of the investment manager and the TER. This is also calculated on the rolling three-year period to 31 March 2024; # over 12 months to 31 March 2024.[4]Source: Morningstar; net of all costs incurred within the fund and measured using NAV prices with income distributions reinvested; [5]Source: Camissa Asset Management; gross of management fees; [6]Median return of Alexander Forbes SA Manager Watch: BIV Survey; [7]Median return of Alexander Forbes Global Large Manager Watch.