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Shell: pumping cash

Shell used to be the drama queen among the oil majors. Remember the 2004 reserves scandal? Then BP picked up the mantle. Now, Europe's biggest oil and gas group by market value has become exceptionally and predictably profitable. Shell's third-quarter results on Thursday continued this pattern: earnings per share roughly doubling from a year earlier. Its share price is trading at just under its all-time high of May 2011. Given the stability of its earnings and the fact that huge capital investments are paying off nicely, that looks justified.

The biggest pay-off for Shell is in Qatar, where its gas-to-liquids facility should reach full production during 2012. But its North American gas exposure is also crucial to its future plans: by next year, over 50 per cent of Shell's daily production – targeted at 3.5m barrels of oil equivalent – will be from gas. That makes the company the biggest play on the gas market among the supermajors, with ExxonMobil (which also released colossal results on Thursday) its closest rival. Shell predicts that gas demand will continue to grow strongly – which it will have to if the huge investments made in the gas business are really to pay off

The question for chief executive Peter Voser is what to do with all the cash it is now generating. Shell had $42bn of operating cash flow in the past 12 months, $12bn of it in the third quarter. About 75 per cent is reinvested in the business – there are 20 new upstream projects planned up to 2014 – and a higher dividend pay-out may come from next year. It has shrunk its gearing to 11 per cent, from 19 per cent a year ago, and has sold $6bn of non-core assets so far this year. Shell's quarterly results show the value of long-term investment. Maintaining the earnings momentum is the challenge. That will require either another investment splurge, or an acquisition, to keep it