



underperformance – QEP and SN have been impacted by some weak well results (and some weather) while LPI has seen a significant inflation in capex budget with minimal impact on production. For one oily player, CRZO, the guidance is largely unchanged from start of the year. Moving to the gassy names, the performance is mildly negative – RRC’s current production guidance is 3% below original target while GPOR’s capex budget is up 10% (minimal production uplift). Only AR outperforms marginally (+3% increase in production for 3% capex increase).

Looking at performance by quality categories, we see a broad-based outperformance among both Higher Quality and Lower Quality Oily names. The High Quality Oily credits have demonstrated solid operating momentum (6-14% increase in growth targets). While this reflects the top quality of their core assets, this is already factored in. We see the outperformance of the Low Quality Oily group as more impactful given relative credit upside - all names have lowered their capex (by 4-16%) while maintaining or increasing production guidance (except SN, the sole underperformer in the group). Along with this, some of these companies have also brought down their opex cost structure meaningfully (EPE, MEG, DNR). Overall, it reflects solid improvement in their admittedly high cost structures and drives down FCF breakeven oil price, which we see as a key metric for this group (discussed below). Among the Mid Quality names, the performance has been mixed – WPX and WLL have done well while names like QEP and LPI have disappointed.

Figure 20: Oily E&P names – FY 17 production and capex guidance changes since start of year

| | Total Production (Mboe/d) | | Oil Production (Mboe/d) | | Capex(\$M) | | % Change in Guidance (PF Acquisitions & Divestitures) | | |
|-----------------------|---------------------------|---------|-------------------------|---------|---------------|---------|---|----------------|-------|
| | Start of year | Current | Start of year | Current | Start of year | Current | Total Production | Oil Production | Capex |
| | | | | | | | | | |
| Higher Quality | | | | | | | | | |
| FANG | 69 | 78 | NA | NA | 800 | 875 | 14% | NA | 9% |
| CLR | 225 | 240 | NA | NA | 1950 | 1950 | 7% | NA | 0% |
| NFX ⁽¹⁾ | 144 | 152 | 58 | 61 | 1120 | 1225 | 6% | 6% | 9% |
| FE | 65 | 68 | 46 | 46 | 1075 | 1075 | 4% | 1% | 0% |
| Mid Quality | | | | | | | | | |
| WPX | 108 | 112 | 54 | 61 | 945 | 1030 | 3% | 12% | 9% |
| SM | 114 | 122 | 33 | 36 | 875 | 875 | 2% * | -1% * | 0% |
| LPI | 57 | 56 | NA | 26 | 530 | 630 | 2% | NA | 19% |
| CRZO | 49 | 54 | 32 | 35 | 560 | 655 | -2% * | -1% * | -1% * |
| QEP | 160 | 146 | 59 | 54 | 975 | 1075 | -3% * | -8% | 10% |
| OAS | 68 | 66 | 53 | 51 | 605 | 620 | -3% | -3% | 2% |
| WLL | 125 | 118 | NA | NA | 1100 | 950 | -4% * | NA | -14% |
| Lower Quality | | | | | | | | | |
| BBG | 17 | 19 | 11 | 12 | 270 | 260 | 12% | 9% | -4% |
| EPE | 79 | 83 | 47 | 47 | 680 | 575 | 5% | 0% | -15% |
| DNR | 60 | 61 | NA | NA | 320 | 270 | 1% | NA | -16% |
| MEG ⁽²⁾ | 81 | 81 | NA | NA | 590 | 510 | 0% | NA | -14% |
| SN | 80 | 70 | 30 | 23 | 450 | 536 | -12% * | -23% | 19% |

(1) Represents domestic production only

(2) Capex in Canadian dollar

* Indicates numbers adjusted for A&D

Indicates positive revisions

Indicates negative revisions

Indicates largely neutral impact to guidance levels

Source: Company data, Deutsche Bank