Shell shuts down refining to convert into world-class import terminal

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As a tough yet strategic choice to sustain its downstream oil market operations and to withstand the disruptive impact of the coronavirus pandemic, Pilipinas Shell Petroleum Corporation has decided this week to permanently shut down its refining operations in the country — that's after 58 long years of business presence.

The Shell Tabangao refinery that will be converted into world-class import terminal

The subsequent business transformation it is undertaking is converting its Tabangao refinery “into a world-class full import terminal to optimize its asset portfolio and enhance its cost and supply chain competitiveness.” The Tabangao oil refinery was constructed in 1960; and had been a critical component of Shell’s more than 100 years of operations in the Philippines.

The company has yet to reveal the handling capacity of its reconfigured import terminal, but it is seen to be comparable with its North Mindanao Import Facility (NMIF) in Misamis Oriental, a facility that has been catering mainly to the fuel needs of Visayas and Mindanao.

Shell Philippines President and CEO Cesar G. Romero qualified that the company “has the technical capability and flexibility to manage and adapt to disruptive conditions,” but given the financial whip it had been racked with due to the health crisis, it is time for it to confront the inevitable when it comes to its refinery operations.

“Due to the impact of the Covid-19 pandemic on the global, regional and local economies, and the oil supply-demand imbalance in the region, it is no longer viable for us to run the refinery,” Romero explained.

Pilipinas Shell, which is a local subsidiary of multinational energy giant Royal Dutch Shell, had been pained with P5.5 billion net loss in the first quarter of this year – and had widened to P6.7 billion in the entire first half, chiefly due to inventory losses. In the second quarter in particular, it was able to tame its losses to P1.2 billion, a significant leap from its financial performance in the initial months as crude oil and product prices somehow improved slightly and had started stabilizing in the world market.

The company stated it is “making strategic choices to secure the long-term sustainability of its business and thrive in both the ongoing energy transition and the new normal created by the Covid-19 pandemic.”

Operational resilience

On the upside, Pilipinas Shell expounded “the shift in supply chain strategy from manufacturing to full import terminal is a move that will further strengthen Pilipinas Shell’s financial resilience amidst the significant changes in the global refining industry and the change to the new normal brought about by the Covid-19 pandemic.”

It added this recasting in business model and market design will also prepare the company "for a future that will rely on more and cleaner energy solutions."

Romero stressed "we are committed to make the right sustainable decisions now to protect our shareholders for the long-term."

Pilipinas Shell first suspended its refinery operations on May 24 this year, albeit that was intended to be temporary then. And while it considered such a "tough decision" at that time, it was manifestly a precursor event to the final reckoning to ultimately cease its oil refining venture.

In that initial shutdown period, Romero narrated that "Pilipinas Shell has been consistently supplying quality fuels to its customers and the motoring public," emphasizing that "the company's access to the Shell global trading network ensures a continuous and reliable source of quality fuel products."

In the portended change of supply sourcing and market approach, Pilipinas Shell assured that its Tabangao facility "will continue to cater to the fuel needs of Luzon and Northern Visayas, while its North Mindanao Import Facility in Cagayan de Oro will serve the growing energy needs in the balance of the Visayas islands and the whole Mindanao region."

Strong balance sheet

Romero conveyed that while the pandemic "has definitely posed some challenges, we have a strong balance sheet, retained earnings and a reasonable gearing of 40-percent," and with that, he emphasized that the overarching goal of the company is "to maintain financial resilience."

By far, he noted the company has been gaining traction on its cash preservation efforts to deliver sustainable cash flow – with it already logging P1.3 billion in savings (P800 million from operating expenditures and P500 million from capital expenditures), and that has been inching it closer to the P2.0 billion savings target for the year.

"Pilipinas Shell has been here for more than 100 years and we're here for the long haul. We are with you in life journeys," the company chief executive asserted.

And while the oil firm had already posted volume and earnings recovery in the months of May and June, it specified that it still takes very calculated approach on its operations given the rising cases of Covid-19 infections in the country; which then prompted the government to re-declare modified enhanced community quarantine (MECQ) or stricter lockdown for two weeks (August 4-18) this August.

As culled from Department of Energy (DOE) data, demand for petroleum products in the country had plummeted by 20 to 30-percent in March; and further crashed to 60 to 70-percent in April because of the enhanced community quarantine (ECQ) enforcement that stringently restricted people's movement and had also placed the Philippine economy virtually on a halt.

Pilipinas Shell said such scale of demand plunge reflected in the firm's financial outcome; hence, the disquieting P6.7 billion loss from January to June this year vis-à-vis a net income of P3.7 billion in the same period last year.

Conspicuously, the oil firm was thumped by inventory losses reaching P5.8 billion in the first half, as the price of crude oil crash-dived into the level of US$20 per barrel in April versus a heftier base of US$67 per barrel at end-December 2019.

Across segments, the non-fuel retailing business unit of the company pitched in 13-percent in gross margin, and this was underpinned by the partnerships it firmed up with delivery companies, primarily in the transport of non-fuels retail products to selected parts of the country. This is complemented by five new Shell Select shops opened within the period, as well as the 11 Shell Helix Oil Change (SHOC)+ and 14 co-locators that were reopened. Its aviation fuel took the beating with 43-percent decline in sales volume; as well as its bitumen domestic volume which had been down by 62-percent compared to last year. To date, Pilipinas Shell's retail network comprises of 1,129 stations nationwide.

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