



ANALYST QUICK NOTES

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Industrial Companies Benefiting from Rising Oil & Gas Prices

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Industrial Companies Benefiting from Rising Oil & Gas Prices

- Oil prices may have dipped in recent weeks from highs earlier in the year, but they remain almost 100% above the depths of the market that were reached back in January 2017. And based on expectations for improving global demand, we anticipate an uptrend in prices through 2018.
- The recovery in oil prices has caused Energy companies to once again start increasing capital investment. That is paying off for a few companies in our Industrial universe of coverage.
 - Colfax Corp. (CFX): This is a mid-cap company with operations that support fluid handling systems and precision air and gas handling equipment, for use in oil and gas excavation. Colfax's earnings declined in 2015 and 2016, along with gas prices. But management has cut back costs and we expect to see top-line growth later this year. Management has also once again started to make acquisitions. Our target price is \$50.
 - Ecolab (ECL): This large-cap industrial services company has a subsidiary, Nalco Champion, that provides chemistry programs and services to the upstream and midstream oil and gas industry, as well as to refineries. Earnings were flat last year – rare, for this well-managed company – rose 4% in 1Q and we expect double-digit growth later this year and into 2018. We see value into the \$140s.
 - Caterpillar (CAT): This large-cap heavy equipment manufacturing company has two segments that have started to benefit from the recovery in oil prices: Resource Industries, which accounts for 17% of the company's sales; and Energy & Transportation, which accounts for 35%. The CAT shares have outperformed the market and the industry over the past 12 months, but have lagged over the past 5- and 10-year periods. We still see value. The CAT shares yield 3.0%.

- Cummins (CMI): This large-cap engine manufacturing company has a Power Systems segment that provides generators and other products to the mining and oil and gas markets. Power Systems sales increased 9% in 1Q. In the latest conference call to discuss results, management was optimistic about the oil and gas markets in Brazil, which have picked up in 2017. These customers are expected to order more engines. We recently raised our EPS estimates for CMI and our target price is \$172.
 - General Electric (GE): GE's share price has not participated in this oil-and-gas-related recovery, even though the Oil and Gas segment accounts for 12% of GE's sales. In 4Q16, the company announced a plan to merge its Oil & Gas business with Baker Hughes Corp. to create a new, separately traded company. GE will own 62.5% of the company. The transaction is expected to close in mid-2017, and to be accretive to GE's earnings. But investors seem to be ignoring the benefits. Maybe GE is too-big-to-grow now, and along with companies like Verizon (VZ: HOLD), AT&T (T: BUY) and even Altria (MO), may become more valued on its dividend, which currently yields 3.4%. A new CEO, replacing Jeffrey Immelt, will now try his hand.
 - For more information on these companies, please see our Analyst Reports at www.argusresearch.com.
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