Wish You Were Here - A Comparative Assessment of Shell Refineries Offered For Sale

Stratas Advisors

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Shell just announced its plans to divest several refineries around the world, as part of its overall long-term plan to focus more on renewable fuels. One of Shell’s key criterion for selecting refineries to maintain as part of its portfolio of refineries appears to be related to the level of integration a specific refinery has with the petrochemical industry.

The seven refineries listed for sale add up to 1.240 million b/d in total, although the specific capacity that represents Shell’s total stake is 778 thousand b/d. Out of the seven refineries for sale, Shell owns four of them in their entirety (530 thousand b/d), whereas the other three are joint ventures.

Shell’s announcement involves a total refining capacity of 608 thousand b/d in Europe, 462 thousand b/d in the US, and the remaining 170 thousand b/d located in Africa.
When considering Shell’s actual share, the greatest impact is in the US, then Europe and Africa.

Relative Competitive Position
We flesh out here some of the important attributes pertaining to the refineries under consideration, by leveraging Stratas Advisor’s Refining Competitive Tool (included in our Global Refining & Products service), which generates a Refining Competitiveness Score for each refinery that entails various elements, including the following:

- Refinery configuration
- Alignment with current specifications
- Location and supporting logistics
- Access to local markets
- Access to export markets
- Integration with other assets
- Financial strength
The Refining Competitiveness Score provides a much more accurate view of the relative competitiveness of a refinery than a single indicator, such as the Nelson Index.

Each of the Shell refineries planned for divestment is plotted on the following chart.

The largest refinery for sale is Miro (located in Germany) with 310 thousand b/d of CDU capacity. Besides its above average scale, this refinery is relatively complex (Nelson Index of 8.2), which is not a common configuration seen in the European market. However, this refinery only has a Refinery Competitiveness Score of 6.2, which is less than all but one of the other refineries. A significant reason for Miro being added to the divestment list might be related to its location (inland), which adds costs versus peers that are closer to port supplies or trading. Also, this refinery lacks integration with petrochemical complexes in the region.

The smallest refinery on the list is located in Denmark (Fredericia), which happens to be also the refinery with the lowest complexity index (a hydroskimming configuration). It is also the weakest refinery in this portfolio of seven refineries, in terms of Refinery Competitiveness Score, since it lacks economies of scale, complexity, integration, is poorly aligned with clean product specifications, among other weaknesses.
What does this mean for markets in the short-term?

The announcement arrives at one of the most difficult times for the refining sector, with much uncertainty associated with short-term demand, coupled with a shifting view on the role of hydrocarbons in the long term. Obviously, this translates into a bearish environment for divesting refineries.

Some of these refineries, however, could be of interest to other market participants, and could represent a good investment opportunity – especially if potential buyers can leverage their bargaining power. At this point, it is unclear when and if Shell has a threshold after which it will move to shut down refineries in the case of no interested party. At some point, however, there will be increased pressure on Shell to remove these assets from its portfolio.

If some of these refineries are shut down, the reduction in refinery capacity will result in lower clean fuel supplies in the Atlantic Basin, which would underpin gasoline and diesel prices and would help improve refinery runs for the surviving refineries in this region.

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