Figure 21: Gassy E&P names – FY 17E production and capex guidance changes since start of year

	Total Production (Mboe/d)		Gas Production (Mmcfe/d)		Capex($M)		% Change in Guidance (PF Acquisitions & Divestitures)		
	Start of year	Current	Start of year	Current	Start of year	Current	Total Production	Gas Production	Capex
Higher Quality Names									
AR	2205	2275	1650	1663	1450	1500	3%	1%	3%
GPOR	1073	1083	944	953	1050	1160	1%	1%	10%
SWN	2466	2466	2189	2189	1225	1225	0%	0%	0%
RRC	2074	2005	NA	1351	1150	1150	-3%	NA	0%
Lower Quality Names									
ECR	310	318	247	251	300	300	2%	2%	0%
CHK	3282	3231	2411	2370	2200	2400	1% *	NA	9%

* Indicates numbers adjusted for A&D

Indicates positive revisions
Indicates negative revisions
Indicates largely neutral impact to guidance levels

Source: Company data, Deutsche Bank

FCF-growth equation and FCF B/E oil price remain differentiators for us

As discussed above, standard credit themes are back to center stage in the sector. We focus on the cash flow model – a good proxy for asset quality from the producing side - as a key differentiator among E&P credits. For the better quality names, our analysis focuses on identifying names with a superior FCF-growth equation. For lower quality names, with their high cost structure and therefore significantly higher vulnerability to commodity downside, we tend to focus on the breakeven oil price needed to keep FCF neutral in a maintenance mode, along with downside asset valuations.

The Higher Quality Oily names already have established a fairly stable FCF model for a $50 oil environment with an ability to deliver solid double digit production growth with neutral or modestly negative FCF. PE is the only exception but it is sitting on nearly $1BN of cash.

Among the Mid Quality credits, we see a divergence. Among the emerging Permian names, we are positive on WPX (BUY-rated) given an impressive growth outlook (32% production CAGR in FY 17-19E) along with a neutral FCF model by end-FY 19E even at $50 oil. In contrast, QEP (SELL-rated) will grow at almost half the pace during the period and still would have a modestly negative FCF in FY 19E. Among the non-Permian names, we are more constructive on Oasis versus its larger Bakken player, WLL – both HOLD rated. OAS has meaningfully lower FCF B/E oil price (~$43) vs. closer to $50 for WLL, and just acquired a Permian asset with equity. Apart from greater resilience to lower oil prices, this also implies the former generates much faster volume growth (we see ~12% CAGR during FY 16-19E vs. ~4% for WLL) with lower FCF burn.

Among the Lower Quality Oily names, the three non-shale names – CRC, DNR and MEG – have relatively low capex requirements given their low-decline asset base. DNR and MEG have also driven solid improvements in the opex/capex cost structure. Therefore, despite their high opex cost structure, these credits have FCF B/E oil price closer to $50 oil. In fact, for MEG, that number should go down significantly once their ongoing expansion project is complete in early FY 19. At the other end, EPE, despite significant strides in bringing down maintenance capex and opex costs, still has an FCF B/E oil price well north of $60 given the capital structure and asset base.