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Shell back in the black as BG takeover boosts production

Shell chief executive Ben van Beurden CREDIT: JASON ALDEN

By Emily Gosden, energy editor
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Royal Dutch Shell has cheered investors with a $1.4bn (£1.1bn) profit for the third quarter, as the takeover of BG Group boosted production and it rebounded from a massive $6.1bn loss caused by writedowns in the same period last year.

Underlying profits at the Anglo-Dutch energy giant - excluding reduced writedowns of $1.3bn - rose by 18pc to $2.8bn, significantly beating analyst expectations, as the extra production and cost-cutting helped offset the impact of lower oil prices.

Shares rose almost 4pc as chief executive Ben van Beurden credited "strong operational and cost performance".

But he warned that "lower oil prices continue to be a significant challenge across the business, and the outlook remains uncertain".

Simon Henry, Shell's chief financial officer, said lower oil and gas prices had reduced its earnings by about $1bn year on year. Despite this, the upstream exploration and production division posted a small $4m profit, confounding expectations of a loss.

Production was up 25pc to 3.6m barrels of oil per day, including an extra 800,000 barrels per day from former BG assets.

"Operating expenses were lower, more than offsetting the impact of the consolidation of BG," Shell said.

Mr Henry said the "most impressive performance" in cost reduction had been in the North Sea, a traditionally high-cost basin, where Shell has made 1,000 job cuts. Production costs had come down by as much as 50pc, he said.

While it was clearly "not the most profitable asset in the portfolio", excluding major ongoing investments the rest of the North Sea was "cash positive".

"The North Sea's performance is beginning to look considerably better than it was. That however does not mean we hold onto all the assets," he said.

Shell is looking to offload some of its ageing North Sea assets as part of its target to divest $30bn by the end of 2018 to help pay off the debts of the BG takeover. "The question is can we get value for that asset?," he said.

Shell said it was currently working on 16 asset sales across its portfolio but that it was a "value-driven not a time-driven divestment programme".

"We are not planning for asset sales at giveaway prices," he said. However, he insisted there was "no reason today to think the $30bn figure will not be achieved".

Shell also indicated that capital expenditure next year would be at the lower-end of the $25-30bn range.

Analysts at Barclays said strong cashflow, combined with the reduced operating and capital expenditure and divestments, "should prove enough to reassure investors that Shell is well on its way to resetting the business post the BG deal".