Updated Equities Outlook

Getting a Bit Defensive

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 (additional color within). Other preferred names include MRO, DVN, EOG.

Figure 47: Key metrics for the group

	4Q15E Annualized spend	4Q15E Annualized spend	Net Debt/TC	Div Yield	FCF Yield		EV/DACF				Liquids Leverage
	($mm)	(% of mkt cap)	2016E	(Curr)	2015E	2016E	2016E	2017E	CF/DAS (2015-2017)	Prod'n growth ('13/'15 CAGR)	(Global Oil + US NGLs)
APA	160	-0.7%	20%	1.6%	-5.7%	-0.7%	5.5x	5.0x	19%	2%	66%
APC	(922)	1%	30%	1.2%	-4.4%	-0.9%	8.1x	6.3x	28%	2%	52%
COP	(1,840)	2.3%	31%	4.5%	-6.6%	-1.3%	7.0x	5.8x	30%	3%	57%
DVN	248	-1%	34%	1.4%	-1.2%	-1.8%	6.8x	5.5x	28%	3%	62%
EOG	(368)	1%	25%	0.7%	-3.1%	-1.0%	9.8x	7.6x	41%	7%	66%
HES	(958)	5.2%	23%	1.4%	-10.0%	-2.8%	6.6x	5.6x	27%	3%	72%
MRO	(487)	2.6%	23%	3.0%	-7.8%	-0.6%	6.6x	5.5x	35%	6%	69%
MUR	(886)	11.5%	26%	3.2%	-11.9%	-9.6%	5.4x	4.8x	21%	2%	60%
NBL	(189)	1%	34%	1.6%	-7.9%	-3.3%	8.3x	7.1x	30%	15%	46%
OXY	114	-0.2%	7%	3.9%	-2.3%	1.8%	7.1x	6.3x	30%	3%	72%
PXD	(59)	0%	15%	0.1%	-1.0%	-1.5%	13.8x	10.2x	45%	11%	73%

Source: Deutsche Bank

We provide two scorecards (Figure 48) for the two types of investors – ones favoring a relatively defensive positioning (which we favor) and ones playing an oil price bounce. Although several key investment attributes, such as select qualitative drivers (e.g. near-term catalysts), NAV-based valuations, etc fall outside of the scope of this exercise, we use the scorecards to help frame our view on stock-specific calls.

When stacking up the names by focusing mostly on key metrics for a defensive positioning – 4Q15 annualized outspend (% of market cap), net debt/total cap, div yield, FCF yield, EV/DACF multiple, CF/DAS growth, and liquids leverage (the lower the better) – we find that OXY, MRO, APA, COP and DVN round out the top five. Interestingly, we find that MRO and OXY both stack up well (1st and 5th, respectively) in the "oil bounce" scorecard, one in which four key metrics are taking into consideration – EV/DACF multiple, headline production growth CAGR (2015-2017), CF/DAS growth (2015-2017) and liquids leverage (the higher the better).