Deutsche Bank
Markets Research

North America
United States
Industrials
Integrated Oil

Industry
Washington D.C. Trip

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Industry Update

Swamp Thing

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Polls showing a tight race, expect oil-bashing rhetoric that masks reality

We made what will likely be our last trip to D.C. of the first Obama term; based on the mood we found, first might be last. At least, Republicans say they can win and Democrats say it will be close. We found confirmation of one of our key theories: over the past 4 years, the oil industry has seen its political power go from a 30-yr low as Democrats assumed power on an environmental agenda, to a 30-yr high as the election approaches, despite Macondo. The combined drivers of the revolution are clear: multi-state unconventional boom, and the jobless rate. Neither can be threatened as November approaches; tax reform is the post election threat, as it was – without result – five years ago.

CO2, Taxes, Fracking, Keystone approval, no major threat to trade

Five years ago we wrote of a Democratic regime sweeping to power after years of oil-friendly Republican government on a major CO2 limitation agenda (cap and trade) likely financed by oil tax; potential threats to hydrofracking; the wait for Keystone/Canadian volumes to the Gulf, the over-stated risk of bombing Iran. Four years on… nothing really happened. And even less will happen before November. Republicans will likely at least retain the House, limiting post-election risk, certainly on tax. But oil "subsidy removal" (compared to agriculture, healthcare or defense?) – as foreign tax credits, IDCs, MLPs, LIFO… – these are likely to be high on revenue lists for the bi-partisan tax reform slated for 2013. Everyone basically supports hydrofracking (13 separate agencies are now examining how much they support it); net result: states will manage, and disclosure will likely be improved. Threats to natgas and oil product exports are over-stated, in fact we see none at this time. Nor conversely, to the crude export ban. Ethanol is in mild resurgence but clearly the volumetric mandate is excessive and waivers will be sought. Some think a grand Iran "no nuclear weapons" deal may be announced in October; perhaps an SPR release – which would upset the Saudis – as Iranian sanctions kick in on July 1st. But high risk moves are, on balance, very unlikely.

Looking ahead

On reflection the biggest surprise we had over the past four years was a positive: the appointment of DB's highly respected and well-liked Adam Sieminski as EIA administrator. The agency does a great job yet we believe it can get better, with time. There is a distortion in oil product export data reporting but better estimation techniques are dealing with this more effectively. Gasoline demand is down; but better on lower prices that should fall another 30c a gallon over the coming weeks – we continue to believe that a regressive gasoline tax should be imposed to reduce high prices, & stop prices falling too low; that is next. The bottom line is that exports are booming and jobs being created, and the goose laying that golden egg is the world-leading US oil industry. Keep them honest, keep them clean, but don't strangle them. It would not be for the greater good. Save the date for our next trip: Jan 2013.

We value oils based on the average of top-down P/E analysis and bottom-up NAV. The biggest overall risk is oil & gas demand. Safety risk is the biggest company-specific risk. Whoever has the next big disaster will see equity value suffer.

Top picks	
ExxonMobil (XOM.N),USD80.18	Buy
Chevron (CVX.N),USD99.80	Buy
Occidental Petroleum (OXY.N),USD84.57	Buy

Companies Featured	
ExxonMobil (XOM.N),USD80.18	Buy
Chevron (CVX.N),USD99.80	Buy
ConocoPhillips (COP.N),USD53.58	Hold
Occidental Petroleum (OXY.N),USD84.57	Buy
Hess Corporation (HES.N),USD45.10	Hold
Marathon Oil (MRO.N),USD24.96	Hold
Murphy Oil (MUR.N),USD46.92	Hold
Suncor Energy (SU.TO),CAD29.24	Hold
Canadian Natural (CNQ.TO),CAD29.41	Hold

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All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies. Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MICA(P) 072/04/2012.

Washington, DC trip notes

Key takeaways in brief

- **Industry taxes**: very low risk in the near term, moderate to low risk over the medium-term as Congress contemplates comprehensive tax reform in 2013-14. IDC's appear to be the tax issue of highest concern.
- **Keystone XL**: surprising to us, some in Washington see potential for an approval before the election, though we are skeptical. We continue to expect a settling in point of $20/bbl between US (WTI) crude prices and global (Brent).
- **LNG Exports**: general support on both sides of the aisle, but the incoming Democratic leader of the Senate Energy Committee, Ron Wyden, is opposed. Expect a couple more approvals then a pause to assess natgas price impact.
- **Ethanol**: widespread acknowledgement that the blend wall is nearly upon us and something will have to give, but no strong sense of an emerging solution. Simple answer is that waivers will be given against a rising mandate. E15 liability could be addressed legislatively.
- **Hydrofracking**: long-term there is risk given public concern about drinking water, but at the moment everyone loves (or at least respects) the unconventional revolution, and its job creation. Debate is state vs. federal disclosure rules and standards, no talk of ban or major restrictions whatsoever.
- **Product & crude exports**: Loud but tiny minority talking about product export ban, but very little chance of getting traction. No one thinks the crude export ban will be lifted, but we don't think anyone is thinking hard about it yet, will probably need to see light crude oversupply and resulting job loss to connect the dots in a couple of years.

Industry taxes

Oil and gas industry taxation has been a constant front burner topic for our last half dozen or more trips to DC, yet nothing has budged on that front since President Obama took office. While much of the chat on our DC trip this week was on the potential vulnerability of IDCs, the MLP tax structure, dual capacity tax creditability, the Section 199 manufacturing deduction, and LIFO inventory accounting, after all of the discussion our view is that we are unlikely to see a change on any of these issues, in the near or even medium-term.

There will very likely be no action at all on oil and gas tax issues before the election – there is a small chance that they could be part of a sequestration negotiation, but the more likely threat would be in a comprehensive tax reform effort in 2013-14. Even so, with the Republicans likely to keep the House this fall (and a 50/50 shot or better in the Senate), a potential Obama win in November doesn't have the same threat for oil and gas tax this time as it did with the "Democratic Wave" in 2008. Obviously a Romney win would push tax risk even lower. Overall, do expect plenty of rhetoric on reducing oil "subsidies" but in reality the oil industry is not really subsidised, so "removing subsidies" is a heroic populist promise, strictly in the realm of political posturing.

IDCs appear to be the most vulnerable, though the total impact – about $12-15B over five years on most scorecards – is small compared to some other issues. IDCs are a more surgical and symbolic target because they only affect oil and gas, while LIFO and dual capacity tax credit impact a broader cut of industries (whiskey, gold, etc). Changing the tax treatment of IDCs, from 70pct expensing/30pct depreciation over 5 years, to say, 30 years of straight-line depreciation, would obviously disincentivize domestic drilling and would cripple, at the margin, the domestic E&P business model. Given the new-found breadth of E&P political support – perhaps half of all states now benefit from the unconventional revolution versus 3-4 states caring about oil and gas production five years ago – we think elimination of the current IDC expensing standard is unlikely, but it appears to be the highest current anxiety of industry lobbyists because of its symbolic power and lack of collateral damage to other industries. The oil lobby points to IDCs positive jobs impact, and encourages IDCs for renewable and alternative energy.

The potential impact from getting rid of LIFO accounting (as IFRIS did) is large, as much as $75B, but it would be a one-time hit. Our impression is that the risk is low here, but the tax revenue potential means you can't rule it out, because it will show up in bold letters on any screen of potential negotiating items. As highlighted, numerous industries would suffer, but there is an accounting standard pressure given LIFO is not an international measure.

Eliminating the MLP pass-through structure would superficially increase tax revenues by about $20B, but it would also slow infrastructure build out by weakening MLP economics. Plus MLPs have broad retail ownership, which means a change would disrupt voter retirement accounts. Super wealthy donors are also likely bi-partisan owners of MLPs, as they are a powerful estate planning tool. Nonetheless, our perception in DC is that the risk has risen for the MLP. Paradoxically we heard more chatter about extending the MLP structure to alternative energy areas, such as wind, solar and biofuels, with only the small issue of profitability – what distributions? – standing in the way of that making sense. That chatter is actually coming from Republicans who likely believe that Congress would be less likely to kill the MLP if it would mean killing a wind farm. For now we are skeptical that Congress will touch MLPs, but we think it bears watching closely.

The big oils most fear a change in the dual capacity tax credit, though in our view the impact is actually relatively modest, about $10B over ten years by one scorecard. It would hurt foreign project returns for US oils though, and put them at a disadvantage versus companies domiciled in countries that observe a territorial tax system, which is essentially every other country (ie ExxonMobil and Chevron would be dis-advantaged vs BP and Shell). Again, we think a change here is unlikely any time soon, but the symbolic appeal of hurting the Big Oils will likely tempt the Democrats.

The Section 199 deduction for domestic manufacturing was mentioned a couple of times, but appears to have slipped down the list in terms of tax risk, as no one gave it more than cursory mention. Elimination of this incentive tax deduction was mentioned by President Obama in the State of the Union address in February, however, so we know it is still on somebody's list of negotiating items. Given the current focus on jobs though, we doubt the President or Congress would go after a tax that specifically promotes domestic manufacturing jobs at this point.

All these issues will be 2013 focus issues when tax reform is raised, as is widely seen to be likely for corporate, personal, and pass through (MLPs again) payers.

Keystone XL

We were surprised to find multiple people in DC, including a very high ranking Congressional staffer, assert a strong belief that President Obama's State Department will approve the Keystone XL northern leg BEFORE the fall election. Our intra-team debate has been between a post-election approval or no approval at all.

Democrats on the Hill were generally fairly evasive on KXL – there seemed to be an acceptance that it made sense to approve, but it was emphasized that there was a process that had to be observed. Republicans, both in Congress and on the "K Street" periphery, spoke of it in more nakedly political terms – one group felt Obama wouldn't ever approve it due to ideological reasons. Another believed he would need to do it before the election in order to score with independents on the jobs and energy fronts. Another agreed that was a possibility, but didn't think it would make sense given the rejection at the more appropriate approval moment in January 2012.

Our view remains that a pre-election approval is unlikely because Obama is suffering from an enthusiasm issue within his base and a late inning enraging of environmentalists, who made up a good chunk of his volunteer foot soldiers in the last election cycle, would be very risky.

The repeated GOP attempts to "force" a decision on KXL via legislation are pretty clearly for election year show, "silly season" posturing that is rampant from both sides at this point in the election cycle. If Obama approves KXL this year, either before the election or after, the full pipeline could be running by YE14 or early 2015. To our eye that is still the most likely scenario, but given the pipeline's status as the "point of the spear" in the environmental movement's post-Copenhagen strategy, it is possible that they will target KXL construction disruption even after approval. Environmentalists self-shackled to bulldozers seems to us a real possibility for 2013; this has been a disappointing term for actual environmental victories, with economic concerns over-riding environmental, the complete failure of Copenhagen global agreement, and Macondo. We can see Keystone as being a battleground all the way for a movement that can rally around this specific cause, however irrational it is to object passionately from the US, obtaining 50% of its electricity from coal, to a Canadian oil supply source that could legitimately be shown to replace imported heavy oil from sources such as Venezuela.

Keystone XL will certainly be needed by the marketplace longer-term, but expansions to the Enbridge system in 2014 should temporarily relieve the growing exit pipeline capacity tightness in the northern tier of the continent that has contributed to short-term differential blow-outs in recent months. Thus a one-year delay in KXL, though not ideal, shouldn't be too extreme in impact. Outright cancellation or indefinite delay would be a problem for North American infrastructure, however, and would put even more pressure on other northern takeaway projects (TransMountain expansion, Northern Gateway, Enbridge Line 9 reversal, TransCanada East Coast).

Crude export restriction

We have spent a lot of time thinking about the implications of the US crude export ban over the last twelve months or so (e.g., see Feb 28 note, "The Future of US Oil", or April 16 note, "Diamond Cutter"). On this trip we asked more than a dozen prominent DC energy people about the crude export restriction, and they had very little to say – it was apparent that no one is thinking very hard about it at this point.

The consensus seems to be that it is unlikely to be lifted, but that seems to be driven by a backwards-looking view of energy security and politics. If the US moves into a position of light crude oversupply in the next few years, as we think it will, the political calculus in the US could be much different than it was a few years ago. Two dozen states will have jobs at stake if unconventional production starts to get shut-in due to the oversupply.

Product exports

While a small portion of Democrats appear interested in limiting or banning product exports, the view of both the Democrats and Republicans we met with is that legislation implementing such a ban has almost no chance in the current or the next Congress. The legislation thus far promoted, wanted to ban oil product exports if they were manufactured from Canadian heavy oil. Implementing such a ban would be a head-scratcher given the degree of blending in US refining; it received little support.

LNG exports

While the debate on a policy for LNG exports in the long term would certainly take into consideration the plans for the petrochemical industry and recently announced expansions, the policy for natural gas vehicles, and the conversion of power plants, the key question in the short term seems to be the potential impact on domestic prices, a concern voiced for instance by Democratic Senator Ron Wyden, who will replace retiring Jeff Bingaman as the ranking Democrat on the Senate Energy Committee.

As the investment community well knows, only one new LNG export project has received a permit to date, Cheniere's 2.6Bcfd Sabine Pass LNG. From a prominent right-leaning DC-based energy policy advocate/consultant we heard that two to three other projects are likely to receive approval relatively soon, we estimate that will bring us to 5-7Bcfd of potential exports, or 10% of US demand. There may then be a pause in approvals to assess the impact on domestic natgas prices.

New permits would be required to export LNG to countries such as Japan, where demand for LNG has increased significantly post-Fukushima (a free-trade agreement could eventually eliminate this requirement).

There seems to be no consensus on the level of exports required to significantly move prices domestically, but the general view is that prices will remain relatively low even with the increase in exports given the current depressed levels. Republicans in the Senate Energy Committee see more flexibility to changes only post-election and see inadequate votes in the Senate for a ban on exports. They see relatively limited price impact even if exports increase by 12.5Bcf, as according to recent studies prices would increase to $3.50/mcf (overstated in their opinion), a sizable increase in percentage terms but still relatively low.

The argument in favor of LNG exports contributing to GDP growth was also made during meetings, but indirect natgas export through petrochemical exports (with higher value added) could counter that, in our opinion.

Figure 1: US LNG export projects – approved (2.6Bcfd), pending approval (8.6Bcfd) and announced (7.5Bcfd)

Project	Location	Operator	Status	Capacity (Bcfd)
Sabine Pass LNG	Sabine, LA	Cheniere	Approved	2.6
Freeport LNG	Freeport, TX	Freeport LNG/Michael Smith	Application	1.8
Corpus Christi LNG	Corpus Christi, TX	Cheniere	Application	1.8
Jordan Cove	Coos Bay, OR	Jordan Cove Energy Project	Application	0.9
Trunkline LNG	Lake Charles, LA	Southern Union	Application	2.4
Cameron LNG	Hackberry, LA	Sempra	Application	1.7
Cove Point LNG	Cove Point, MD	Dominion	Potential	1.0
Gulf Coast LNG	Brownsville, TX	Gulf Coast LNG/Michael Smith	Potential	2.8
Oregon LNG	Astoria, OR	Oregon LNG	Potential	1.3
Gulf LNG	Pascagoula, MS	Gulf LNG Liquefaction	Potential	1.5
Lavaca Bay LNG	Lavaca Bay, TX	Excelerate Energy	Potential	0.4
Elba Island LNG	Elba Island, GA	Southern LNG Company	Potential	0.5
Total: 12 projects	**6 states**			**18.7Bcfd**

Source: FERC (as of May 24, 2012

Ethanol

Given falling gasoline demand, and a rising RFS2 mandate (13.8B gallons in 2013) we will hit the E10 blend wall in about a year. Everyone we spoke with acknowledged the near inevitability of this event, and that “something” must be done about it, but no one had a clear notion of how it will be addressed.

Most of the people we met with see no major changes in the current RFS2 mandate anytime soon, but also see extensive litigation issues if the industry were to move to E15. The Democrats see some promise in flex fuel vehicles, if costs and technology hurdles can be overcome. In the meantime, pending a coherent long-term plan, waivers against untenable mandate volumes will likely be granted, as they have been granted for the unachievable advanced biofuels/cellulosic component of the mandate.

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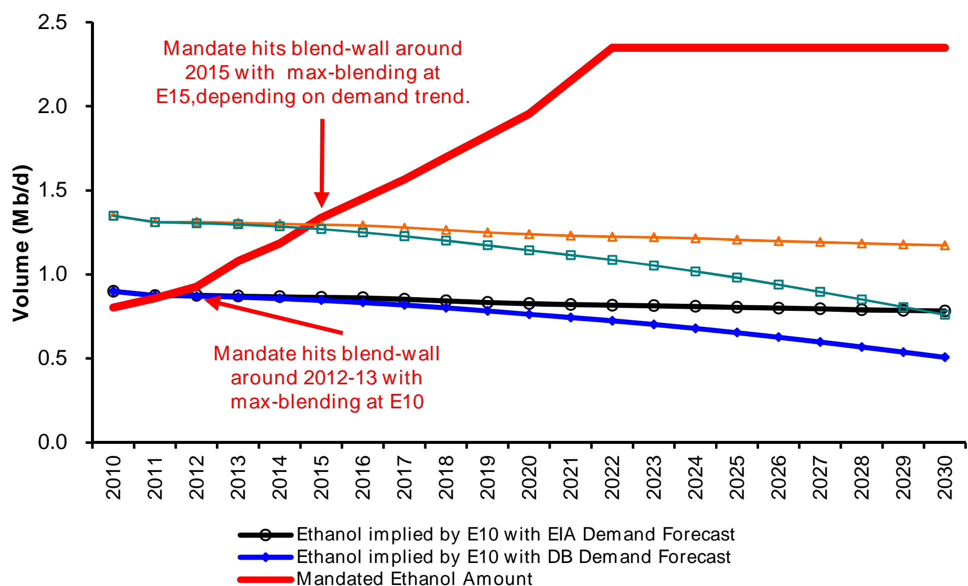
Figure 2: Ethanol blend wall is just around the corner



Source: EIA, RFA ,Deutsche Bank estimates

There is legislation pending in both Houses that would provide some kind of liability waiver that would allow blenders to go to E15, but it is unclear who would assume the liability (the government? Car manufacturers? Vehicle owners?) and it seems unlikely that any major legislation will move forward until the next Congress.

Hydrofracking regulation

Given public concern about drinking water, hydrofracking regulation/restriction will remain a background risk for the industry going forward, but for now it appears that there is both-sides-of-the-aisle agreement that the unconventional gas and oil revolution is a major positive for the US.

Both the Republicans and the Democrats we met with see the necessity for some regulation and oversight of fracking, Republicans insisting, not surprisingly, that the states are best equipped to handle that task, while the Democrats prefer Federal disclosure standards and possibly other regulations.

Note that the US Interior Department’s Bureau of Land Management has recently proposed a rule that would govern fracking on public lands, including “split estate” where the federal government owns the subsurface mineral estate beneath private lands.

Separately the EPA is studying the impact of fracking on drinking water and ground water at the request of Congress. A first report is due for peer review in late 2012, with certain portions due for release in 2014.

One key aspect of the regulation debate is on disclosure of frack fluids. Currently many states already have, or are developing, their own regulations addressing this but environmental opposition abounds as regards legislative loopholes. Companies are seemingly allowed to avoid reporting the fluids and chemicals used during certain periods of drilling, and to decide which chemicals are proprietary trade secrets exempt from disclosure.

In addition the Senate of Ohio, for example, has passed Gov. John Kasich's Sub. S.B. 315 which would give doctors new access to frack liquid elements, but would prohibit them from sharing the "trade secrets" with the public; this bill has gone to the Ohio House for consideration. We expect the tug of war over fracking regulation to continue into the foreseeable future under the mantras of "safe drinking water", "job creation" and "energy security". And the commercial sensitivities are all compared to Coca Cola.

Gasoline prices & the Strategic Petroleum Reserve

With gasoline at ~$3.50-3.60/gallon, it is a common view that the probability of a SPR release has declined. The recent pullback in international oil prices has also contributed to this perception, especially with the Saudi production at ~10m b/d. An SPR release would be upsetting to the Saudis, who may well have acted to bring down oil prices, as they have succeeded in doing recently, in consultation with the US government.

From a timing perspective, the window for such a move would be relatively short. In previous releases, the announcement was followed by an auction period (5 days to 1 week) and the companies had between 1 and 2 months to take delivery. For a release to have an impact on gasoline prices over the summer, when they usually peak, and before September so as to have an impact on presidential campaign, a SPR release would have to occur in this month.

Iran

The Saudis may not tighten oil markets for two key reasons: first, given their policy of supporting the incumbent US President, they may allow prices to drift lower. Second and more importantly, they may want to see the impact of full financial sanctions on Iranian oil supply when those sanctions fully kick in on July 1. Iranian production has already fallen dramatically, watch for another leg down as those remaining buyers face major challenges in re-insurance and resultant issues fixing tankers over the coming weeks. For Iran, the choice is now becoming just how much they wish to pursue a nuclear agenda given the crippling cost it is now clearly suffering to its wider economy. Could there be a capitulation? There was in the Iran-Iraq war, again when economic cost became over-powering to political agenda. We can but hope that good sense prevails. For many years now, we have downplayed the risk of a bombing attack on Iran or full-scale military action. As we now see the end-game approaching, we actually consider there more risk of a negative surprise, given consensus has finally moved to doubt any action, and on balance to expect a negotiated outcome.

Positive surprise and historic turn: Turkey and Kurdistan's massively improved relations. Give peace a chance.

Valuation

Figure 3: Valuation and Risks

Ticker	Company	Rec	Share Price		Price Target	NAV/Share	Market Cap (US$bn)	Price/Earnings Ratio (x) 2011	2012E	2013E	EV/DACF 2011	2012E	2013E	EV/EBITDA 2011	2012E	2013E	EV/1P Reserves $/boe
Super Majors																	
BP.L	BP	Buy	GBp	406.95	525.0	920	123.13	6.2	5.7	5.1	4.3	5.8	4.3	3.8	3.5	4.1	8.7
CVX.N	Chevron	Buy	$	99.80	130.0	142	195.62	7.6	7.5	6.7	4.8	4.9	4.5	3.7	3.6	3.3	16.7
XOM.N	ExxonMobil	Buy	$	80.18	100.0	84	371.27	9.7	9.7	8.8	7.2	6.1	6.2	5.8	6.4	5.9	15.1
RDSa.L	Royal Dutch Shell a	Buy	GBp	2031.00	2600.0	4472	204.37	8.7	6.6	5.8	5.7	4.3	3.8	5.2	4.1	3.5	15.1
RDSb.L	Royal Dutch Shell b	Buy	GBp	2107.50	2600.0	4472	212.07	8.8	6.7	6.1	5.7	4.4	3.9	5.1	3.7	3.3	15.5
TOTF.PA	Total SA	Hold	EUR	34.80	45.0	67	109.73	7.8	6.4	5.7	4.6	4.7	4.2	3.3	2.9	2.6	10.8
	Average							**8.1**	**7.1**	**6.4**	**5.4**	**5.0**	**4.5**	**4.5**	**4.0**	**3.8**	**13.7**
North American Mid-Majors																	
COP.N	ConocoPhillips	Hold	$	53.58	60.0	72	66.43	6.3	8.0	6.5	4.6	5.7	4.5	3.3	4.0	3.6	10.0
HES.N	Hess Corporation	Hold	$	45.10	62.0	91	15.35	11.9	7.3	5.6	5.6	4.2	4.1	4.7	3.1	3.0	14.3
MRO.N	Marathon Oil	Hold	$	24.96	37.0	46	17.72	6.6	6.6	5.4	4.5	4.1	3.3	3.4	2.7	2.3	11.9
MUR.N	Murphy Oil	Hold	$	46.92	64.0	91	9.14	10.6	7.6	6.0	5.4	2.7	2.9	4.2	2.7	2.5	17.2
OXY.N	Occidental Petroleum	Buy	$	84.57	125.0	127	67.35	11.4	10.0	7.8	6.5	5.6	4.4	5.7	4.5	3.6	22.4
SU.TO	Suncor Energy	Hold	C$	29.24	37.0	45	46.13	10.4	7.7	6.0	6.2	4.6	3.6	5.7	4.0	3.1	24.3
CNQ.TO	Canadian Natural Resources	Hold	C$	29.41	44.0	50	32.86	18.1	11.5	8.0	8.1	5.4	4.3	6.8	4.9	3.8	9.8
	Average							**10.7**	**8.4**	**6.5**	**5.8**	**4.6**	**3.8**	**4.8**	**3.7**	**3.1**	**15.7**
North American E&P																	
APA.N	Apache Corporation	Buy	$	83.59	119.0	125	33.75	9.3	6.4	6.1	5.2	4.0	3.3	6.0	3.3	2.7	14.7
APC.N	Anadarko Petroleum	Buy	$	62.16	98.0	121	31.14	22.6	15.5	9.6	16.7	5.4	3.9	9.2	4.2	3.5	17.1
CHK.N	Chesapeake Energy	Hold	$	18.21	20.0	36	13.69	10.1	37.4	10.3	5.8	9.1	4.1	7.7	8.2	4.2	7.7
DVN.N	Devon Energy	Hold	$	60.09	75.0	87	24.31	12.5	12.6	7.6	5.6	5.8	4.0	6.1	5.3	3.8	10.3
ECA.TO	Encana Corporation	Hold	C$	21.38	17.0	20	15.92	50.8	25.2	215.4	6.2	7.1	9.4	5.8	5.9	8.9	9.0
EOG.N	EOG Resources	Buy	$	94.92	129.0	149	25.65	26.4	18.5	11.1	6.6	6.1	4.7	11.4	5.6	4.5	15.3
NFX.N	Newfield Exploration	Hold	$	29.19	38.0	40	3.93	14.9	8.9	5.8	6.6	3.8	3.1	6.9	3.8	2.9	10.3
NBL.N	Noble Energy	Buy	$	85.45	129.0	130	15.38	16.8	12.5	8.3	7.9	5.8	4.8	9.1	5.3	4.1	13.8
PXD.N	Pioneer Natural Resources	Hold	$	94.53	116.0	121	11.93	21.1	16.8	10.9	7.9	7.7	5.5	11.8	6.9	5.2	14.2
RRC.N	Range Resources	Hold	$	58.59	69.0	73	9.37	52.7	76.6	50.9	16.2	18.1	13.7	88.2	19.4	12.8	14.9
SWN.N	Southwestern Energy	Hold	$	28.14	33.0	32	9.85	21.7	22.7	17.5	8.7	7.1	5.9	9.4	7.4	5.9	11.9
UPL.N	Ultra Petroleum	Hold	$	19.60	25.0	25	3.01	16.0	14.7	17.3	7.7	6.0	7.1	10.1	5.5	6.8	5.8
	Average							**22.9**	**22.3**	**30.9**	**8.4**	**7.2**	**5.8**	**15.1**	**6.7**	**5.4**	**12.1**
European Mid-majors																	
BG.L	BG Group	Buy	GBp	1241.00	1800.0	NA	67.43	16.7	13.1	10.0	12.8	8.9	7.3	8.6	6.2	5.5	23.6
ENI.M	Eni	Buy	EUR	15.98	20.0	NA	80.68	8.5	7.5	6.7	5.3	4.2	4.1	3.3	2.7	2.6	16.5
REP.MC	Repsol	Hold	EUR	12.65	17.0	NA	21.42	14.0	7.9	7.4	6.9	4.6	4.7	5.6	4.5	4.4	17.3
STL.OL	Statoil	Buy	NOK	137.70	180.0	NA	78.27	7.6	7.6	7.4	4.0	4.1	4.1	2.0	1.9	1.8	15.7
	Average							**11.7**	**9.0**	**7.9**	**7.2**	**5.5**	**5.0**	**4.9**	**3.8**	**3.6**	**18.3**

Ticker	Company	Discounted Oil Price $/bbl	ROCE 2011	2012E	2013E	Price/Cash Flow from Operations (x) 2011	2012E	2013E	Free Cash Flow Yield 2011	2012E	2013E	Net Debt/Total Cap. Employed (%) 2012E	2013E	Dividend Yield 2012E	Total Cash Yield 2012E
Super Majors															
BP.L	BP	103.03	11%	10%	10%	6.0	5.3	3.8	-3%	3%	9%	16%	13%	4.9%	4.9%
CVX.N	Chevron	84.26	21%	19%	18%	4.9	5.1	4.6	7%	6%	7%	-6%	-5%	3.5%	6.1%
XOM.N	ExxonMobil	82.97	23%	21%	21%	7.0	6.1	6.1	9%	9%	7%	0%	1%	2.7%	7.6%
RDSa.L	Royal Dutch Shell a	76.00	11%	12%	13%	6.1	4.2	3.8	7%	9%	12%	7%	3%	5.4%	5.4%
RDSb.L	Royal Dutch Shell b	76.00	11%	13%	13%	6.1	4.4	4.1	7%	9%	11%	6%	2%	5.1%	5.1%
TOTF.PA	Total SA	100.48	11%	11%	11%	4.5	3.8	3.4	2%	5%	11%	15%	13%	6.7%	6.6%
	Average	**87.13**	**15%**	**14%**	**15%**	**5.8**	**4.8**	**4.3**	**5%**	**7%**	**10%**	**6%**	**4%**	**4.7%**	**5.9%**
North American Mid-Majors															
COP.N	ConocoPhillips	94.86	14%	10%	11%	3.9	4.6	3.5	15%	11%	8%	20%	22%	4.9%	19.9%
HES.N	Hess Corporation	119.43	10%	9%	10%	4.8	3.0	2.8	-6%	-8%	-6%	27%	28%	0.9%	0.9%
MRO.N	Marathon Oil	94.86	12%	12%	13%	3.7	3.5	2.9	-9%	5%	10%	15%	9%	2.7%	2.7%
MUR.N	Murphy Oil	96.27	11%	12%	13%	5.7	2.7	2.7	-4%	0%	-3%	1%	5%	3.0%	2.9%
OXY.N	Occidental Petroleum	100.18	16%	15%	17%	6.3	5.3	4.4	3%	5%	8%	8%	1%	2.6%	7.0%
SU.TO	Suncor Energy	78.39	12%	13%	14%	5.7	4.3	3.5	11%	7%	11%	10%	3%	1.7%	3.2%
CNQ.TO	Canadian Natural Resources	105.42	9%	9%	12%	7.0	4.4	3.6	-1%	0%	5%	26%	20%	1.4%	0.9%
	Average	**98.49**	**12%**	**11%**	**13%**	**5.3**	**4.0**	**3.3**	**1%**	**3%**	**5%**	**15%**	**13%**	**2.5%**	**5.4%**
North American E&P															
APA.N	Apache Corporation	110.46	14%	14%	13%	4.5	3.6	2.7	-1%	-5%	11%	21%	12%	0.8%	0.8%
APC.N	Anadarko Petroleum	101.25	5%	6%	10%	15.6	5.2	3.2	-9%	4%	19%	33%	18%	0.6%	0.6%
CHK.N	Chesapeake Energy	95.64	9%	3%	7%	3.8	6.1	2.3	5%	12%	12%	34%	30%	1.9%	1.9%
DVN.N	Devon Energy	144.66	22%	7%	10%	5.1	5.4	3.3	-4%	-10%	3%	22%	18%	1.3%	1.2%
ECA.TO	Encana Corporation	167.32	2%	3%	0%	4.9	5.4	7.2	2%	15%	-8%	39%	47%	3.7%	3.7%
EOG.N	EOG Resources	160.15	6%	8%	11%	5.8	5.8	3.6	-4%	-5%	-5%	29%	31%	0.7%	0.6%
NFX.N	Newfield Exploration	101.21	8%	6%	9%	5.0	2.8	2.0	-8%	12%	11%	39%	32%	0.0%	0.0%
NBL.N	Noble Energy	149.65	11%	13%	16%	7.3	6.2	4.0	-6%	3%	-7%	13%	20%	1.0%	0.9%
PXD.N	Pioneer Natural Resources	114.37	12%	9%	11%	7.1	7.2	4.3	-4%	-6%	1%	32%	28%	0.0%	0.5%
RRC.N	Range Resources	161.83	1%	1%	3%	14.7	16.4	10.1	-8%	-11%	-7%	56%	60%	0.3%	5.9%
SWN.N	Southwestern Energy	118.32	14%	7%	8%	8.0	6.7	5.2	-2%	-6%	3%	28%	20%	0.0%	0.0%
UPL.N	Ultra Petroleum	174.88	13%	6%	5%	6.1	4.6	4.3	-8%	4%	0%	49%	47%	0.0%	0.2%
	Average		**10%**	**7%**	**9%**	**7.3**	**6.3**	**4.3**	**-4%**	**1%**	**3%**	**33%**	**30%**	**0.9%**	**1.4%**
European Mid-Majors															
BG.L	BG Group	182.18	10%	10%	11%	11.4	7.7	6.1	-5%	-1%	-2%	24%	25%	1.3%	1.3%
ENI.M	Eni	101.76	10%	11%	11%	3.8	3.3	3.0	5%	9%	10%	29%	26%	6.7%	6.6%
REP.MC	Repsol	100.12	5%	5%	5%	6.5	2.7	2.6	4%	12%	12%	36%	36%	9.1%	0.3%
STL.OL	Statoil	114.38	16%	16%	15%	4.0	4.9	3.6	5%	2%	5%	15%	13%	4.8%	4.9%
	Average	**124.61**	**10%**	**11%**	**11%**	**6.4**	**4.6**	**3.8**	**2%**	**6%**	**7%**	**26%**	**25%**	**5.5%**	**3.3%**

Source: Deutsche Bank, Bloomberg Finance LP

Appendix 1

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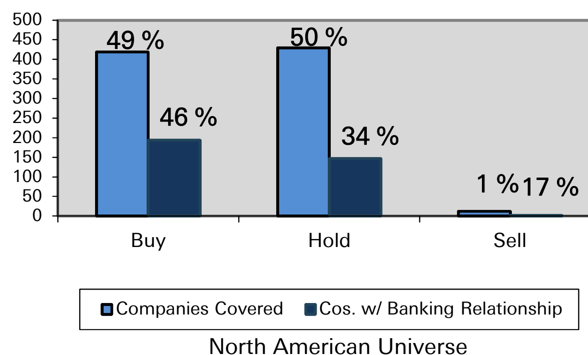
Equity rating dispersion and banking relationships



North American Universe

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