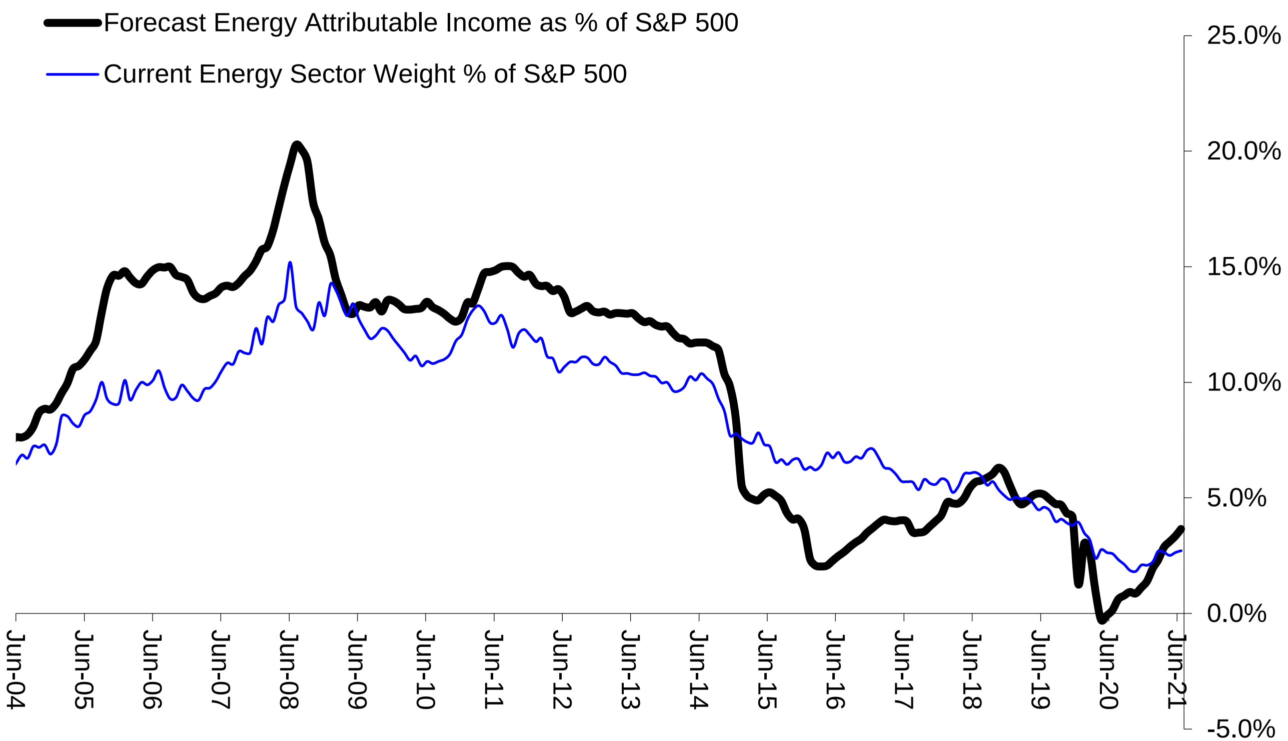
Sunday Sankey

Sankey Research 1st Anniversary

Seamore's DUMBO

How to read these charts:

Below, the thin blue line shows Energy (Oils + Utilities + Storage + Coal) share of market cap of S&P500 2004-2021
The thick black line shows Energy Share of Earnings of S&P500.



Source: Factset

The blue line is current market cap,

The black line shows one year forward consensus earnings estimates

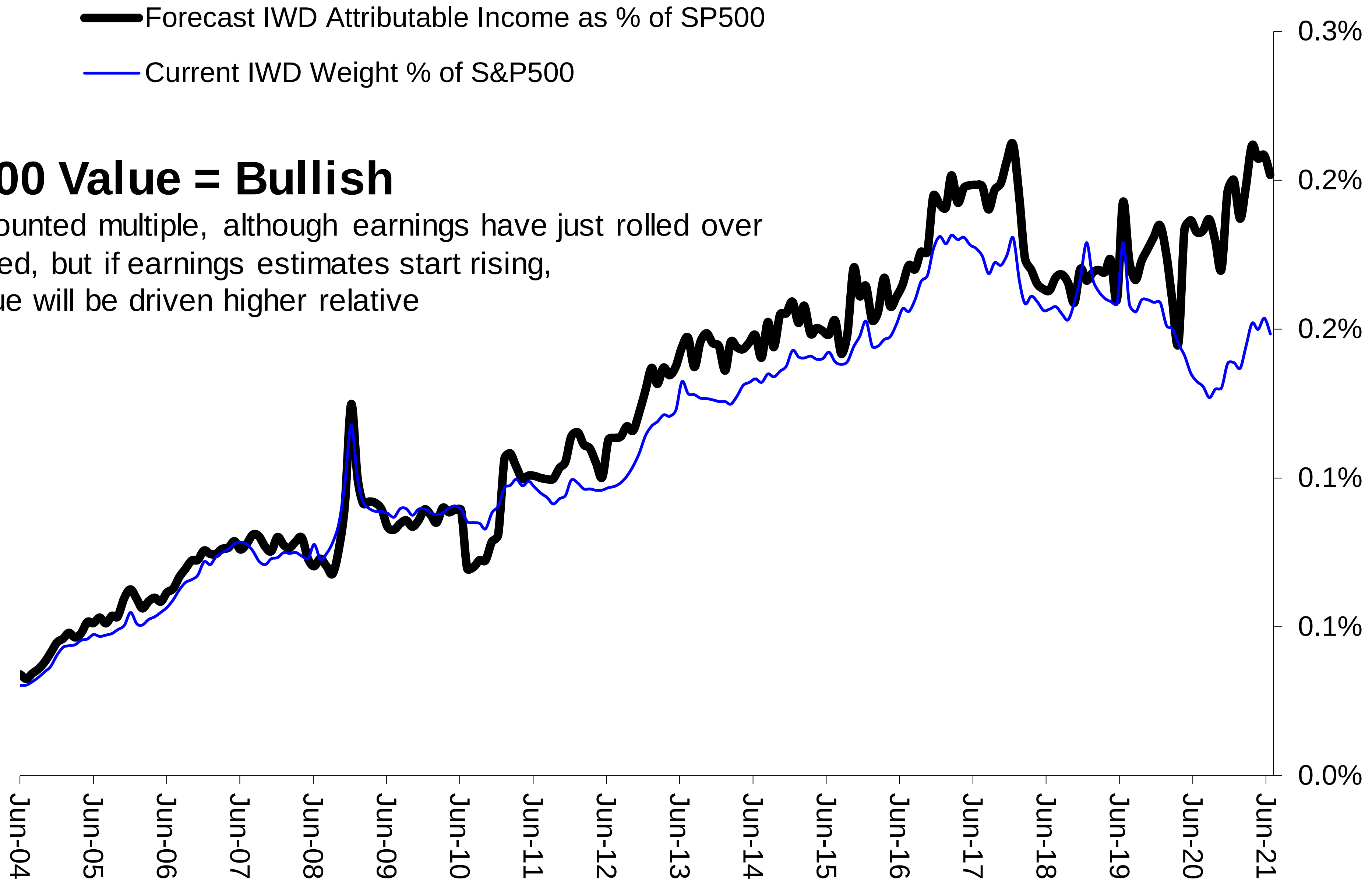
If the lines intersect, the sector/stock is by definition at a market multiple (share of earnings = share of market cap). If the blue line is below the black, the sector/stock is at a market discount multiple, and vice versa, blue above black = premium multiple.

Historically as shown, energy traded at a discount multiple from 2004-2014, then subsequently at a premium, which was very bearish for a low growth sector.

Now, finally, the lines have again flipped bullish.

Russell 1000 Value = Bullish

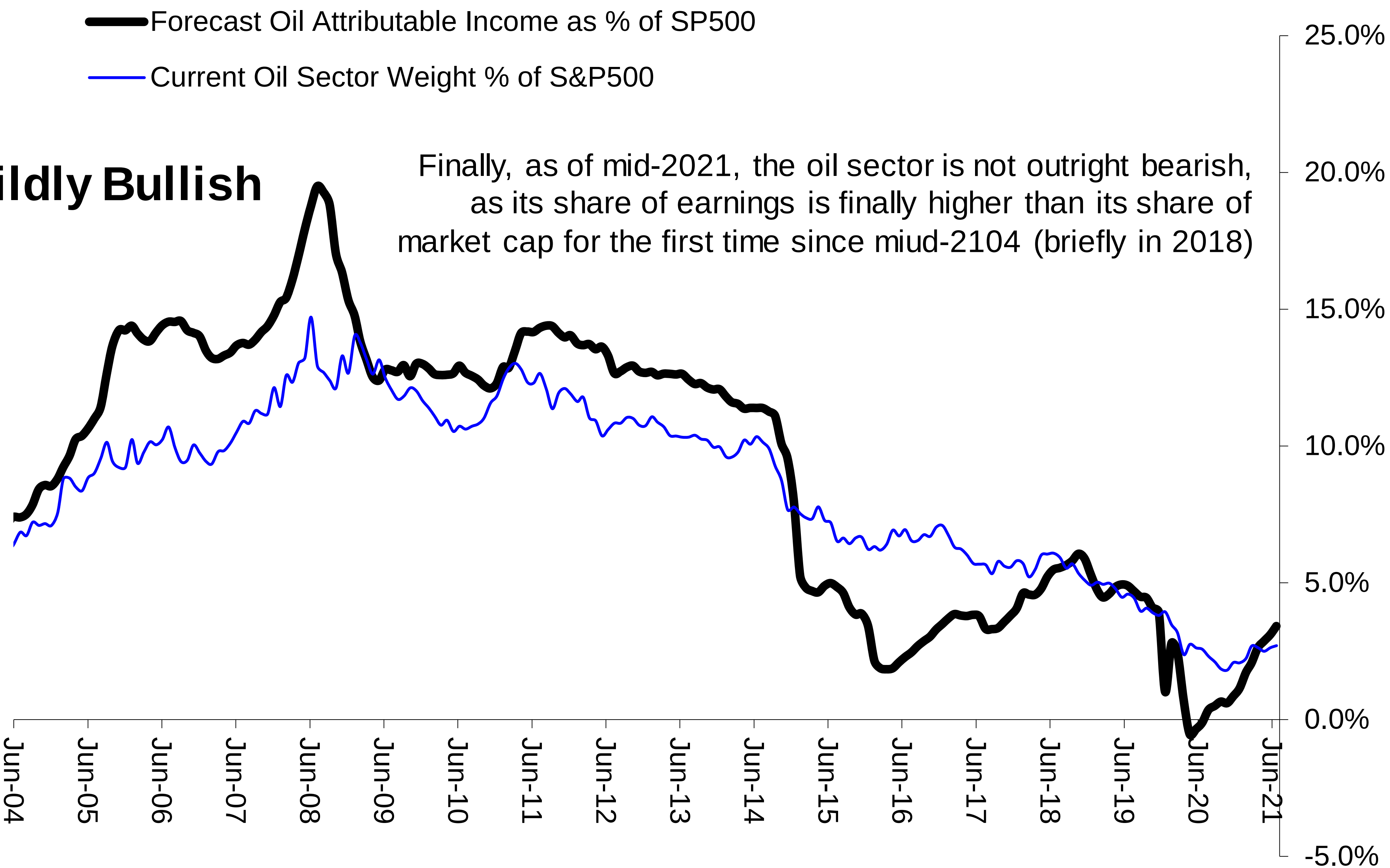
Now heavily discounted multiple, although earnings have just rolled over
Sector has followed, but if earnings estimates start rising,
Russell 1000 value will be driven higher relative



Source: Factset

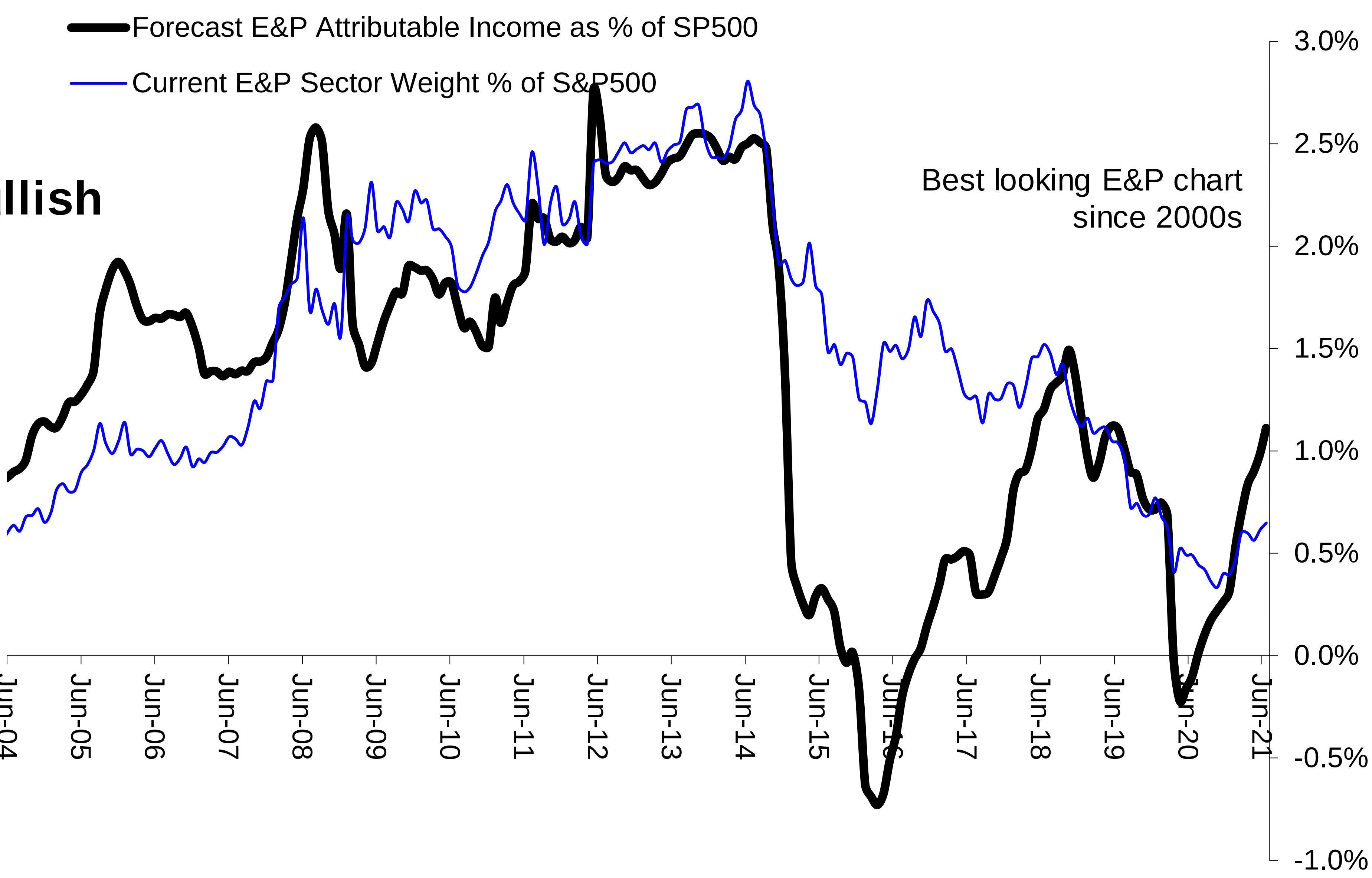
Oils = Mildly Bullish

Finally, as of mid-2021, the oil sector is not outright bearish, as its share of earnings is finally higher than its share of market cap for the first time since miud-2104 (briefly in 2018)



Source: Factset

E&P = Bullish

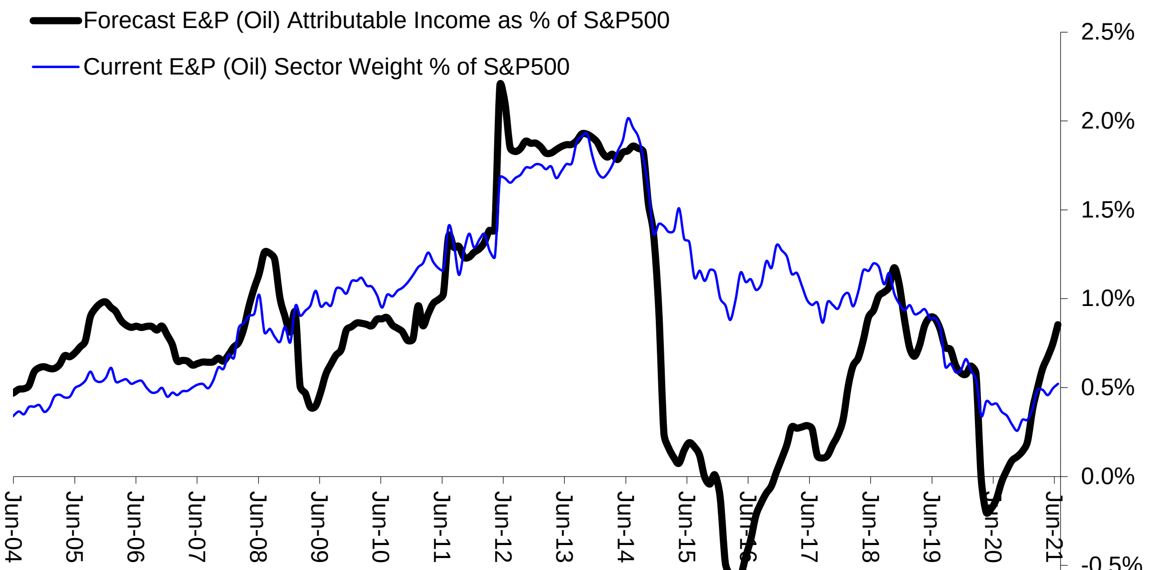


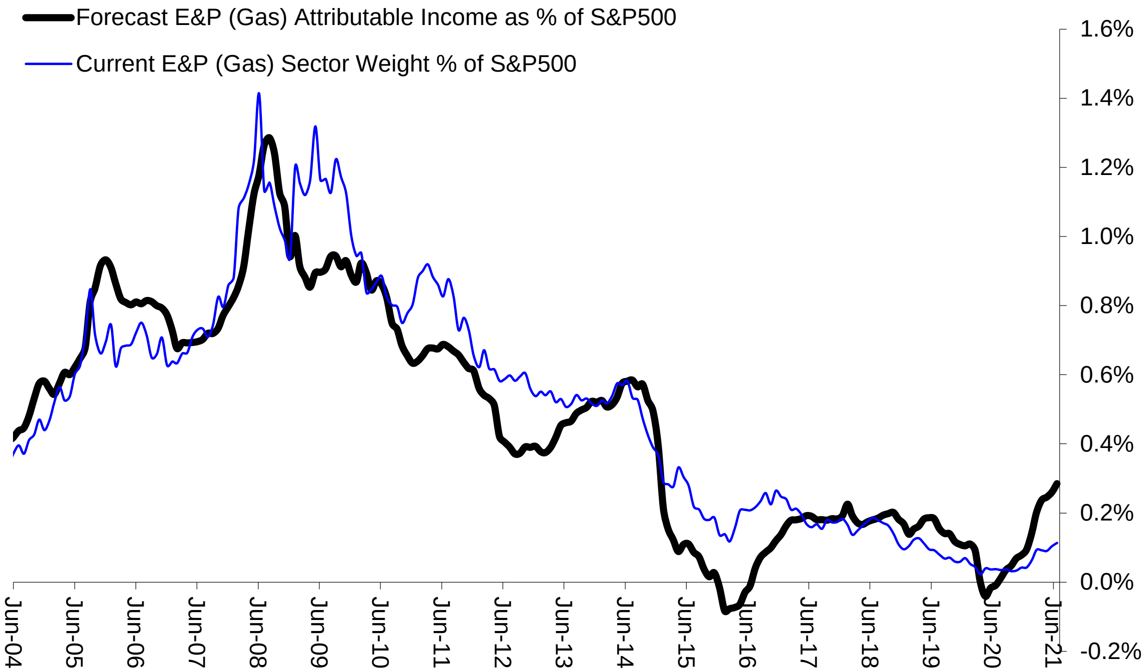
Source: Factset

Oily E&P = Bullish

Best looking E&P charts since 2000s

Gassy E&P = Bullish

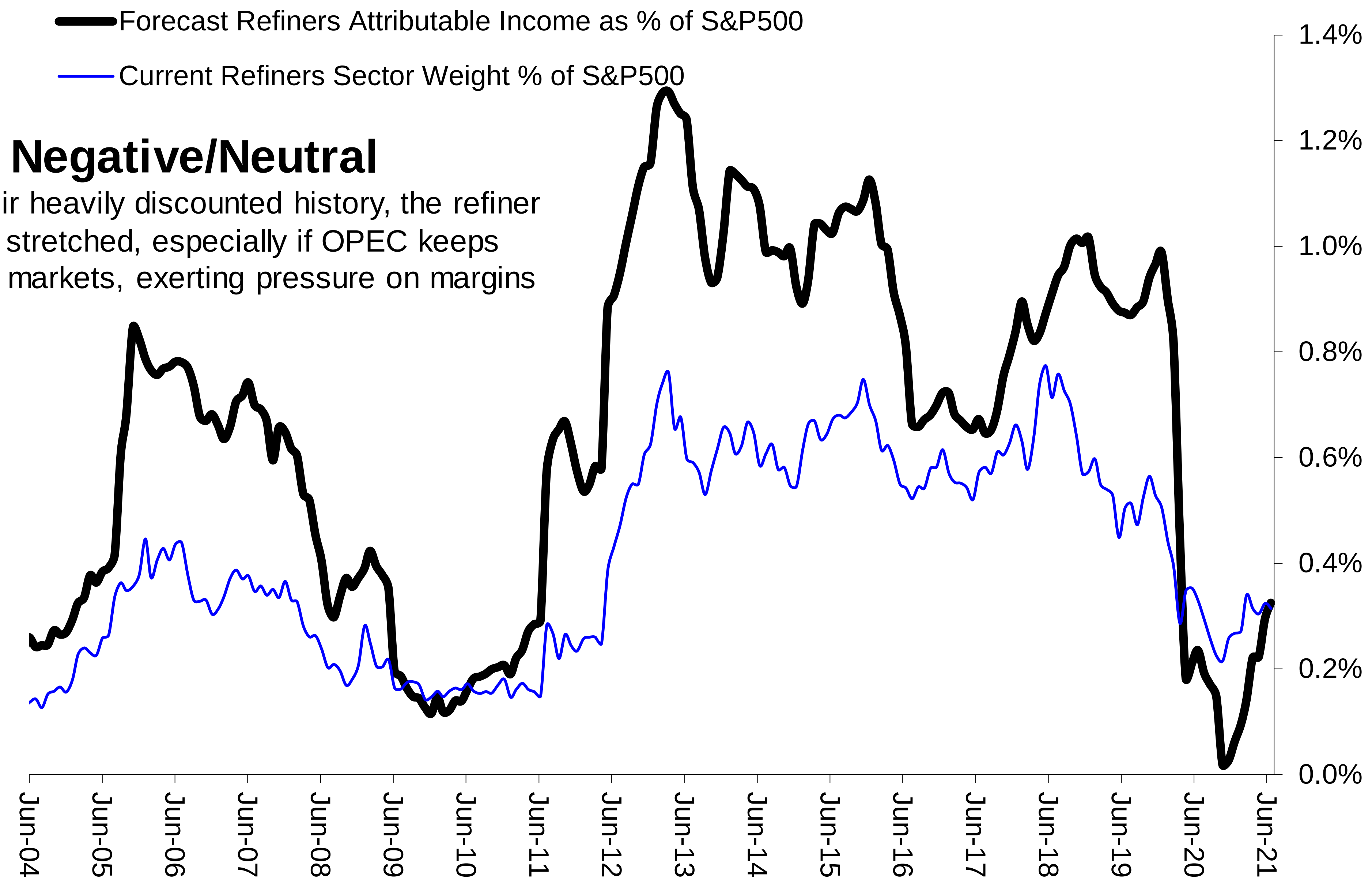




Source: Factset

Refiners = Negative/Neutral

Compared to their heavily discounted history, the refiner multiple remains stretched, especially if OPEC keeps squeezing crude markets, exerting pressure on margins

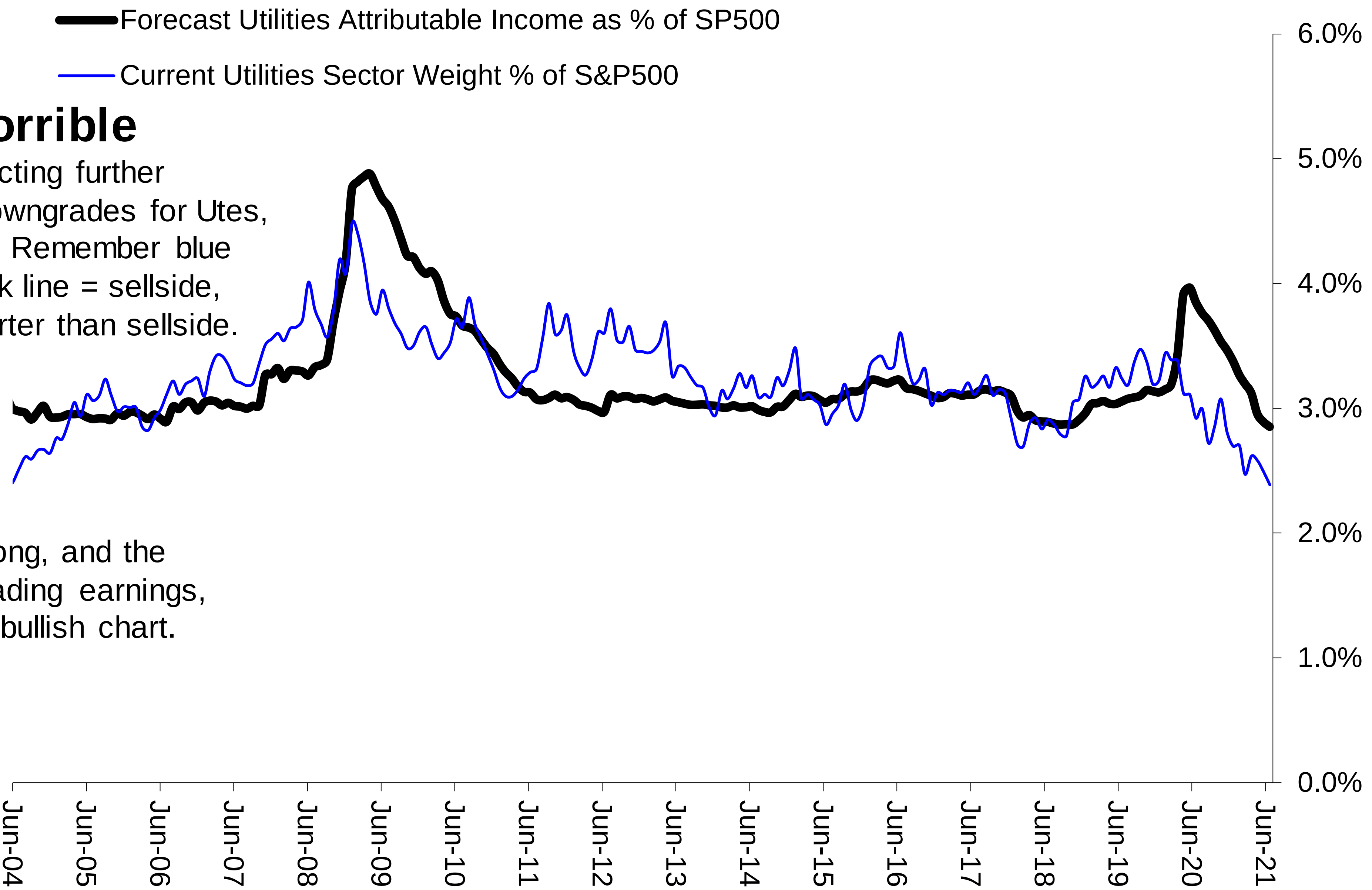


Source: Factset

Utilities = Horrible

The market is predicting further relative earnings downgrades for Utes, that are happening. Remember blue line = buyside, black line = sellside, and buyside is smarter than sellside. Negative look.

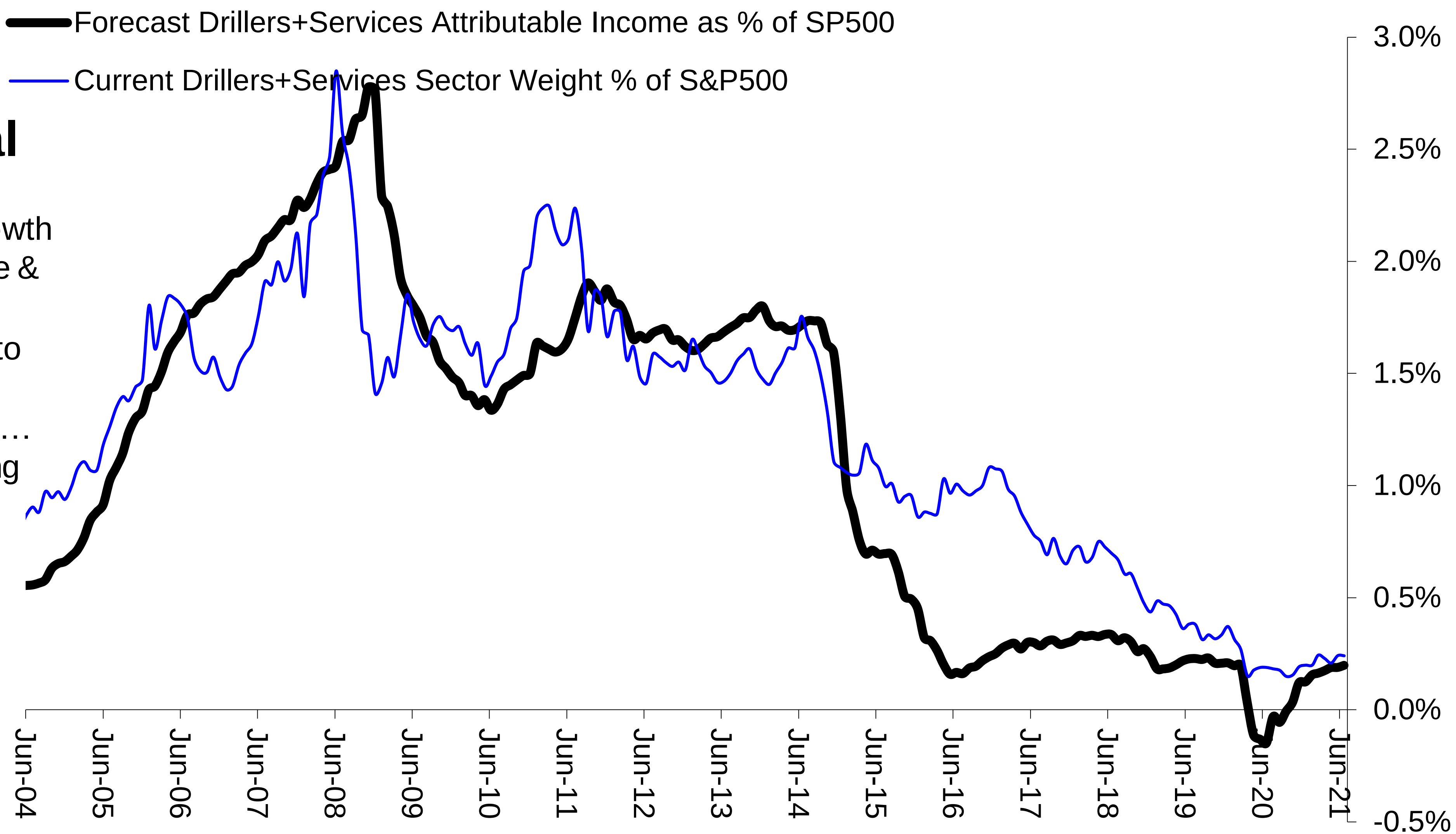
If the buyside is wrong, and the sellside starts upgrading earnings, would flip to a very bullish chart.



Source: Factset

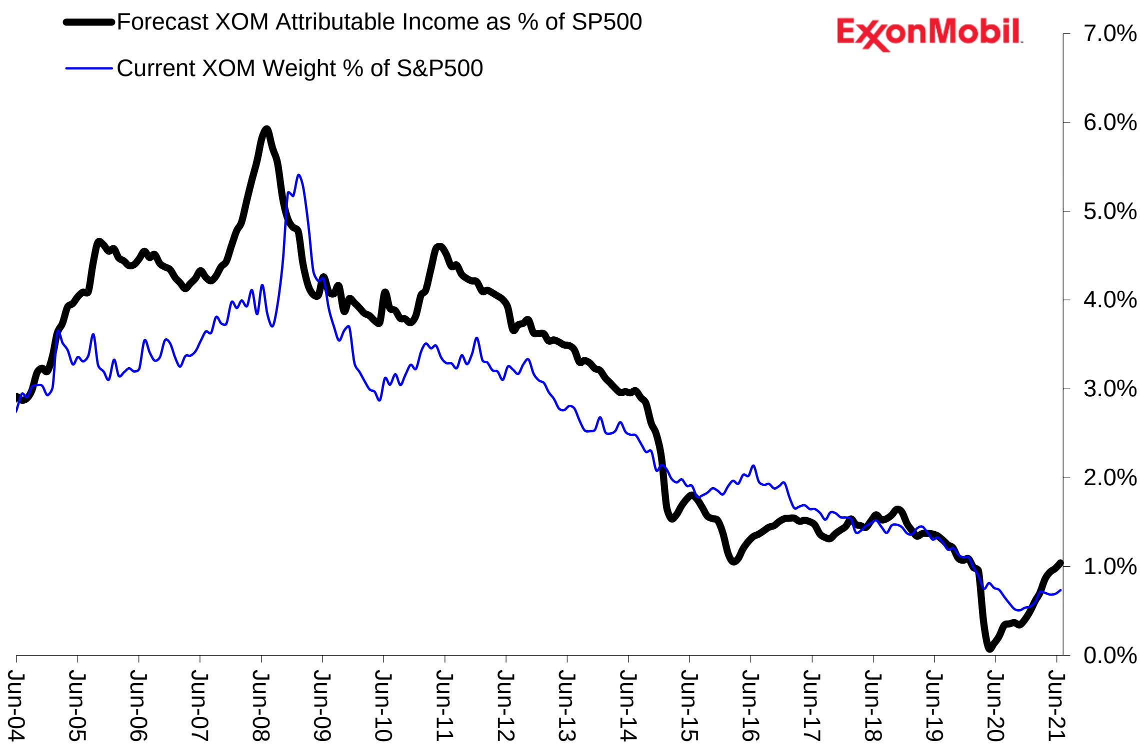
OSX = Neutral

Historic premium multiple based on growth premium of oil service & drilling has been destroyed. Not likely to return, so rapid EPS upgrades are needed… they are not happening as fast as eg E&P

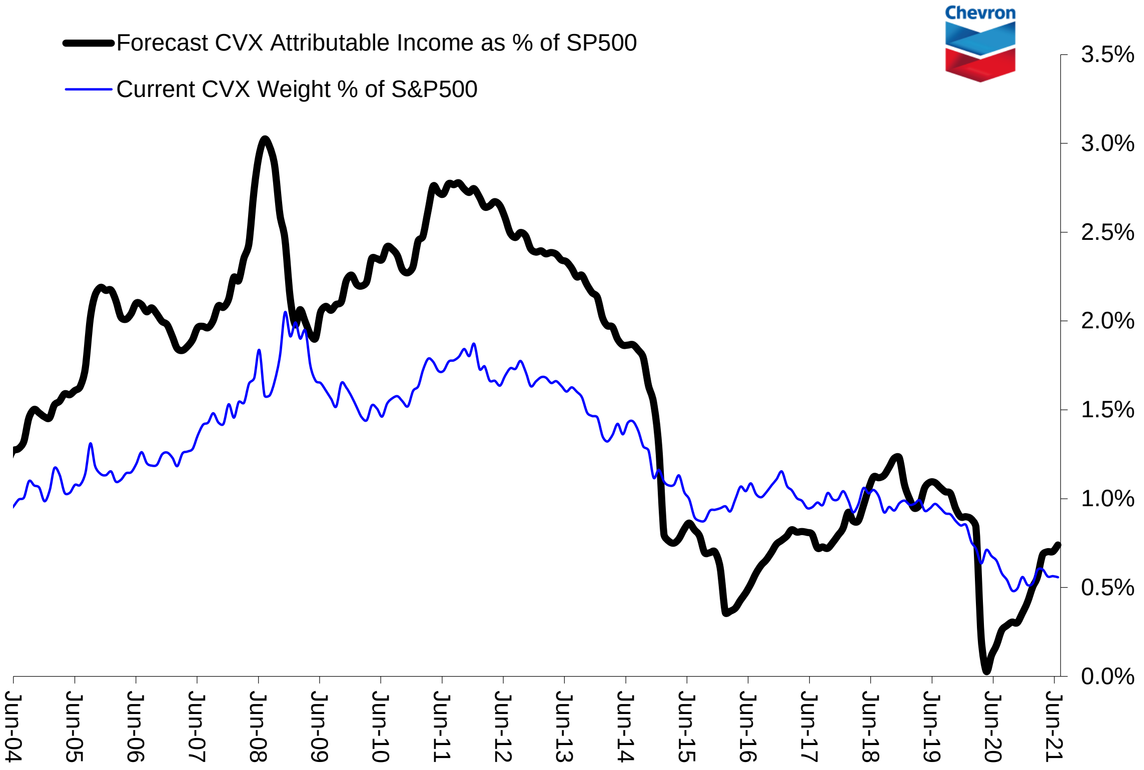


Source: Factset

ExxonMobil = Mildly Bullish



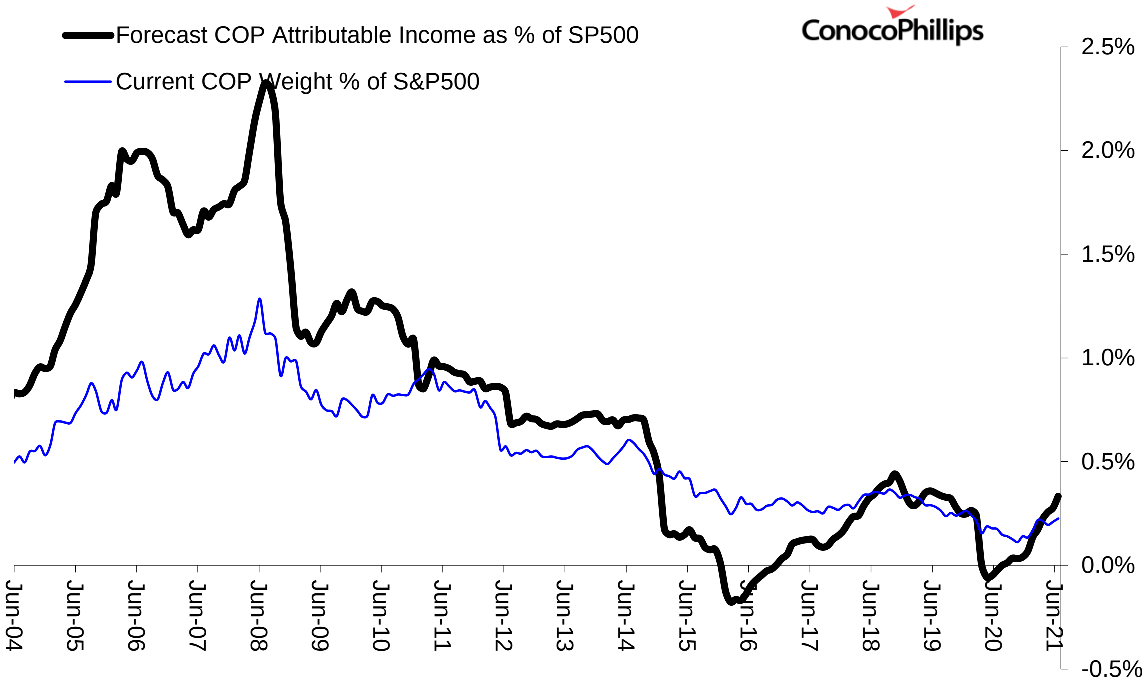
Chevron = Mildly Bullish

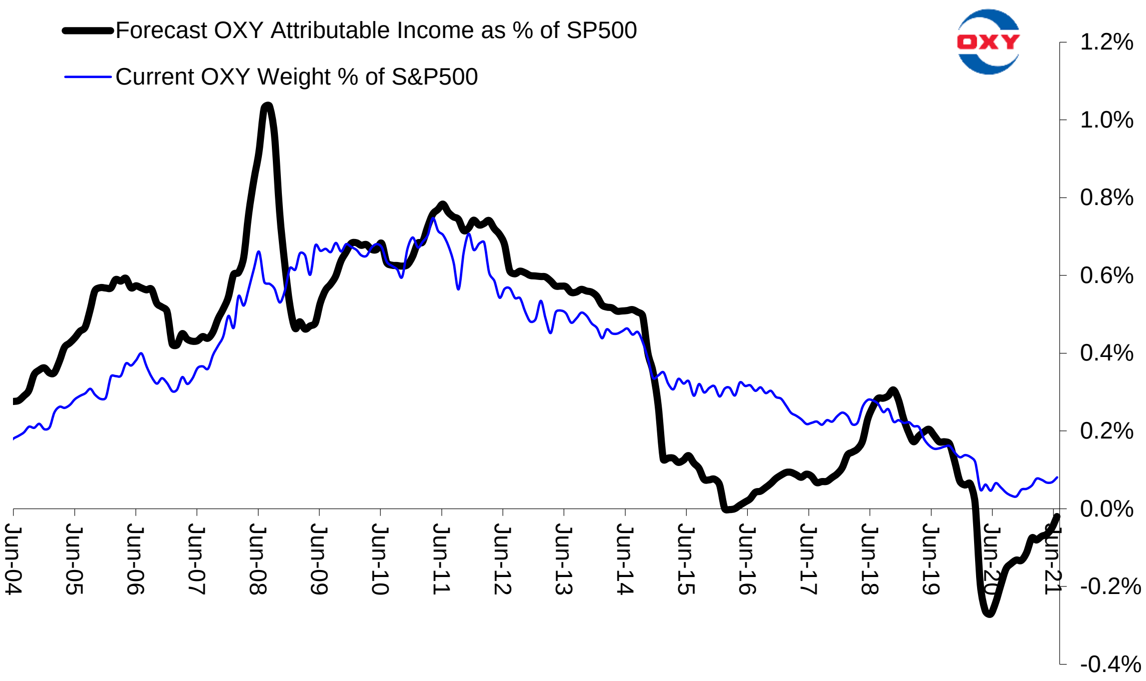


Source: Factset

ConocoPhillips =
Less Bullish than expected

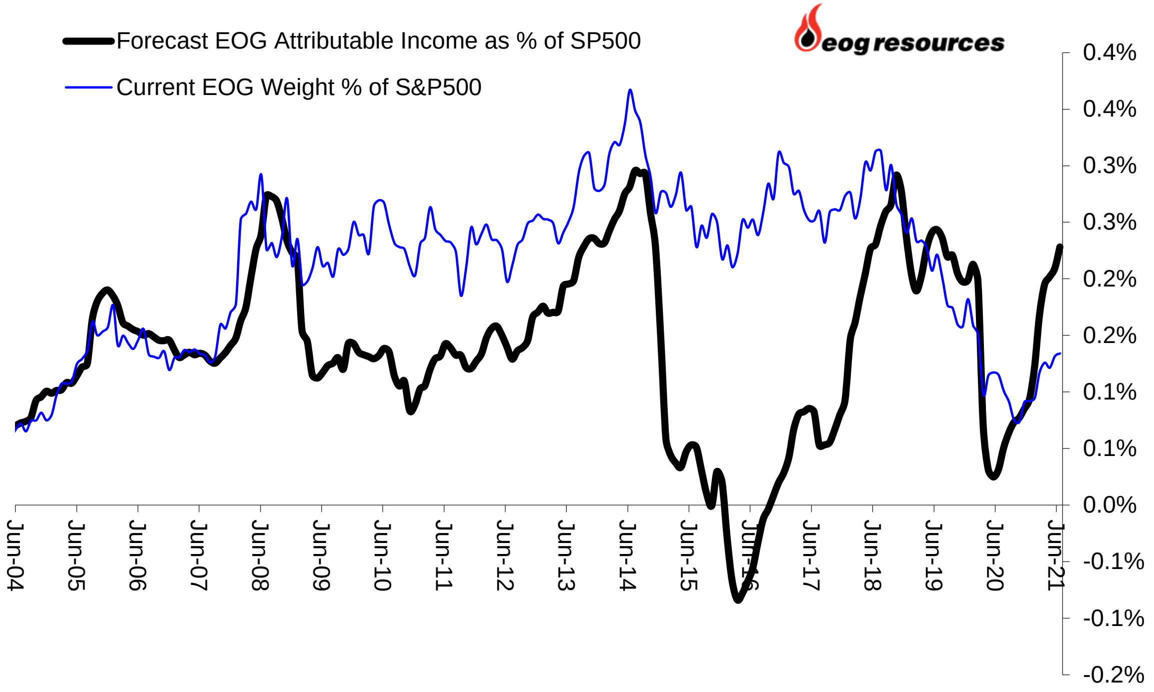
Oxy = Bearish



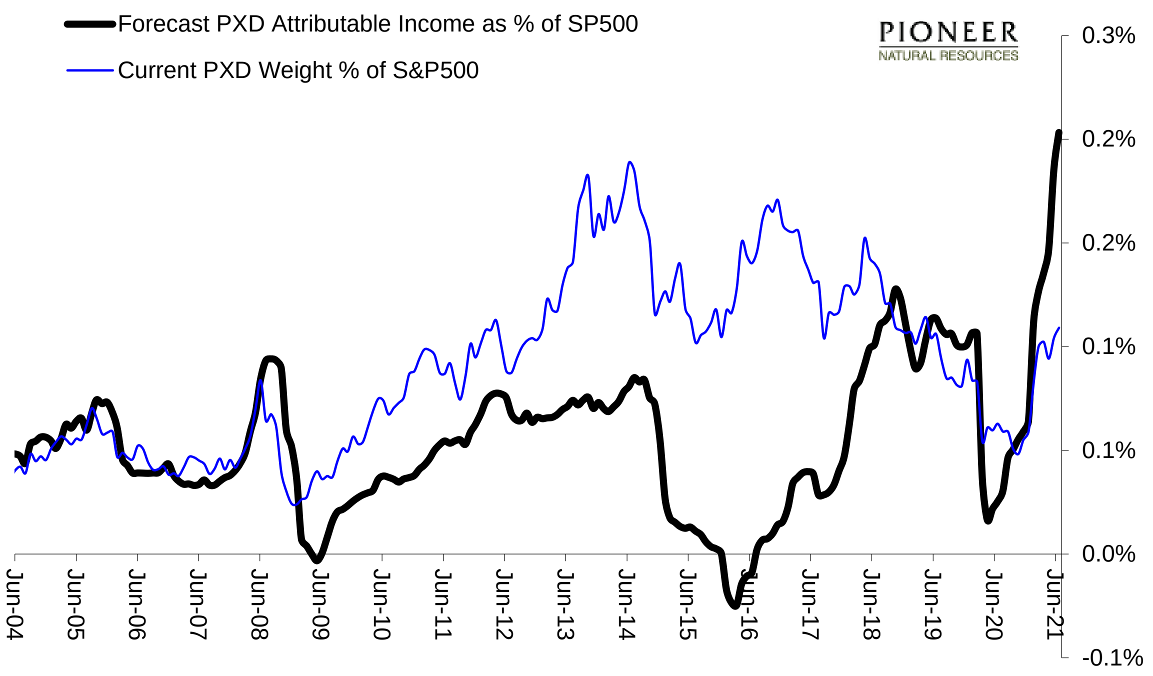


Source: Factset

EOG = super bullish



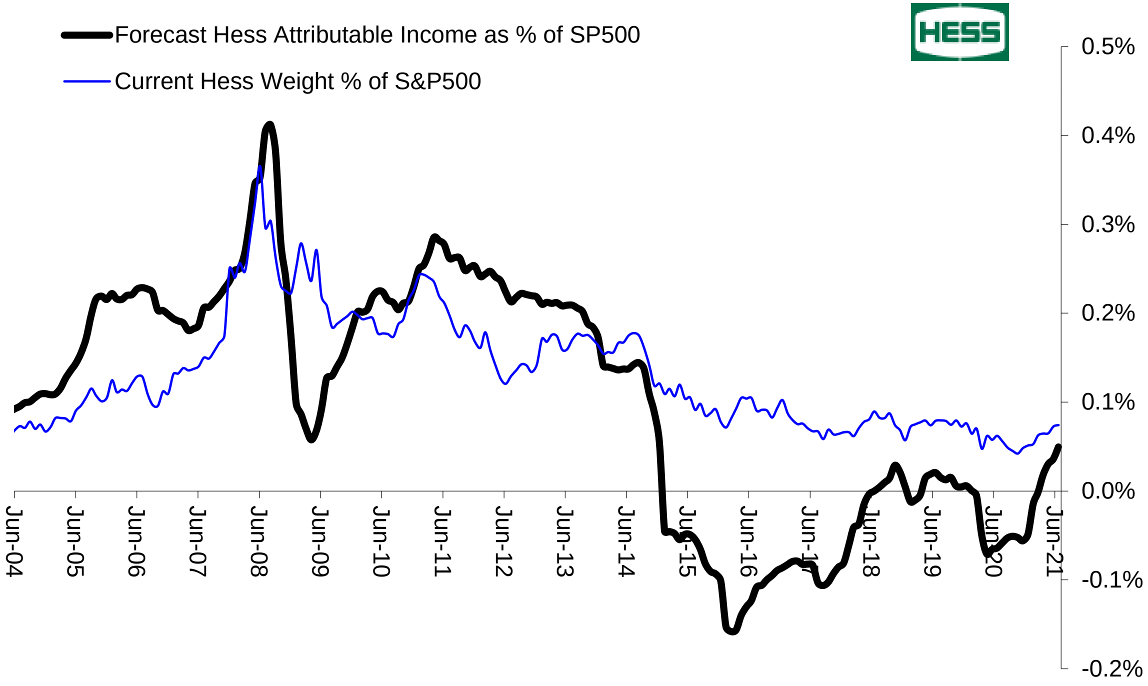
PXD = even more bullish

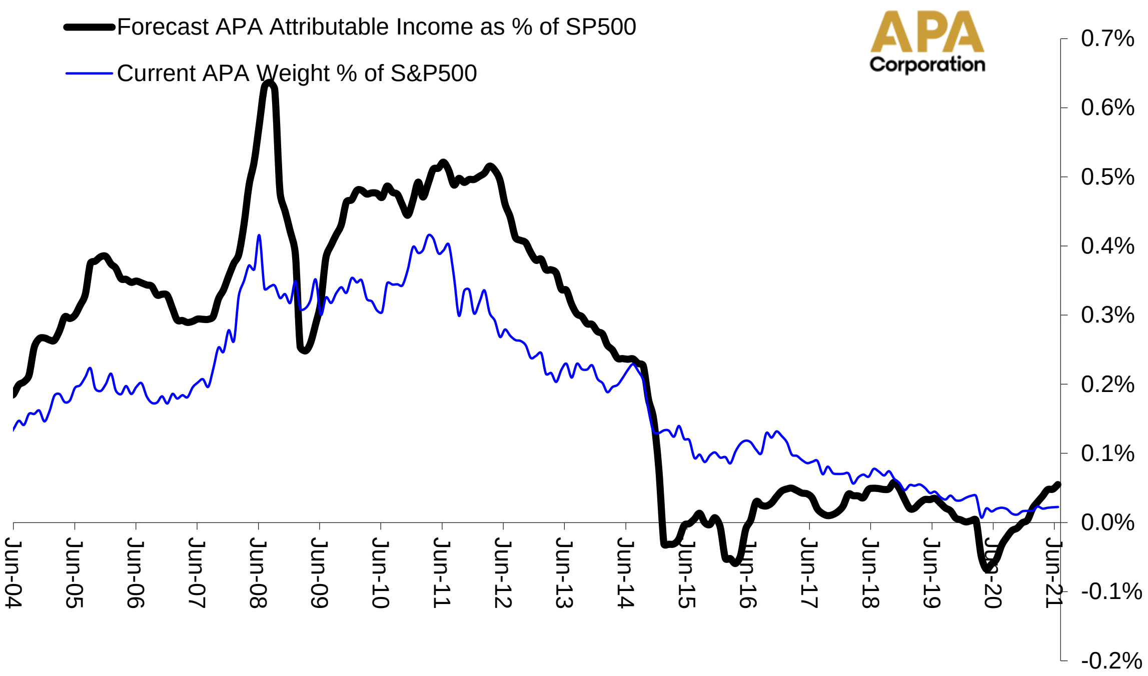


Source: Factset

HESS = trades on NAV, bullish

APA = bullish = EPS upside + NAV upside

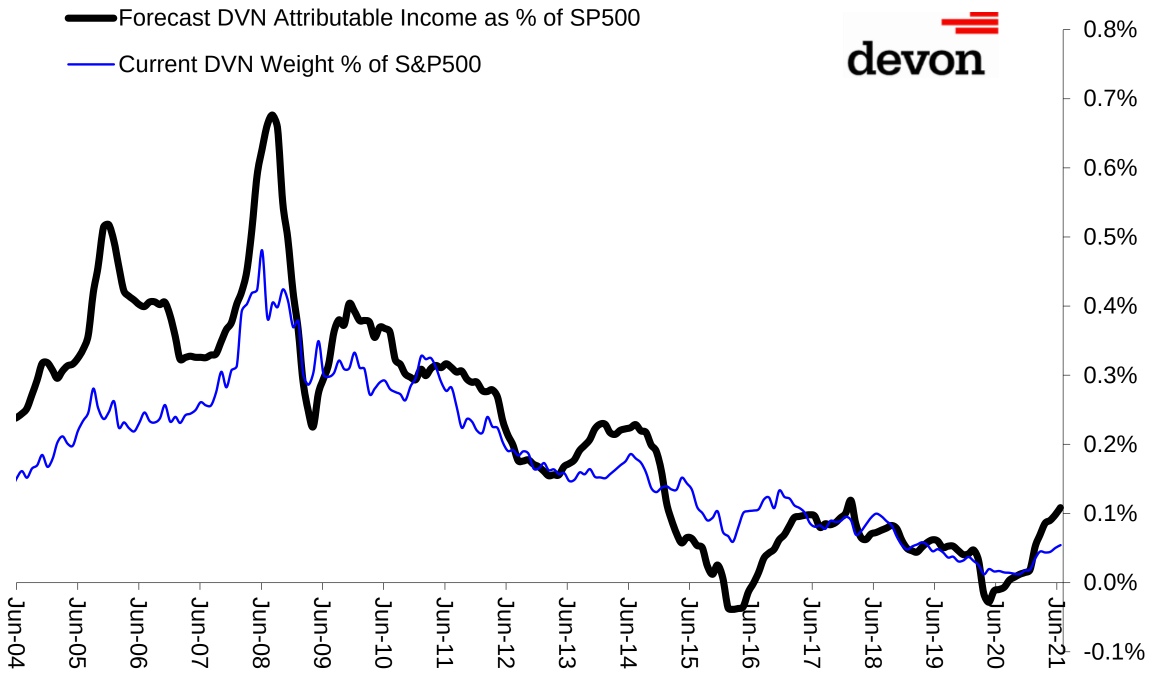


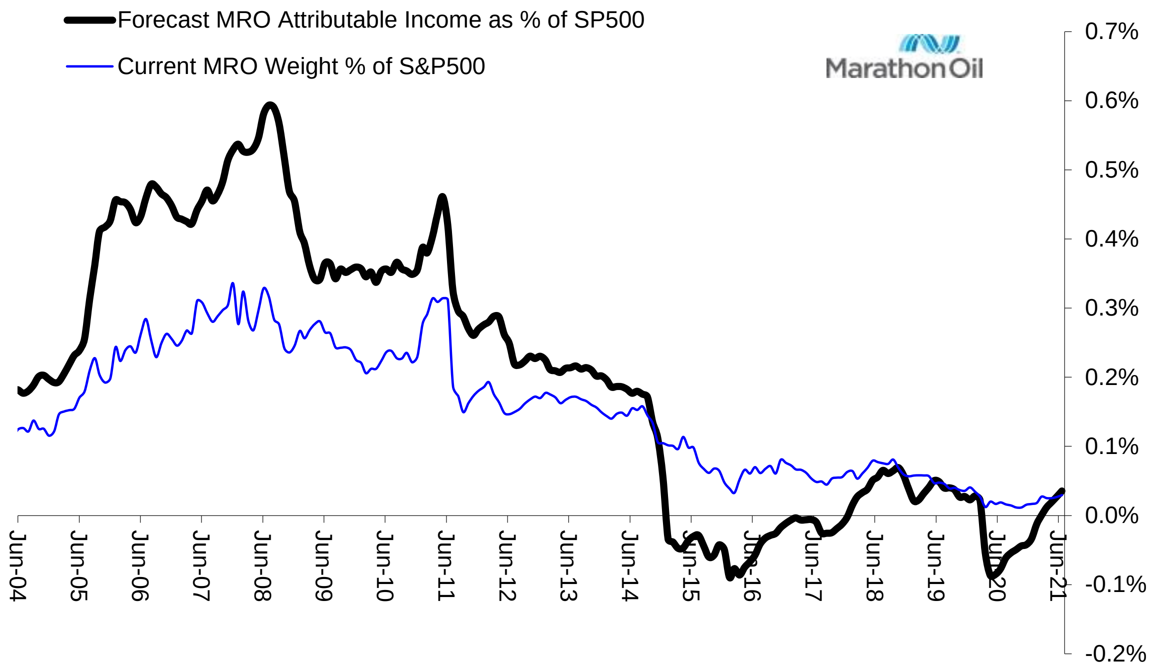


Source: Factset

Devon = mildly bullish, not PXD/EOG bullish

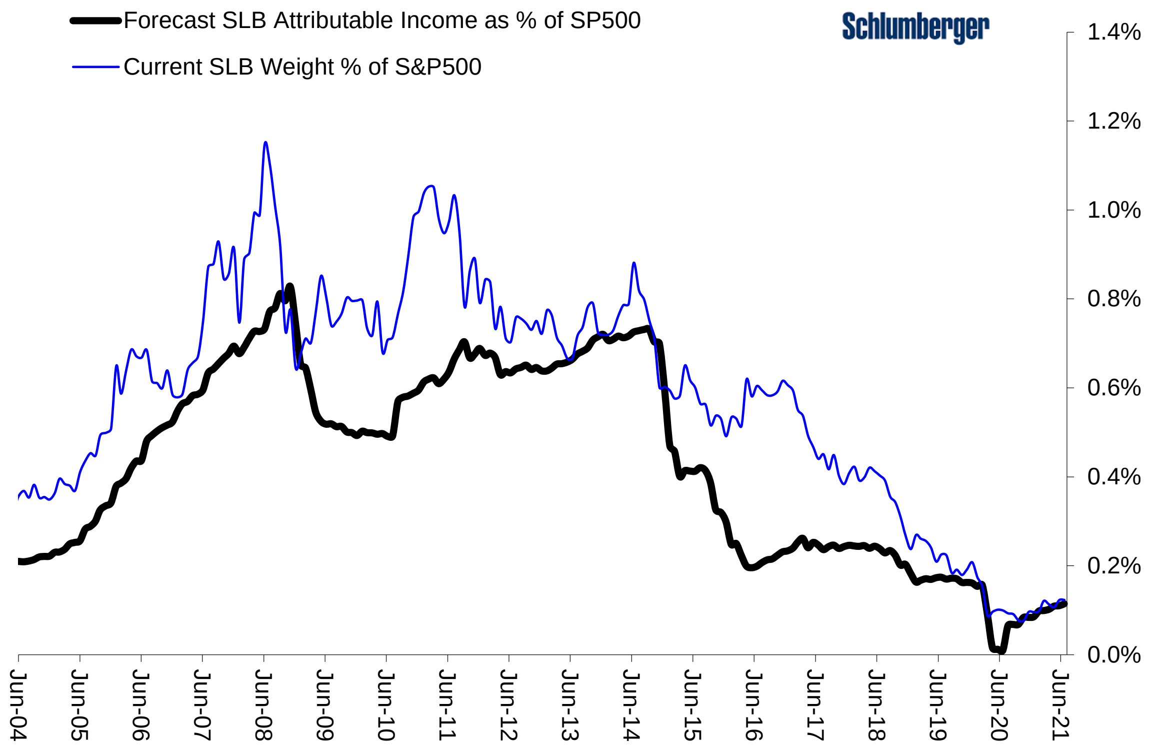
MRO = mildly bearish Needs EPS upside surprises

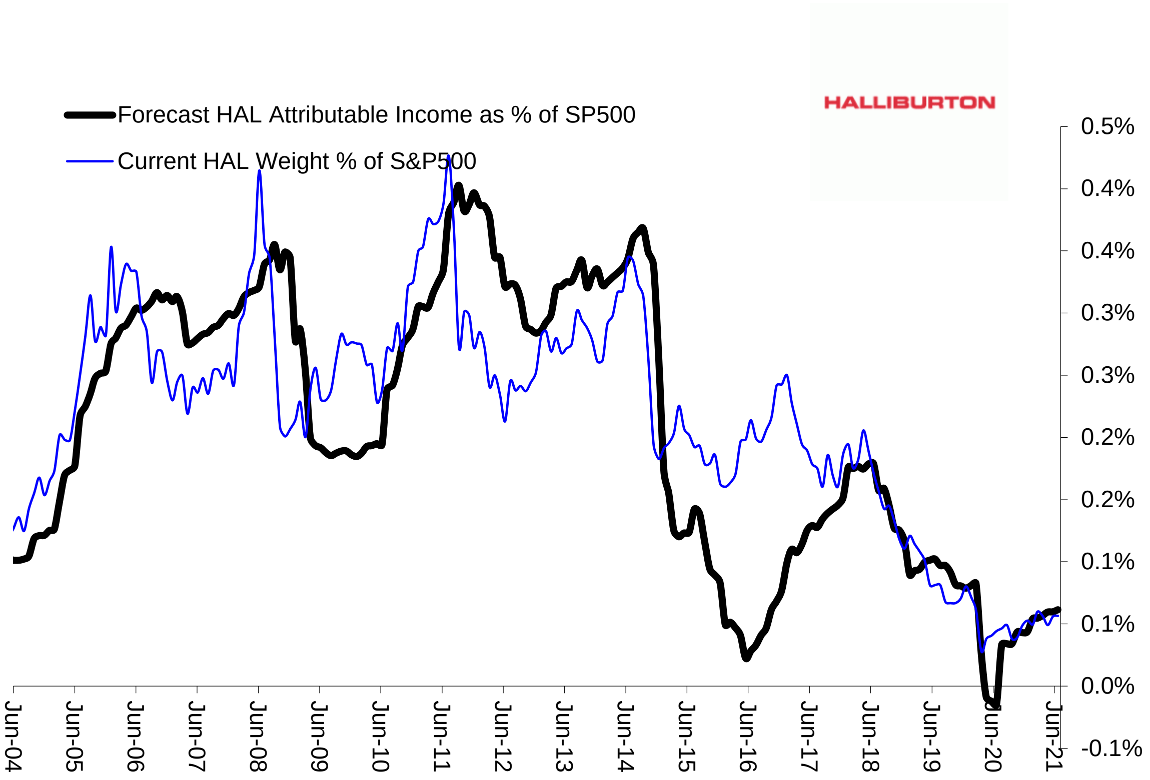




Source: Factset

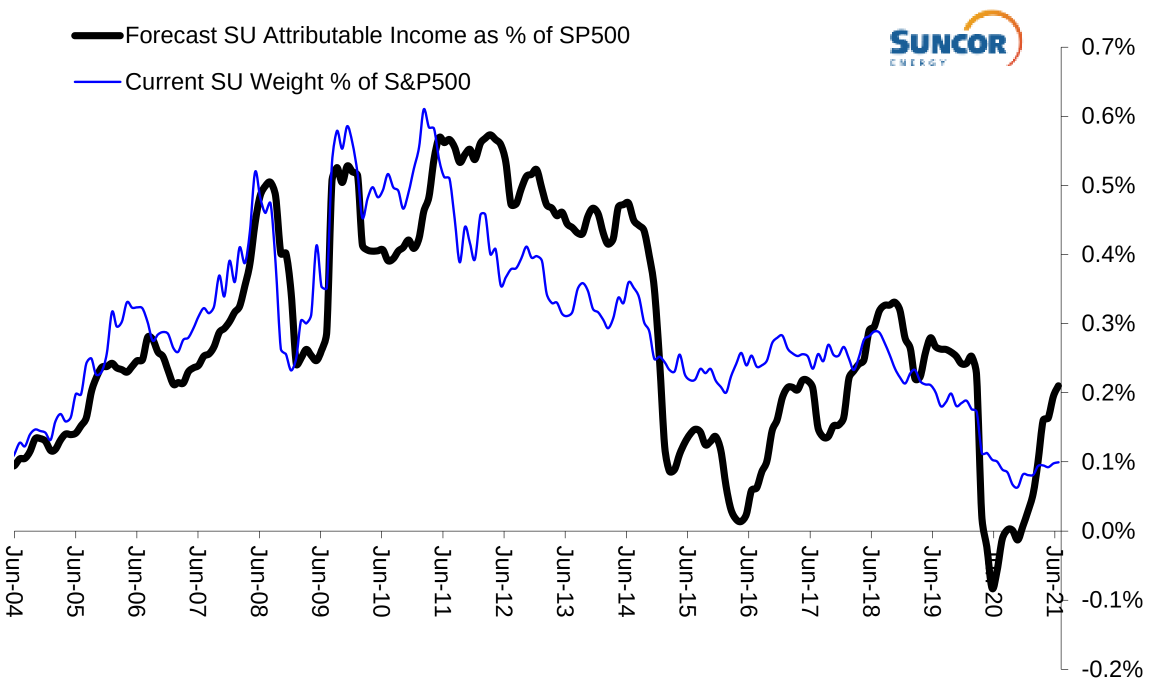
SLB and HAL both neutral, need EPS upside surprises to drive higher relative

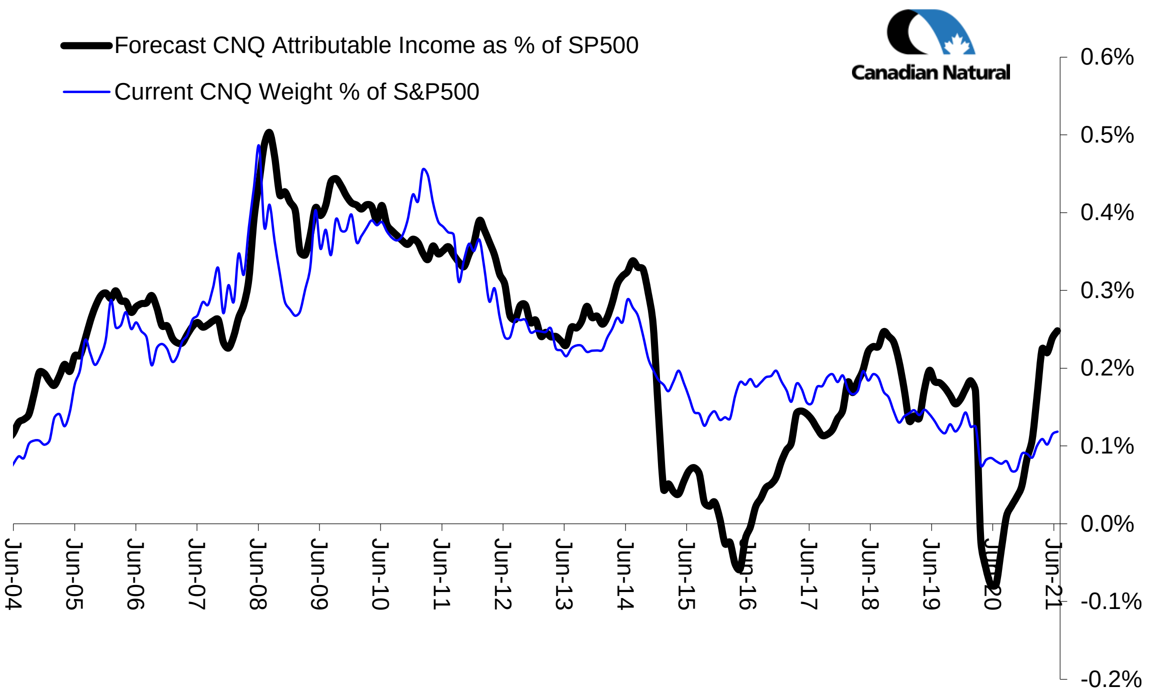




Source: Factset

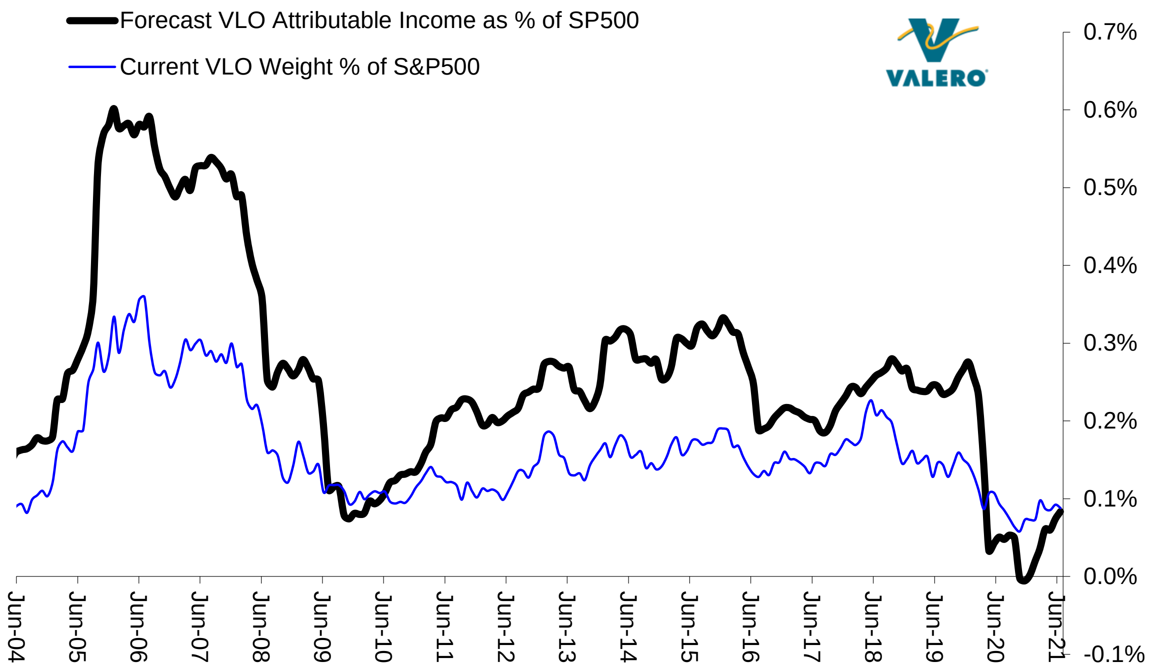
SU and CNQ both super-bullish, most bullish in their history esp CNQ

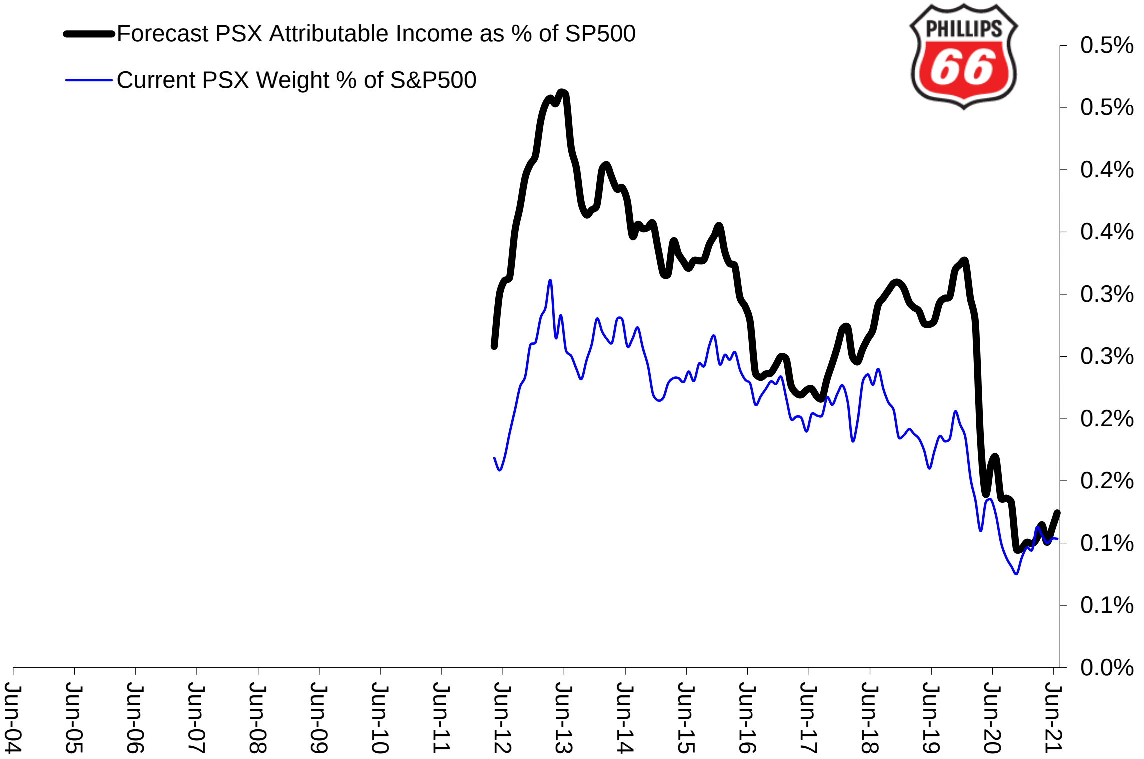




Source: Factset

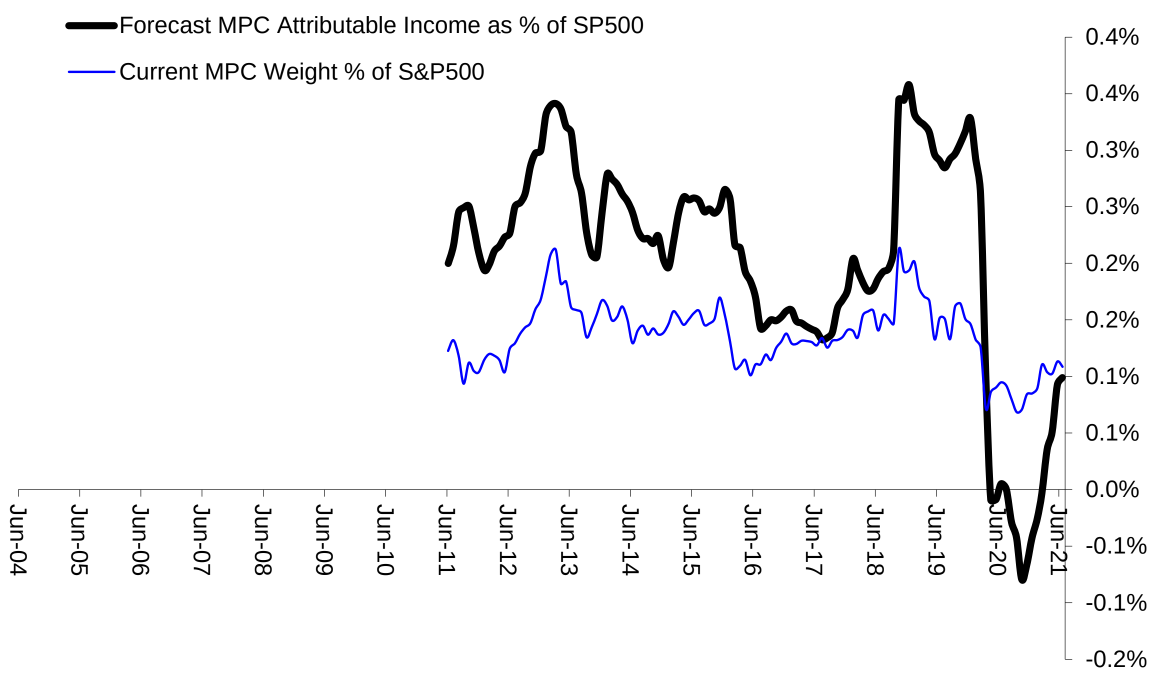
Valero and PSX both negative relative to history, heavily dependent on EPS upside surprises; historic heavy discount not there

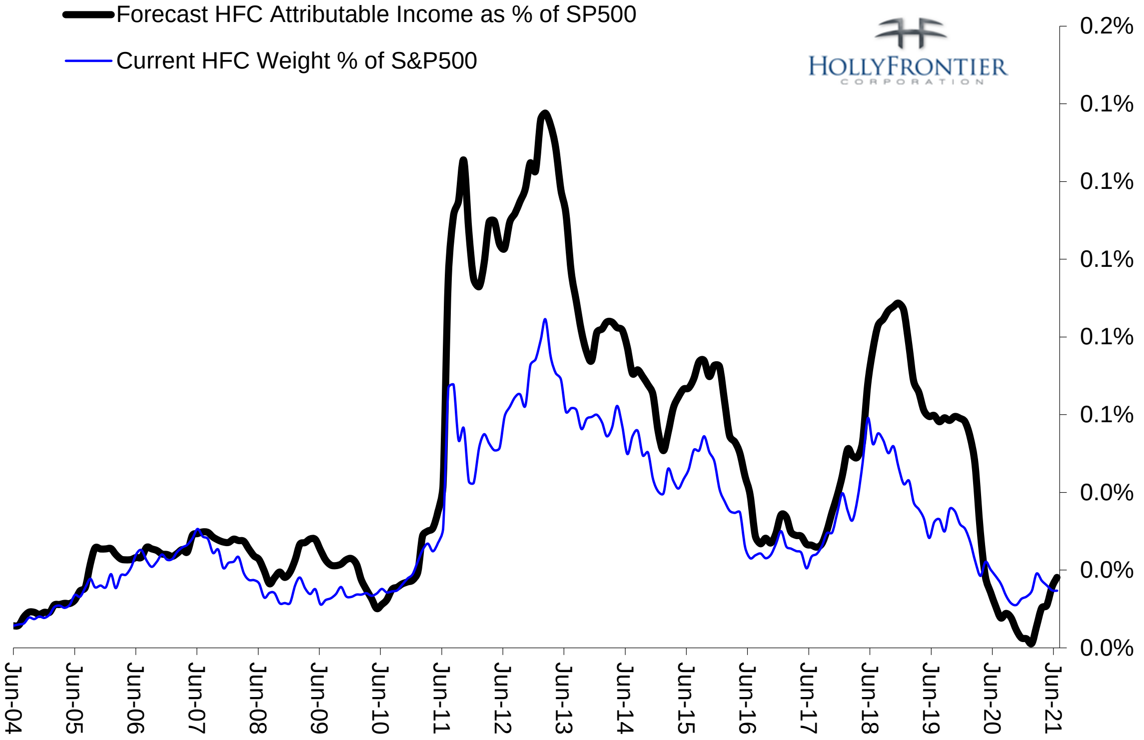




Source: Factset

MPC bearish, really needs EPS upgrades, HFC surprisingly bullish
All refiners look challenged
but HFC might be the most positive surprise vs expectations





Source: Factset

Note: this is blind quant exercise dependent on EPS; it takes no account of free cashflow or cash return yield, both of which are hugely important drivers for oil group

E&P charts look the best we have seen in 15 years of running these charts

Russell Value looks excellent, oil looks pretty good, with refining clearly the concern

OPEC action could drive oil prices higher than consensus forecasts, giving further upside to E&P estimates, driving the discounted group higher

OPEC discipline action will likely hurt refining earnings

Biggest upside surprise: PXD followed by EOG, and especially APA is the non-consensus winner
Good charts: SU and CNQ, Devon
Mildly disappointing relative to expectations: ConocoPhillips
Worst looking chart: Oxy or MPC
Most horrible by far: Utilities, unless we see a surprise turn in earning estimates to positive. Right now market is discounting EPS downgrades; and EPS is being downgraded. When that turns, very positive for group.

Source: Sankey Research