

Shell Dives With Scaled Down Buyback Program a Key Concern (1)
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By Filipe Pacheco

(Bloomberg) -- Royal Dutch Shell shares tumble to a 2 1/2-year low after the oil major says it plans to scale back its stock repurchase program and reports 4Q adjusted net income below the average estimate.

* Shell's A shares in London fall as much as 4.5% to 2,034.5p in London, the lowest since July 2017

* Jefferies (buy, PT 2,780p) says the reduction of Shell's buyback program is the main focus

** While the company still intends to complete the \$25b program, "reducing gearing to 25% this year is a higher priority," analysts Jason Gammel and Daniela Almeida write in a note

** 2020 cash capex is seen as being toward the low end of the previous \$24-29b guidance range

* Morgan Stanley (equal-weight, PT 2,270p) says 4Q results should trigger "a negative response," as both earnings and cash flow were lower than consensus expectations and gearing increased on a quarterly basis

** Analysts Martijn Rats and Sasikanth Chilukuru say that while integrated gas was largely hit by lower trading profits, margins within chemicals appear to have been hit more than expected by the weaker macro

** Oil products and upstream seen benefiting from strong marketing results and higher production volumes, respectively

* RBC (sector perform, PT 2,600p) says the decision to reduce the quarterly run rate for its buyback to \$1b from \$2.75b into 2020 was largely factored into the stock's recent performance and the new rate "looks well covered,"

** Given gearing is 29%, analyst Biraj Borkhataria says that "Shell is right to be more cautious"

** Weaker chemicals seen as a key driver of the slight miss to earnings expectations, as well as a weaker integrated gas result

** Highlights that Shell cited an "OK quarter" for LNG trading, which comes after a "very strong" 3Q

* Stock trims decrease to 3.2% as of 9:55am local time

** B shares slide 2.9%, Amsterdam-listed stock down 3.4%

* NOTE: The STOXX Europe 600 Oil & Gas index retreats 2%, with Shell the biggest drag on the sector

--With assistance from Lisa Pham and Sam Unsted.

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