



ANALYST QUICK NOTES

New products, M&A announcements, management shakeups, earnings surprises. Whatever the news, you want to know what Argus thinks. Our Quick Notes fill this need by providing real-time analysis of current news about Argus-covered companies or other market-moving events. Please check back regularly for new Quick Notes. **Important disclaimer information is on the last page of this document.**

Energy Sector Values

John Eade

7/31/2017

Weekly Stock List: Energy Sector Values

- Oil prices, near \$50 per barrel of West Texas Intermediate crude, have rebounded from \$42 in June. We think the rising prices will lift the Energy sector, which has underperformed the market this year and currently accounts for a cycle low of about 6% of total S&P 500 market capitalization. Three years ago, when oil prices were near \$100 per barrel, oil stocks made up about 12% of the market. In short, we think there is value in the oil patch, as we forecast the price per barrel of West Texas Intermediate Oil will continue to trend higher and average \$52 in 2017. Our preliminary forecast for 2018 is \$56.
- Within the group, we favor companies with a high exposure to U.S. production, as well as those with a history of growing dividends. Here are five Energy companies that are either on our Focus List or are used in our Model Portfolios:
 - Devon Energy (NYSE: DVN): The DVN shares are featured in our Portfolio Selector Focus List of timely investment ideas. Devon, an exploration and production company, has divested noncore assets and is focusing on high-margin shale production in the U.S. and Canada. It has also cut costs, with 1.4 billion in cost savings expected this year, and significantly boosted well productivity.
 - Valero Energy (NYSE: VLO): The VLO shares are included in our Growth & Income Model Portfolio. Valero, a refiner, continues to improve its operating efficiency and capacity utilization, and is expanding its refining facilities along the Gulf Coast. The company is also focused on returning capital to shareholders through dividends and buybacks. It recently raised its quarterly dividend by 17% and has lowered the share count by 6% over the last year.
 - Marathon Oil (NYSE: MRO): The MRO shares are featured in our Portfolio Selector Focus List of timely investment ideas. We have a favorable view of Marathon's focus on unconventional North American oil, gas, and NGL production, and note that the company has shed \$1.5 billion of noncore assets over the last two years. In our view, Marathon could be a potential takeover target for a larger E&P or integrated oil company.

- Occidental Petroleum (NYSE: OXY): The MRO shares are included in our Institutional and Equity Income model portfolios. Management of this large-cap E&P company has historically invested within its cash flow, and has focused on achieving high returns rather than solely on growing production. The company also has an under-levered balance sheet and has the highest dividend yield within the group at 5%.
 - Exxon Mobil (NYSE: XOM): The XOM shares are a core holding in our Institutional Model Portfolio. Exxon is the largest oil company in the US, and is one of the 10 largest stocks in the S&P 500. Exxon appears favorably valued relative to peers and continues to benefit from its diverse asset base and strong cost controls.
 - For more information on these companies, please see our Analyst Reports.
-

DISCLAIMER

This Note reflects the current thinking of an Argus analyst anticipating or responding to corporate earnings reports or other news relevant to covered companies. This Note may be an initial, real-time response to developments that are expected to impact stocks under coverage; as such, it does not imply that the information in it is correct as of any time after its preparation or that there has been no change in the business, financial condition, prospects, creditworthiness or status of a covered company. The views or opinions expressed in this Note are subject to change pending further analysis. This Note is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This Note is not an offer to sell or a solicitation of an offer to buy any security. The information presented in this Note is for general information only and does not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this Note. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this Note constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions and opinions than those represented in this Note, and all opinions are reflective of judgments made on the original date of publication. Those reports may reflect the different assumptions, views and analytical methods of the analysts who prepared them and Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this Note or to update or keep current the information contained in other reports so that such information is consistent with, or not contrary to, the information contained in this Note. Argus Research is an independent investment research provider whose parent company, Argus Investors' Counsel, Inc., is registered with the U.S. Securities and Exchange Commission. Argus Investors' Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Argus has provided independent research since 1934. Argus officers, employees, agents and/or affiliates may have positions in stocks discussed in this report. No Argus officers, employees, agents and/or affiliates may serve as officers or directors of covered companies, or may own more than one percent of a covered company's stock.

Argus Investors' Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors' Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors' Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.
