THE MONTHLY RESEARCH CONFERENCE CALL

ENERGY: POSITIVE FUNDAMENTALS, GEOPOLITICAL TURBULENCE

ARGUS®

MODERATORS

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Wednesday, June 5, 2019
11:00 a.m. ET

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WHAT'S NEW AT ARGUS

JUNE 2019

Theme Model Portfolios: ESG Investing

- ESG is one of the fastest growing investment styles
- Within ESG, Argus has built a sustainable impact portfolio
- Sustainable companies are good neighbors
- Making an impact on climate, poverty, disease, & human rights
- Find it on website: Portfolio Strategy tab, Theme Portfolios

Analyst Quick Notes

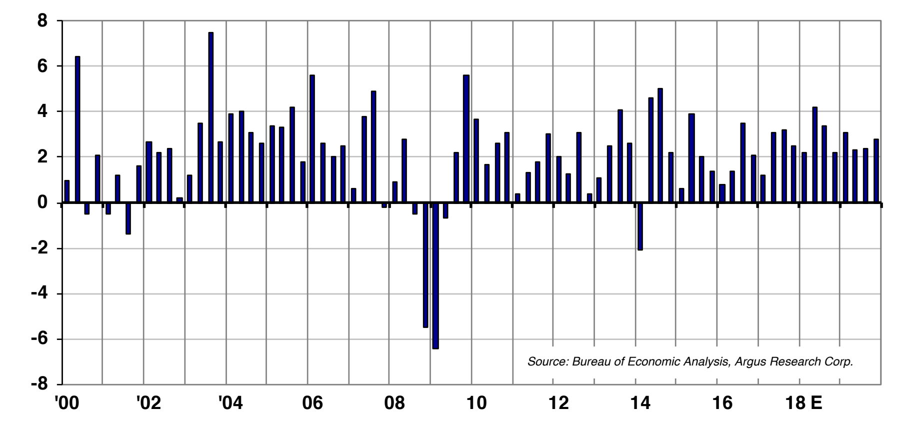
- Weekly Stock List: Sustainable Impact stocks
- Weekly Stock List: Technology Ideas
- Weekly Stock List: Min Vol stocks
- Find it on website: home page, top center

New Names Added to Argus Analyst Coverage Universe

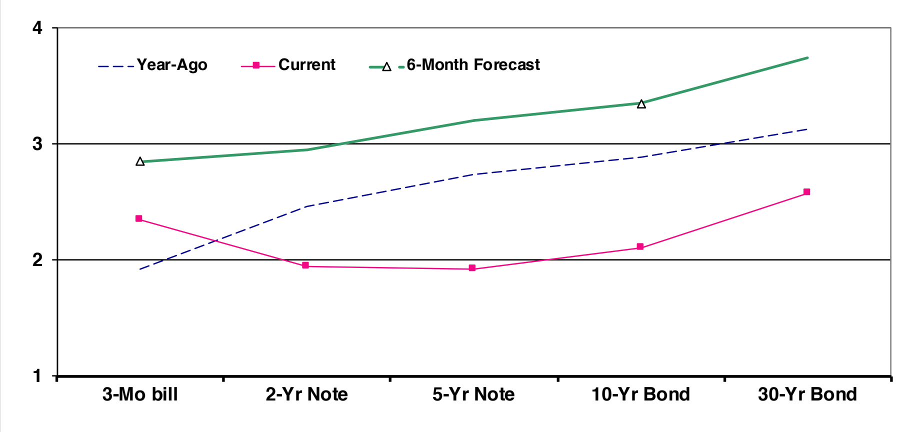
- Pinterest - platform for content originators, enthusiasts
- Huntington Bancshares - Eastern & Midwest Regional bank
- Equinix - data center and colocation REIT
- Find it on website: home page, top, "search companies"

MACRO FORECASTS

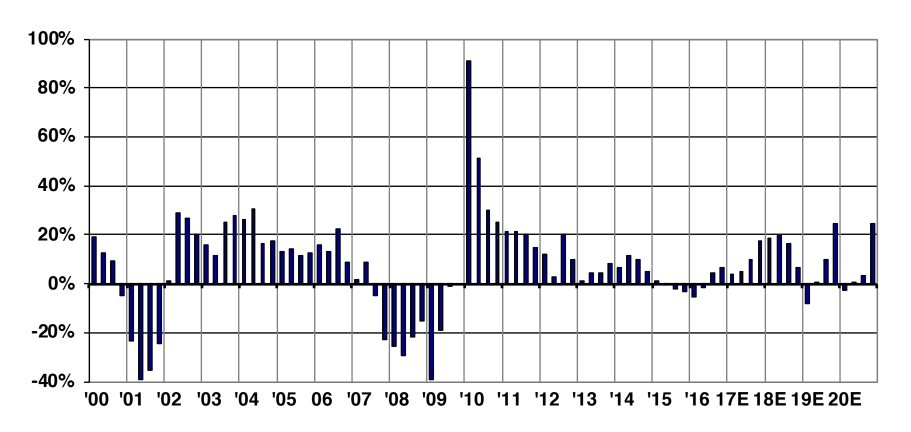
REAL GDP W/FORECASTS (%)



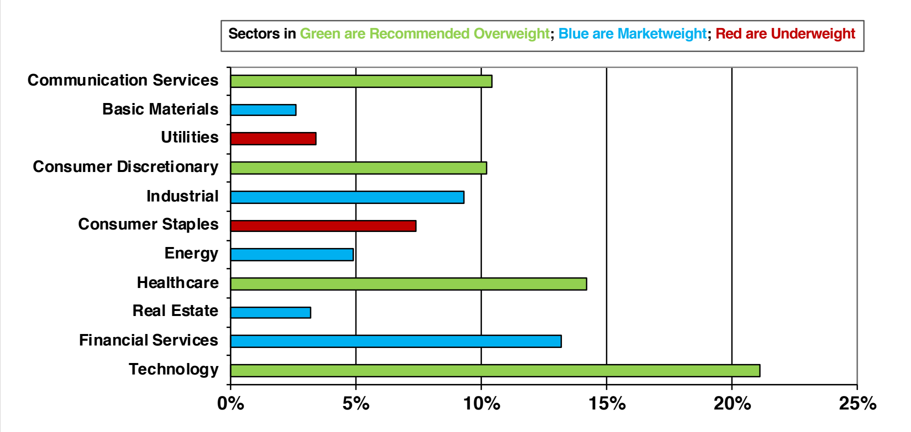
TREASURY YIELD CURVE (%)



S&P 500 QUARTERLY EARNINGS GROWTH



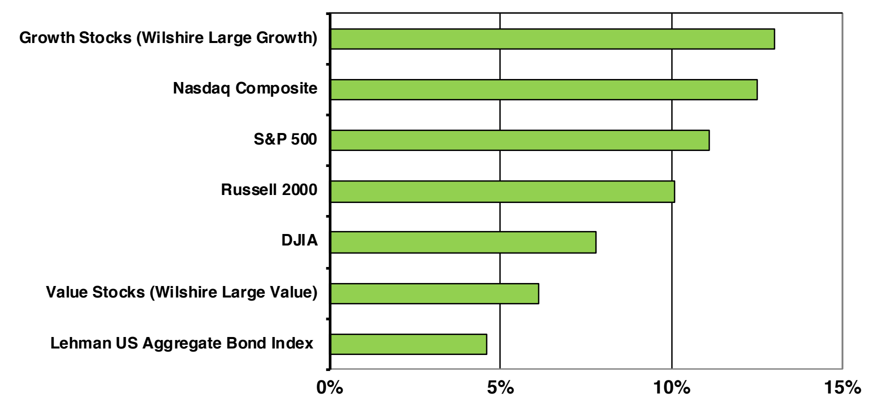
MARKET SECTOR DISTRIBUTION - PERCENT OF S&P 500



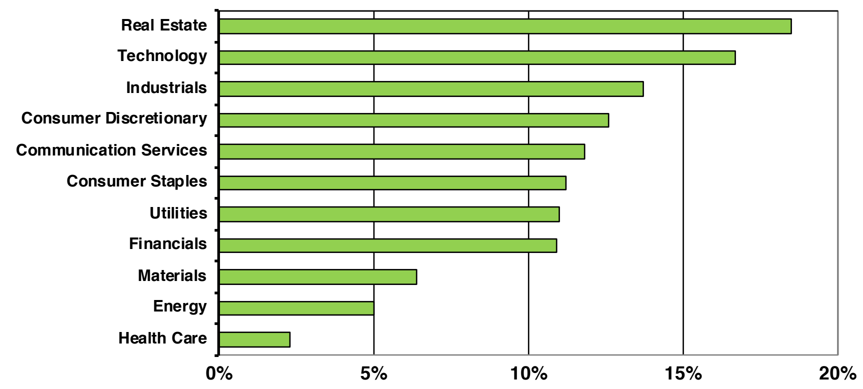
MARKET PERFORMANCE

DATA AS MAY 31, 2019

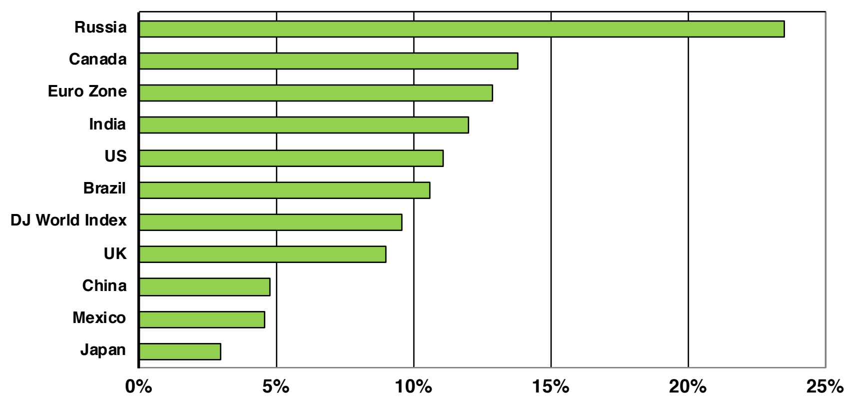
MAJOR INDEX



SECTOR



GLOBAL EQUITY MARKETS



OUTLOOK FOR ENERGY STOCKS

■ Our Rating on the Energy Sector is Currently Market-Weight

- The S&P 500 Energy Index has been the 10th best performing sector in 2019. The index is up 3.06% y-t-d, while for FY18, it was down 21%. The y-o-y swing is largely the result of modest global demand, OPEC production cuts, geopolitical events and crude oil inventories, which are in-line with 5-year averages. Crude oil currently sits at about $53 per barrel (WTI).

- First-quarter 2019 profits (adjusted) for the Energy index were down (on average) 25% year-over-year, with Oilfield Services & Equipment being the worst and E&P being the best.

- The sector currently accounts for about 5% of the S&P 500. Over the past five years, this weight has ranged from about 5%-12%.

- Our revised forecast (from May 31st) has West Texas Intermediate (WTI) will average $57 per barrel in 2019, with an expected range of $50-$70 per barrel. Our Henry Hub natural gas price is $2.65-$3.05 per mmBtu. (midpoint of $2.85 per mmBtu).

- The U.S. rig count for the week ending May 31, 2019 was 984 drill rigs, -76 rigs from 1,060 rigs on June 1, 2018.

INTEGRATED OIL COMPANIES (IOC'S)

- **The IOC's (Super Majors) typically provide modest volume growth, but generate considerable free cash flow to pay the dividend.**

  - First-quarter 2019 segment results were (on average) materially lower than the prior-year quarter, with revenues down 6% and earnings down 27%. The largest factor for the decline was commodity prices, which were lower for crude oil, natural gas liquids (NGLs) and natural gas.
  - Specifically, Upstream segments had modest production growth (up 2%-3%) from new project start-ups while prices were lower (down about 5%). Downstream took the biggest hit, mostly posting operating losses on weak refining margins, higher maintenance spending and lower crude differentials. On the Chemicals side, recent industry capacity additions hurt pricing for ethylene and polyethylene
  - Our investment preference here are IOC's with reasonable valuations, stable-to-higher production growth, flat-to-lower capex budgets and a growing exposure to short-cycle (unconventional assets) investments. Also, a growing and sustainable dividend program is a priority.
  - Top Pick: Chevron Corp. (CVX)
  - Other stocks in coverage: XOM, BP, RDSA

EXPLORATION & PRODUCTION (E&P)

- **The E&P's are the first link in the oil & gas supply chain; the primary business involves search and discovery and the extraction of oil & gas.**

  - First-quarter 2019 segment performance was (on average) widely mixed versus the prior-year period, with sales down about 8% while earnings were up 9%. The biggest element for the revenue decline was lower prices, while profits benefited from lower well costs (down 2.5%), operating efficiencies and lower capex spending.

  - In particular, the U.S. onshore land market continue to generate higher y-o-y production results, especially in the Permian, Eagle Ford, Bakken, Powder River Basin and Delaware Basin. In addition, international activity continues to trend higher, along with LNG export growth.

  - We prefer E&P's with under-levered balance sheets, a streamlined portfolio of assets and a multi-decades drilling inventory. Also prefer those companies with low extraction costs and growing cash flow trends.

  - Top picks: EOG Resources (EOG), Apache (APA), Devon Energy (DVN)

  - Other stocks in coverage: COP, MRO, NBL, APC, EGN, HES, OXY

OILFIELD SERVICES & EQUIPMENT

- **This segment provides goods and services (drilling, testing, and transport) to independent oil & gas E&P companies, international oil companies and national oil companies.**

  - **First-quarter 2019 segment results were (on average) drastically lower than the prior-year quarter, with revenues flat versus 1Q18 and profits down 33%. The biggest factor for the decrease was lower pricing and lower volumes, particularly within the N. American hydraulic fracturing business, which was mostly impacted by takeaway constraints (pipelines, rail and truck).**

  - **Specifically, lower E&P demand in the N. America land market for well completions, hydraulic fracturing and drilling services, negatively impacted the quarter. This was the result of recent supply increases in N. America and decreasing rig counts, which created significant downward pressure on service pricing.**

  - **Our preference is towards those firms with a strong presence in North America land markets, under-leveraged balance sheets, margin growth and a growing market share.**

  - **Top Picks: Halliburton (HAL) and Baker Hughes, a GE Co. (BHGE)**

  - **Other stocks in coverage: NOV, HP, SLB**

REFINING

- **This segment refines crude oil into petroleum products such as gasoline, diesel, and jet fuel. Refiners make money from product margins and crude discounts.**

  - First-quarter 2019 results were (on average), meaningfully lower than the prior-year period, with revenues down 4% as earnings declined 53%. The biggest factor for the decrease was lower realized prices for crude oil, which compressed refining margins.

  - More specifically, lower year-over-year crude oil prices (down about 10%), which narrowed differentials to N. American sweet crude and some sour crudes to Brent crude, caused a squeeze on refining margins. Refining income down (on average) about 40% from LY while industry capacity fell to 91% (from 94% last year).

  - Our preference is to own those stocks that have a reasonable valuation, pay a sustainable dividend and use cash flow for debt reduction and/or share repurchases. M&A in the sector is mostly a non-issue.

  - Top Pick: Valero Energy (VLO)

  - Other companies under coverage: HFC, PSX

SECTOR POSITIONING

- **We see US oil production as growing moderately in 2019, but we also see productivity improvements slowing and the rig count flattening out. Our oil forecast is $57 per barrel with Henry Hub natural gas at $2.85 per MMbtu. We remain bearish on natural gas fundamentals (oversupply).**

  - **Integrated Oil Companies: We view the IOC's as a defensive way to play the ENERGY sector, with IMO 2020 as a near-term catalyst and attractive dividend yields as the primary sector driver.**

  - **Exploration & Production (E&P): The combination of $50/bbl or higher oil price and disciplined capital budgets should shortly begin to yield higher profits. Strong free cash flow should allow for higher dividends, more buybacks and greater debt pay downs.**

  - **Oilfield Services: Estimates for the sector are trending higher, with fundamentals in N. America improving slowly. International activity is improving as well and we expect higher global capex budgets beginning in 2020.**

  - **Refining: Earnings estimates beginning in 2Q19 are increasing from higher oil; Seasonal summer strength expected along with anticipated 2H19 IMO 2020 tailwinds; Valuations still attractive.**

TOP STOCK PICKS

- **INTEGRATED:**
  Chevron Corp. (CVX)

- **E&P:**
  Devon Energy (DVN),
  EOG Resources (EOG)
  Apache (APA)

- **OILFIELD SERVICES & EQUIPMENT:**
  Halliburton (HAL)
  Baker Hughes, a GE Company (BHGE)

- **REFINING:**
  Valero Energy (VLO)

INDUSTRIAL SECTOR UPDATE

- **YTD PERFORMANCE: +12%**
- **PERFORMANCE IN MAY: -8%**
- **COMPANIES EXPOSED TO ENERGY SECTOR**
  - MMM, ITW, UNP, FDX, UPS, JBHT
- **GROUPS EXPOSED TO TRADE DEBATE**
  - Ag & Farm Machinery, Air Freight, Construction Machinery & Heavy Trucks, Electrical Components
- **(RELATIVELY) SAFE HAVENS: AEROSPACE, ENVIRONMENTAL SERVICES**
- **SPECIAL SITUATIONS**
  - GE, MMM, BA
- **TOP PICKS FROM FOCUS LIST**
  - ITW, NSC, NOC, ROP
- **DOUBLE-DIGIT DIVIDEND GROWERS**
  - HRS, HON, ITW, LMT, NSC UNP, IR, FDX, FAST

DISCLAIMER