

For non advisory clients only

In a "sector rotating" market in favour of value large cap names , Oil could be a relative bet to take, as the sector is:

- 1) not expensive in terms of valuations
- 2) favoured by the upper trending of WTI and Brent prices
- 3) impacted by better capital discipline (capex) expectations

Lucas Herrmann, DB research on ROE trend is starting to be more optimistic as well:

"Central to the deterioration in return on capital at the integrated oils has been the balance sheet build of non-productive capital. At the super-majors alone, the addition over a decade of c.\$250bn of work in progress and exploration assets has proven a material drag on sector profitability clipping an estimated 3-4% from reported RoCE. Yet, with 2013 registering the first decline in non-productive capital for a decade are there now signs that yet another source of returns drag across the oil sector may be at a tipping point? We think so with our analysis suggesting scope for a 10% uplift to reported returns over the next five years".

Interestingly, today also the Lex Column in "Oil Change, please" is mentioning the need to improve capital returns to fill the valuation gap (ENI the company mentioned in the article, also for the new management)

Short term it could make sense to play the momentum via relative spread and with outperformance calls SXEP vs cyclical sector like chemical SX4P

WTI:

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SXEP vs SX4P (Chemicals)

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Kind regards,  
Pierluigi Amicarella

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