



North America
United States
Industrials
Integrated Oil

Industry
US Integrated Oils

Date
31 May 2015

FITT Research

The "Other" 40 Million Barrels a Day and the Call on US Crude Growth

The Coming Highs & Lows of Non-OPEC Production (and what it means for US) While significant attention has been dedicated to the analysis of the US supply dynamics over past 6 months, we turn our attention to the less-well understood 40 MMb/d of global crude production (ex-OPEC, ex-US onshore, ex-NGLs), and the outlook for the coming 2-5 years. Key takeaways: 1) Don't expect a major roll-over in Non-OPEC supply through 2017, 2) we still see a call on US onshore growth of 500 Mb/d in 2017 with 2H16 ramp 3) we likely need \$65-\$70/bbl oil to incentivize and support this growth, 4) post-2017, Non-OPEC shortages to drive rapidly escalating call on US crude and price inflation.

Waiting for the Non-OPEC collapse? Don't hold your breath

Despite significant capital cuts (20% across our global coverage), and fears of massive Non-OPEC declines, our analysis suggests greater than expected resilience in global Non-OPEC production through 2017, as a slug of major projects works its way through the system. Between 2015 and 2017, we estimate annual, major project-driven growth barrels of 1380 Mb/d, vs. the historical rate of 970 Mb/d between 2004-2013, supporting annual Non-OPEC supply growth of 150-200 Mb/d through 2017.

But, there is a call on US onshore oil growth – the new swing producer

Even with moderate growth in Non-OPEC production, solid global crude demand will still result in a call on US onshore production growth, although not likely until 2H16 (+350 Mb/d by 4Q16), rising to ~500+ Mb/d in 2017. With current activity levels resulting in slightly declining US onshore production in 2H15, we see the need for increasing activity into late 2015/early 2016 to meet a rising call on US crude into 2H16. OPEC production, however, remains a looming risk, where current elevated levels of production (May 2015 estimated 31.6 MMb/d vs. our assumed 30.5 MMb/d target), a lifting of sanctions in Iran, or Saudi strategy could push the US call further into 2017.

\$55/bbl oil isn't going to suffice

Single well economics aside, corporate level cash flow suggests higher price is necessary to incentivize sufficient activity. We estimate an average oil price of \$70/bbl to support moderated volume growth (ie. 35%-40% of pre-collapse peak rate) within producer cash flows. This falls to \$60/bbl breakeven when spending 120% of cash flow. In other words, we will need a higher price than where we are today to make the US onshore "machine" work.

Post-2017? Hold on to your hat...

By late 2017, rising declines and deferred FIDs will drive a rapidly escalating call on US supply. Major oil project FIDs fell to 6 in 2014, the lowest level in 15 years, well below the average of 23/yr since 2000, with 2015 likely to be even lower. With an average of 1.2 MMb/d of capacity sanctioned a year over the past 10 years, the hole left by deferrals will be difficult to address, sending the call on US crude growth north of 1,000 Mb/d/yr by late this decade.

Thriving in moderation – Stocks to own; Upgrade OXY to Buy; Cut HES to Hold Given the relatively cautious medium-term oil price outlook, our preference remains largely for names whose combination of asset quality and balance sheet allow them to support moderate, capital efficient growth within a moderate oil price environment. We upgrade OXY to BUY and downgrade HES to HOLD. Other preferred names include MRO, DVN, EOG.

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Key Changes

Company	Target Price	Rating
CVX.N	120.00 to 125.00(USD)	-
HES.N	90.00 to 75.00(USD)	Buy to Hold
MRO.N	37.00 to 35.00(USD)	-
MUR.N	51.00 to 46.00(USD)	-
OXY.N	81.00 to 90.00(USD)	Hold to Buy
XOM.N	91.00 to 89.00(USD)	-
DVN.N	70.00 to 81.00(USD)	-
APA.N	69.00 to 60.00(USD)	-
APC.N	96.00 to 100.00(USD)	-
PXD.N	182.00 to 175.00(USD)	-
NBL.N	56.00 to 52.00(USD)	-

Source: Deutsche Bank

Top picks

Marathon Oil (MRO.N),USD27.19	Buy
Devon Energy (DVN.N),USD65.22	Buy
Occidental Petroleum (OXY.N),USD78.19	Buy
EOG Resources (EOG.N),USD88.69	Buy

Source: Deutsche Bank

Companies Featured

Chevron (CVX.N),USD103.00	Buy
ConocoPhillips (COP.N),USD63.68	Buy
Hess Corporation (HES.N),USD67.52	Hold
Marathon Oil (MRO.N),USD27.19	Buy
Murphy Oil (MUR.N),USD43.46	Hold
Occidental Petroleum (OXY.N),USD78.19	Buy
ExxonMobil (XOM.N),USD85.20	Hold

Source: Deutsche Bank

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