

MONTHLY RESEARCH WEBINAR

ENERGY: PETROLEUM IN THE AGE OF RENEWABLES

Moderator:

Jim Kelleher, CFA

Director of Research

October 4, 2023

■ **Energy: Petroleum in the Age of Renewables**

- Jim Kelleher, CFA, Director of Research
- John Eade, Argus President
- Bill Selesky, Senior Analyst

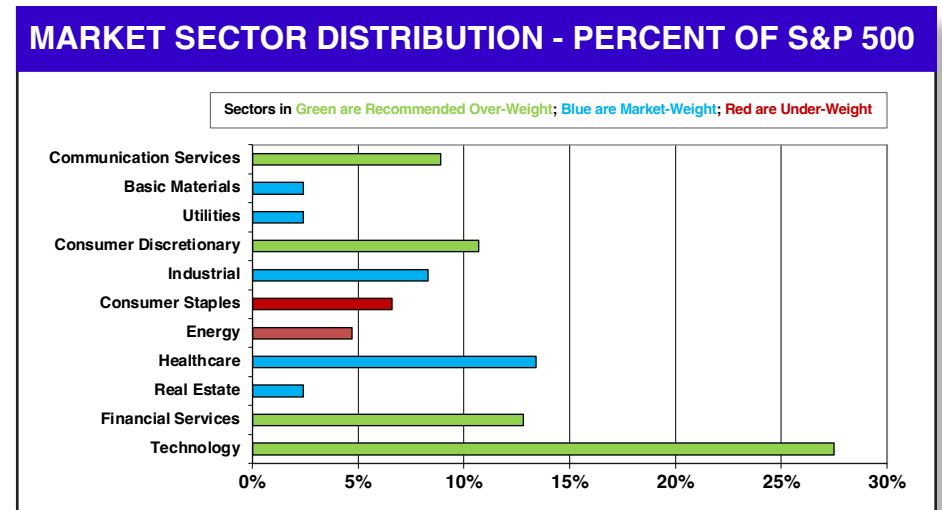
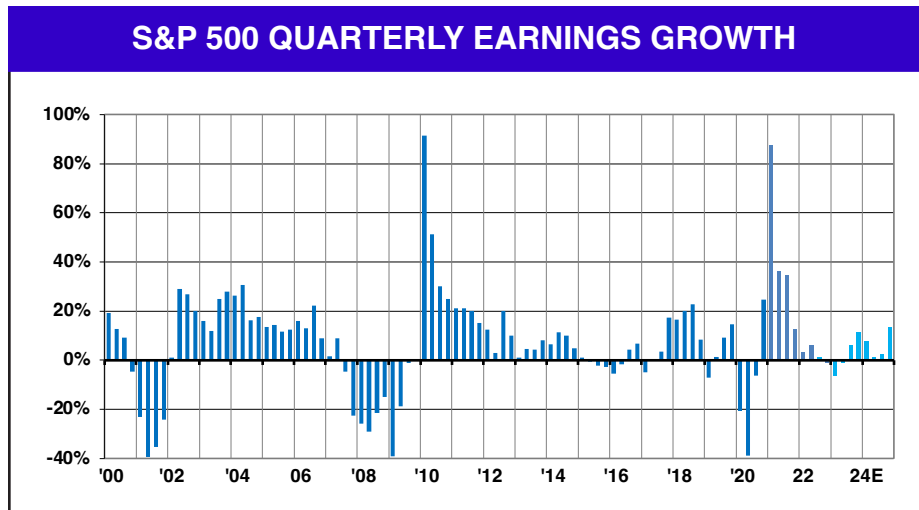
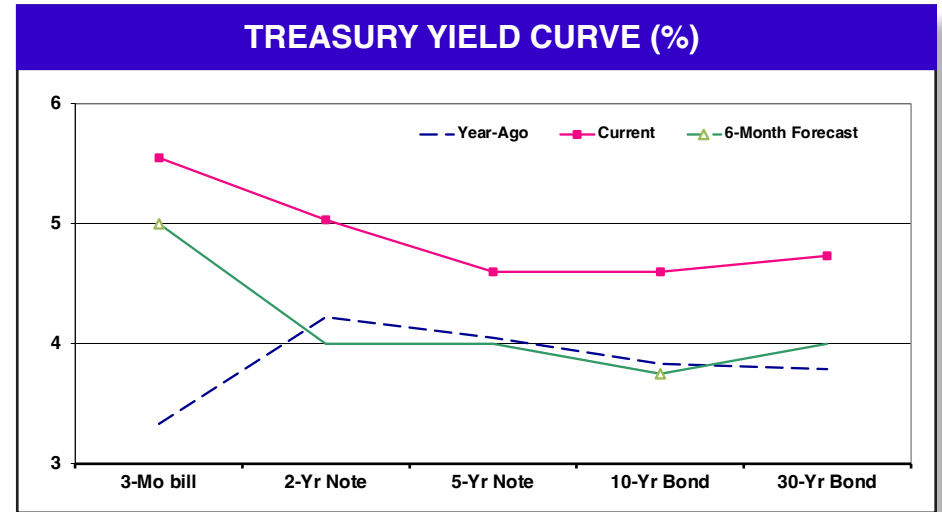
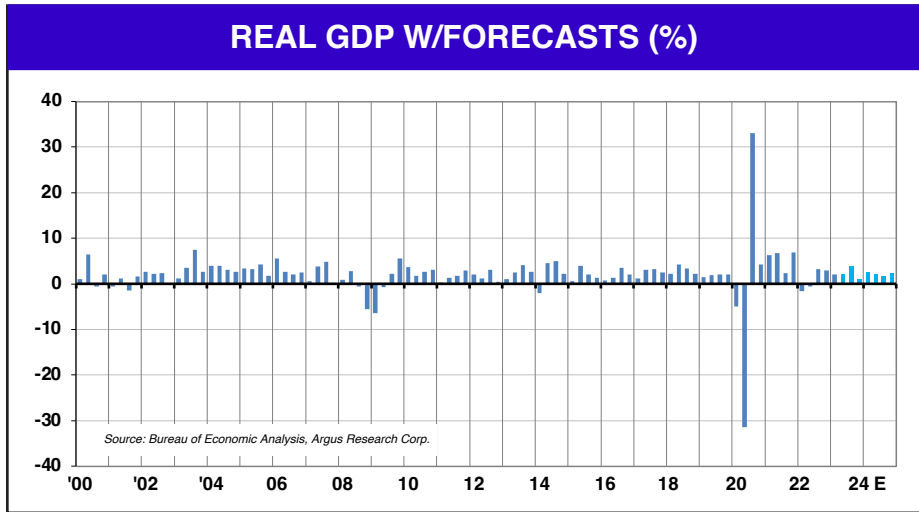
■ **Argus Quick Notes**

- Alzheimer's Disease: a Primer on Drug Therapies
- Shooting Stars and Falling Angels for 3Q23
- Where to Look for AI Opportunities
- Value and Breadth in Healthcare
- Find these on the homepage of our website

■ **Portfolio Update: the Argus Mid-Cap Model Portfolio**

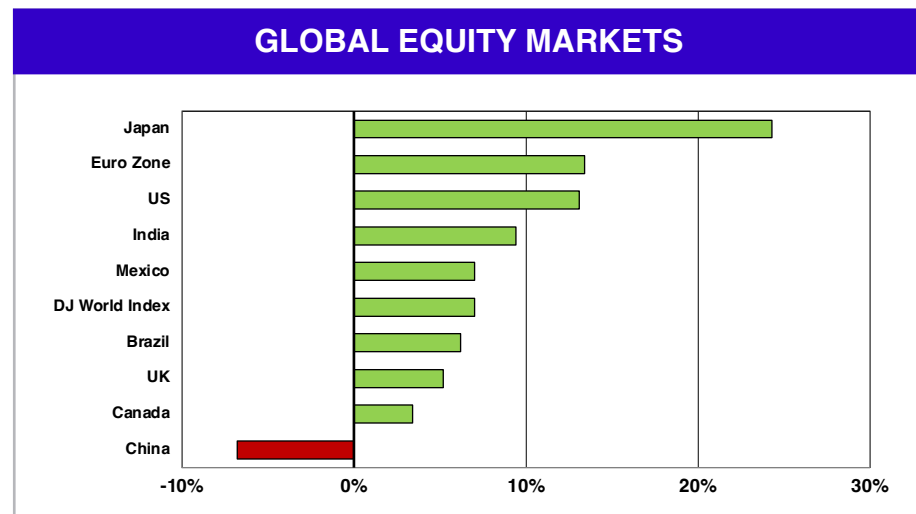
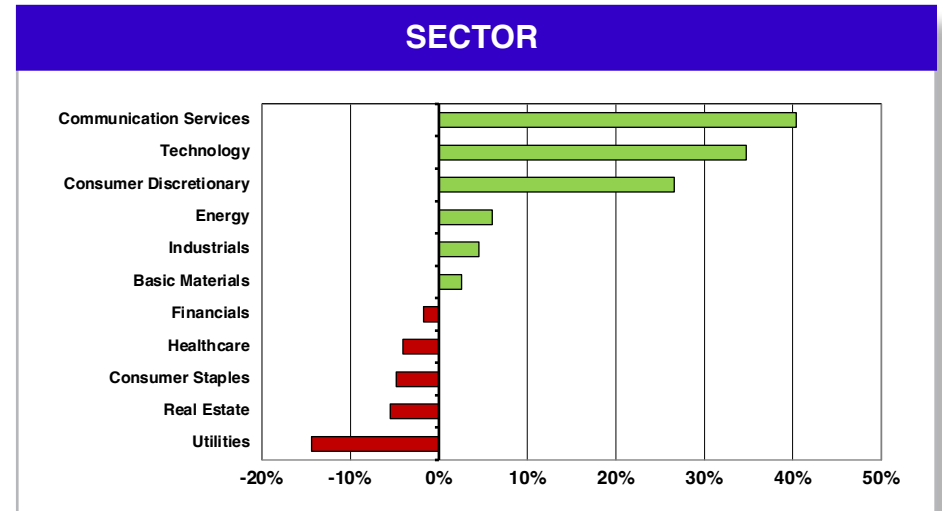
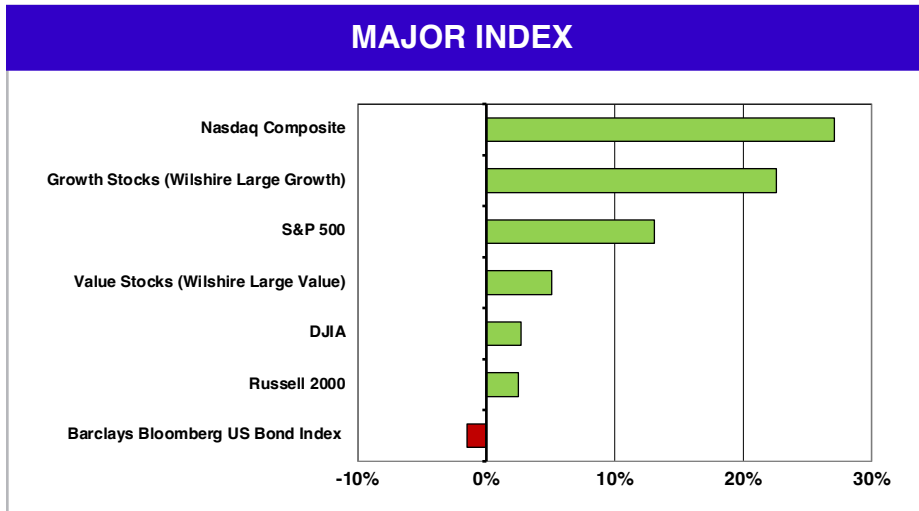
- SMID (Small- and Mid-Cap) underperformed large cap over past 12 mos.
- Better positioned going forward given domestic focus
- SMID has lower prices, more favorable valuations
- We recommend 12%-15% exposure to SMID in US Equity portfolios
- Find the Argus Mid-Cap MP on the homepage of our website

MACRO FORECASTS



MARKET PERFORMANCE

DATA AS OF SEPTEMBER 29, 2023



- **The Energy sector currently accounts for 4.4% of the S&P 500**
- **Our Recommendation is Under-Weight**

Energy Sector Performance

- YTD 2023: Energy sector is up 2%; S&P 500 is up about 13%; the Energy sector is now positive for the first time in 2023
- Leading the sector results: Refining +20%
- Other sub-sector results: OFS +11%, IOC's (-1%), E&P's (-2%)

Historical Perspective

- On 1/1/23, we initiated our 2023 WTI crude oil price forecast of \$92 per barrel; range forecast \$70-\$114
- On 6/5/23, we lowered our sector rating to Under-Weight based on lower prices, falling earnings and China
- On 8/3/23, S. Arabia extended its 1 million barrel per day cut; Russia extended its 300,000 barrels per day cut
- On 8/4/23, OPEC+ meeting yields no change to policy or recommendations (next meeting October 4)

Looking Ahead

- We remain Under-Weight but see improving oil price environment
- Based on “below-average” production growth, OPEC+ and China
- We see upside (with less risk) with the “Big Oil” names
- Clean Energy: US market for wind/solar additions up 40% in 2023
- Clean Energy: Inflation Reduction Act expands in 2024

■ ExxonMobil Corp. (XOM: BUY)

Price target \$133

- Rising CFFO and free cash flow and strengthening balance sheet
- Debt/cap target of 20%-25%; currently at 17% (below low end)
- Capex program trending \$20b-\$25b (down from \$30b-\$35b)
- Dividend safe/reliable 3.10%; \$35b buyback program to 2024
- Our 2nd best stock pick for IOC's: CVX (Chevron)

■ **ConocoPhillips (COP: BUY)**

Price target \$150

- Updated 10-year plan: expect \$115b of free cash flow growth
- Debt/cap is 26%; ongoing share repurchase program of \$45b
- Variable return of cash (VROC) through variable dividend
- Dividend safe/reliable; Yield 2.00%, capex target \$10b/year
- Our 2nd best stock pick for E&P's: DVN (Devon Energy)

■ Schlumberger (SLB: BUY)

Price target \$69

- Revenue mix weighted towards International (80% versus 20%)
- Upstream drilling activity trending higher on improving O&G price
- Recent restructure & margin expansion
- Dividend recently raised 43%; Yield 1.72% or \$1.00 annually
- Our 2nd best stock pick in OFS: HAL (Halliburton)

■ Valero Energy (VLO: BUY)

Price target \$162

- Lowest cost producer and diversified (with 15 refineries today)
- Recovery of global demand in fuels (crude oil, diesel, jet)
- Renewable fuel (diesel) results growing rapidly
- Annual dividend of \$4.04 per share; Yield 3.18%
- Our 2nd best stock pick in Refining: PSX (Phillips 66)

■ Energy/Clean Energy

- Pioneer Natural Resources (PXD), EOG Resources (EOG)
- Tesla Inc. (TSLA), Albemarle (ALB)

■ Chemicals

- Linde plc (LIN), Sherwin-Williams (SHW), Air Products & Chemicals (APD), DuPont (DD), PPG Industries (PPG)

■ Industrial/Other

- General Motors (GM), Ford Motor (F), Aptiv plc (APTV), Cummins Inc. (CMI)

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