Energy

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Industry Brief

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Energy: Energy Daily

Raymond James Energy Daily Update

SUMMARY

We are heading into the first weekend of November, which means one thing… A sleepless Friday night for all of the dedicated deer hunters of Texas as we head into the opening weekend of whitetail rifle season (and for the family members/spouses of these hunters - a free weekend to themselves away from these buck-fevered weirdos!). Even if you're on the fence on whether or not you will gear up for the field this year, we urge you to proactively go out and purchase a super-combo hunting/fishing license (all proceeds go towards statewide conservation efforts and habitat restoration). Furthermore, don't let the recently cold weather fool you, and always be safe and on the lookout for our good friend Mr. Rattlesnake.

However, it appears that energy investors are not as happy as Texas deer hunters as we head into the weekend, as WTI and Brent finished yesterday down 2.5% and 2.9% to $63.69/Bbl and $72.89/Bbl, respectively. However, the energy equities performed surprisingly well as the E&P index finished up 1.9% alongside a 0.9% gain in the OSX while the broader market saw similar strength as the S&P 500 was up 1.1%. Ahead of the open, crude futures are flat to up, and equity futures are up.

Ticker Mentions: AM, AMGP, CVX, DWSN, EOG, GEL, MMP, MPLX, NE, NFG, PE, RDC, SEP, SM, SOI, TUSK, WAAS, WMB, XOM

E&P

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National Fuel Gas (NFG/$55.00/Market Perform) F4Q18: Solid Upstream results, though Midstream/Utility below our forecast. NFG delivered EPS/EBITDA results that were slightly below our model for the quarter, as a 13% EBITDA beat in the upstream segment vs. our model was offset by midstream (Pipeline & Storage, and Gathering), and the Utility segment. Driving the solid upstream results was production that came in ~2.5% above our forecast (~1% above the Street) on a strong ramp in activity in the EDA-Lycoming and WDA-Clermont areas. Operating costs (LOE/G&A) were also modestly below our forecast, though up slightly q/q. Taken together, adjusted EPS of $0.49/share came in below the RJ/Street forecast for $0.53/$0.54 per share. For more information, please see our Quick Take.

Parsley Energy (PE/$24.25/Strong Buy) 3Q18 quick take: Earnings beat, but FCF outlook steals the show. Volumes came in ~1% higher than Street estimates (in line with our model). Parsley captured the impact of recent strength in NGL pricing (~12% above consensus before hedges), driving its blended barrel price ~2% above consensus. Capex was 6% higher than Street estimates, as ~45 net wells came online versus the 40-well guide for 3Q. More importantly, Parsley's comments in the release suggest that free cash flow generation is just around the corner. Investors will likely reward shares today on the earnings beat and line of sight on Parsley's transition to a self-funding model. See our brief for more details.

SM Energy (SM/$24.77/Outperform) 3Q18 quick take: EBITDA/CFPS beat, but 4Q guide modestly lower. Pre-released volume, capex, and pricing beat prior 3Q estimates. Adjusted EBITDA/CFPS were 2%/4% better than consensus, while an outsized increase in DD&A dragged adjusted earnings to a $0.01/share loss (vs. Street/RJ estimates of $0.19/share profit). High Permian depletion rates and incremental depreciation from new facilities, including the Midland Basin water system, drove DD&A higher (causing SM to raise DD&A guidance by 8% at the midpoint). SM also expects further Permian volume curtailments resulting from regional storms, a force majeure at a third-party facility, and heavy rainfall in the RockStar area, resulting in modestly lower full year guidance. Overall, the weaker 4Q guide likely weighs on shares today. See our brief for more details.

Please read domestic and foreign disclosure/risk information beginning on page 5 and Analyst Certification on page 6.

OIL SERVICE

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Noble Corporation (NE/$4.88/Market Perform) 3Q18 recap: Jackups well contracted, seeing opportunities to add rigs. Noble reported 3Q18 EBITDA of $92M and EPS of $(0.43). The majority of Noble's active assets are currently contracted as the company has culled most of its lower tier rigs. The company's entire jackup portfolio is contracted and it only carries one active, uncontracted floater. However, while the company maintains a quality fleet, it is likely to be free cash flow negative over the coming years as EBITDA generation is unlikely to cover interest and capex. Importantly, the company's debt maturities are distant; however, with our outlook for a broad based dayrate recovery as still far away, we maintain our **Market Perform** rating. Read more in our note from this morning.

Rowan Companies plc (RDC/$16.00/Market Perform) 3Q18 recap: ARO keeps the jackups working; now we await the merger. Rowan reported 3Q18 adj. EBITDA of $(16M) and adj. EPS of $(1.12), slightly below Street expectations. The company is well utilized on the jackup side, especially its rigs working for Saudi Aramco, but its floater fleet remains poorly utilized for 2019 despite the recent award for the Reliant. We await the merger with Ensco, now expected to close in the first half of 2019, which should give Rowan additional market breadth for its floater fleet. Even still, we remain cautious on the pace of an offshore drilling recovery with dayrates unlikely to have a broad-based recovery in the near term. Thus, we maintain our **Market Perform** rating on Rowan as an inflection to higher dayrates remains distant. Read more in our note published last night.

Solaris Oilfield Infrastructure (SOI/$14.61/Market Perform) 3Q18 recap: Turning to chemicals storage for next phase of growth. Solaris reported 3Q18 adj. EBITDA of $36.1M, and adj. EPS of $0.51. The quarter showed a slight dip in rental system utilization as the company is not immune to the industry completions slowdown. However, this is temporary and should subside in the coming quarters. More importantly, as legacy systems have become a smaller portion of the industry, the company is increasingly having to displace next-gen systems. This means 2019 will be an important year as it will be a test of Solaris' pricing power in the market. All in, we maintain our **Market Perform** rating as the level of competition in the silo market has increased. Read more in our note published last night.

Mammoth Energy Services (TUSK/$25.95/Market Perform) 3Q18 recap: Oilfield softening but Infrastructure margins provide buffer. Mammoth's 3Q18 demonstrated the benefits of its diversification outside of the oilfield. This quarter was hit with weakness in the company's oilfield business as both sand and pressure pumping hit a soft spot. While the company's infrastructure business had a top line slowdown, the company was actually able to see margins expand substantially. While margins benefitted from a better mix of work (transmission vs. distribution), the company has also been able to wring out cost savings. While Puerto Rico's topline cadence remains unclear, and the oilfield is unlikely to see a rebound in 4Q18, the company should continue generating cash flow into 2019. We remain at a **Market Perform** given the uncertainty regarding Puerto Rico, but note that there is upside if reconstruction work increases. Read our full note, published earlier this morning.

Dawson (DWSN/$5.14/Outperform) 3Q18 recap: E&P budget exhaustion hinders 4Q activity; 1H19 project visibility firms up. Dawson reported an in-line quarter as EBITDA arrived very close to our estimates ($1.65M vs. RJe $1.64M). While the company should continue to face near-term demand weakness (*which was mostly baked in to previous estimates)*, the stock price seemed to have overreacted (down over 8%) given that bidding activity appears to be on the upswing and the path to positive free cash flow (FCF) now seems realistic over the next few years. Since DWSN shares now trade closer to the midpoint of its historical multiple and at a discount to book value, we maintain our **Outperform rating**. For a more detailed analysis surrounding estimates, our thesis, and valuation methodology, please follow this link.

MIDSTREAM

Midstream 3Q18 earnings review from Thursday: Quick links to recap notes. After a busy midstream earnings day yesterday, we're summarizing our post-quarter thoughts for those that reported yesterday - see the links below for more details on each company.

- Antero Midstream GP LP (AMGP/$15.70/Strong Buy) and Antero Midstream Partners LP (AM/$29.25/Outperform) - link
- Genesis Energy, L.P. (GEL/$22.09/Outperform) - link
- Magellan Midstream Partners, L.P (MMP/$61.33/Outperform) - link
- MPLX L.P. (MPLX/$34.50/Strong Buy) - link
- Spectra Energy Partners, LP (SEP/$35.15/Market Perform) - link
- The Williams Companies, Inc. (WMB/$25.75/Outperform) - link

CLEAN TECH

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AquaVenture Holdings (WAAS/$16.74/Outperform) unveils its largest-ever, $130 million acquisition; concurrently, announces CEO transition. AquaVenture is making its largest-ever acquisition: at $130 million (nearly all of it debt-funded), the purchase of AUC Group marks the creation of a third business line. AUC provides wastewater treatment and water reuse solutions in the U.S., mainly to property developers and utilities, and is currently leasing more than 80 treatment plants to customers. This is a very needle-moving deal, and we look forward to getting more of the financial details on this morning's call (which is separate from the 3Q18 results call, scheduled for next Wednesday). Concurrently, Doug Brown disclosed that he will step down as CEO by year-end, while remaining chairman, Tony Ibarquen, will be promoted from president to CEO. This is a normal transition, but there may be a side effect of temporarily slowing some business.

WEEKLY NATURAL GAS RECAP

Weekly natural gas storage recap (bullish). The EIA reported an injection of 48 Bcf, which comes in below the consensus estimate of an injection of 51 Bcf and Raymond James' estimate of 50 Bcf. Gas-in-storage now totals 3,143 Bcf, and the y/y storage deficit of 615 Bcf increased by 17 to a deficit of 632 Bcf. Excluding weather-related demand, the market ran 2.7 Bcf/d looser compared to last year, and we have averaged 2.8 Bcf/d looser over the past four weeks.

Natural Gas Price Hubs	Current Price	Current Differential	QTD Average Price	QTD Average Differential	Prior Quarter Average Price	Prior Quarter Average Differential	(%) Change in Average Differential	Same Quarter Last Year Average Price	Same Quarter Last Year Average Differential	(%) Change in Average Differential
AECO	$0.48	-$2.87	$0.99	-$2.31	$0.96	-$1.95	18.0%	$1.36	-$1.53	50.7%
Algonquin City Gate	$2.97	-$0.38	$3.31	$0.02	$3.04	$0.12	-86.8%	$5.74	$2.86	-99.4%
Chicago City Gate	$3.16	-$0.19	$3.22	-$0.07	$2.78	-$0.14	-48.9%	$2.88	-$0.01	1238.8%
Columbia TCO	$3.04	-$0.31	$3.01	-$0.29	$2.72	-$0.20	42.7%	$2.70	-$0.18	57.5%
Dawn (Canada)	$3.35	$0.00	$3.34	$0.05	$2.92	$0.00	1897.2%	$2.96	$0.08	-37.1%
Dominion North	$2.73	-$0.62	$2.61	-$0.69	$2.39	-$0.53	30.6%	$1.76	-$1.13	-39.0%
Dominon South	$2.77	-$0.58	$2.62	-$0.67	$2.45	-$0.46	44.4%	$1.78	-$1.11	-39.5%
Katy, TX	$3.35	$0.00	$3.41	$0.12	$2.96	$0.05	163.5%	$2.88	-$0.01	-1223.1%
Opal, WY Hub	$3.01	-$0.34	$3.00	-$0.30	$2.46	-$0.46	-36.1%	$2.66	-$0.23	29.7%
Pacific G&E City Gate	$3.67	$0.32	$3.74	$0.45	$3.17	$0.25	77.2%	$3.07	$0.19	140.8%
TETCO M2	$2.70	-$0.65	$2.60	-$0.70	$2.42	-$0.50	40.0%	$1.72	-$1.17	-40.5%
TGP Zone 4 - Marcellus	$2.74	-$0.61	$2.60	-$0.69	$2.35	-$0.56	22.5%	$1.63	-$1.26	-45.0%
Waha Hub (TX)	$1.51	-$1.84	$1.83	-$1.46	$1.88	-$1.04	40.5%	$2.57	-$0.31	370.2%
Henry Hub (spot)	**$3.35**	**N / A**	**$3.29**	**N / A**	**$2.92**	**N / A**	**N / A**	**$2.89**	**N / A**	**N / A**

Source: Bloomberg, Raymond James research

NEWS AND INTERESTING ARTICLES

"U.S. to Give Eight Nations Oil Waivers Under Iran Sanctions," *Bloomberg* (link). The U.S. has agreed to let eight countries (including Japan, India and South Korea) keep buying Iranian oil after it re-imposes sanctions on the OPEC producer on Nov. 5.

CONFERENCE CALLS

Chevron Corporation (CVX): 11:00 a.m. EDT; dial (877) 604-2078, passcode: 6183459.
EOG Resources, Inc. (EOG): 10:00 a.m. EDT; Webcast: Link.
Exxon Mobil Corporation (XOM): 9:30 a.m. EDT; dial (888) 572-7032, passcode: 5808082.
National Fuel Gas Company (NFG): 11:00 a.m. EDT; dial (833) 287-0795, passcode: 5899309.
Parsley Energy, Inc. (PE): 9:00 a.m. EDT; dial (877) 709-8150, passcode: Parsley.
SM Energy Company (SM): 10:00 a.m. EDT; dial (844) 343-4183, passcode: 6519928.
Spectra Energy Partners L.P. (SEP): 9:00 a.m. EDT; dial (877) 930-8043, passcode: 6465399.

UPCOMING RJ ENERGY MARKETING

Date	Day	Location	Analyst	Topic	Focus	Ticker
11/13	Tuesday	Dallas, TX	Ben Brownlow	Company Marketing	Global Partners LP	GLP
11/14	Wednesday	Chicago, IL	Pavel Molchanov	Company Marketing	Infrastructure & Energy Alternatives	IEA
11/14	Wednesday	Chicago, IL	Pavel Molchanov	Company Marketing	Infrastructure & Energy Alternatives	IEA
11/15	Thursday	Houston, TX	Pavel Molchanov	Company Marketing	Enviva Partners	EVA

PRICES

	Price	Unit	Change			Price	Unit	Change	
Crude					**Natural Gas**				
WTI	$ 63.53	Bbl	$ (0.16)	-0.3%	NYMEX, HH	$ 3.19	Mcf	$ (0.04)	-1.4%
Brent	$ 73.00	Bbl	$ 0.11	0.2%	Rockies*	$ 3.01	Mcf	$ (0.06)	-2.0%
LLS*	$ 71.54	Bbl	$ (1.97)	-2.7%	AECO (Canada)*	$ 0.48	Mcf	$ (0.35)	-42.2%
Clearbrook*	$ 42.69	Bbl	$ (5.62)	-11.6%					
Wyoming Sweet*	$ 49.46	Bbl	$ (0.14)	-0.3%	**Coal**				
					Central Appalachian*	$ 78.05	Ton	$ -	0.0%
WTI Contango/(Backwardation)					PRB Coal*	$ 12.40	Ton	$ -	0.0%
One Month	$ 0.12	Bbl	$ (0.00)	0.0%					
One Year	$ 0.50	Bbl	$ (1.45)	-74.4%	**Other**				
					Gasoline	$ 1.72	Gal	$ 0.00	0.3%
Brent Contango/(Backwardation)					Ethanol	$ 1.26	Gal	$ -	0.0%
One Month	$ 0.06	Bbl	$ (0.01)	-14.3%	Heating Oil (No. 2)	$ 2.19	Gal	$ (0.01)	-0.7%
One Year	$ (1.18)	Bbl	$ (0.25)	26.9%	NYMEX 3-2-1 crack spread*	$ 15.25	Bbl	$ 0.06	0.4%

Source: Bloomberg ** Depicts yesterday's closing price*

Company Citations

Company Name	Ticker	Exchange	Currency	Closing Price	RJ Rating	RJ Entity
Antero Midstream GP LP	AMGP	NYSE	$	15.70	1	RJ & Associates
Antero Midstream Partners L.P.	AM	NYSE	$	29.25	3	RJ & Associates
AquaVenture Holdings Ltd.	WAAS	NYSE	$	16.74	2	RJ & Associates
Chevron Corporation	CVX	NYSE	$	111.17	2	RJ & Associates
Dawson Geophysical Company	DWSN	NASDAQ	$	5.14	2	RJ & Associates
EOG Resources, Inc.	EOG	NYSE	$	106.89	2	RJ & Associates
Exxon Mobil Corporation	XOM	NYSE	$	80.67	3	RJ & Associates
Genesis Energy, L.P.	GEL	NYSE	$	22.09	2	RJ & Associates
Magellan Midstream Partners, L.P.	MMP	NYSE	$	61.33	2	RJ & Associates
Mammoth Energy Services, Inc.	TUSK	NASDAQ	$	25.95	3	RJ & Associates
MPLX L.P.	MPLX	NYSE	$	34.50	1	RJ & Associates
National Fuel Gas Company	NFG	NYSE	$	55.00	3	RJ & Associates
Noble Corporation plc	NE	NYSE	$	4.88	3	RJ & Associates
Parsley Energy, Inc.	PE	NYSE	$	24.25	1	RJ & Associates
Rowan Companies plc	RDC	NYSE	$	16.00	3	RJ & Associates
SM Energy Company	SM	NYSE	$	24.77	2	RJ & Associates
Solaris Oilfield Infrastructure, Inc.	SOI	NYSE	$	14.61	3	RJ & Associates
Spectra Energy Partners, LP	SEP	NYSE	$	35.15	3	RJ & Associates
The Williams Companies, Inc.	WMB	NYSE	$	25.75	2	RJ & Associates

Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be registered for sale in all U.S. states. NC=not covered.

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Strong Buy (SB1) Expected to appreciate, produce a total return of at least 15%, and outperform the S&P 500 over the next six to 12 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.
Outperform (MO2) Expected to appreciate and outperform the S&P 500 over the next 12-18 months. For higher yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12-18 months.
Market Perform (MP3) Expected to perform generally in line with the S&P 500 over the next 12 months.
Underperform (MU4) Expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.
Suspended (S) The rating and price target have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and price target are no longer in effect for this security and should not be relied upon.

Raymond James Ltd. (Canada) definitions

Strong Buy (SB1) The stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months.
Outperform (MO2) The stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months.
Market Perform (MP3) The stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities.
Underperform (MU4) The stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

Raymond James Europe (Raymond James Euro Equities SAS & Raymond James Financial International Limited) rating definitions

Strong Buy (1) Expected to appreciate, produce a total return of at least 15%, and outperform the Stoxx 600 over the next 6 to 12 months.
Outperform (2) Expected to appreciate and outperform the Stoxx 600 over the next 12 months.
Market Perform (3) Expected to perform generally in line with the Stoxx 600 over the next 12 months.
Underperform (4) Expected to underperform the Stoxx 600 or its sector over the next 6 to 12 months.
Suspended (S) The rating and target price have been suspended temporarily. This action may be due to market events that made coverage impracticable, or to comply with applicable regulations or firm policies in certain circumstances, including when Raymond James may be providing investment banking services to the company. The previous rating and target price are no longer in effect for this security and should not be relied upon.

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Rating Distributions

	Coverage Universe Rating Distribution*			Investment Banking Distribution		
	RJA	RJL	RJEE/RJFI	RJA	RJL	RJEE/RJFI
Strong Buy and Outperform (Buy)	57%	70%	50%	23%	32%	0%
Market Perform (Hold)	39%	26%	36%	12%	11%	0%
Underperform (Sell)	4%	4%	14%	5%	25%	0%

* Columns may not add to 100% due to rounding.

Suitability Ratings (SR)

Medium Risk/Income (M/INC) Lower to average risk equities of companies with sound financials, consistent earnings, and dividend yields above that of the S&P 500. Many securities in this category are structured with a focus on providing a consistent dividend or return of capital.

Medium Risk/Growth (M/GRW) Lower to average risk equities of companies with sound financials, consistent earnings growth, the potential for long-term price appreciation, a potential dividend yield, and/or share repurchase program.

High Risk/Income (H/INC) Medium to higher risk equities of companies that are structured with a focus on providing a meaningful dividend but may face less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial and competitive issues, higher price volatility (beta), and potential risk of principal. Securities of companies in this category may have a less predictable income stream from dividends or distributions of capital.

High Risk/Growth (H/GRW) Medium to higher risk equities of companies in fast growing and competitive industries, with less predictable earnings (or losses), more leveraged balance sheets, rapidly changing market dynamics, financial or legal issues, higher price volatility (beta), and potential risk of principal.

High Risk/Speculation (H/SPEC) High risk equities of companies with a short or unprofitable operating history, limited or less predictable revenues, very high risk associated with success, significant financial or legal issues, or a substantial risk/loss of principal.

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Raymond James expects to receive or intends to seek compensation for investment banking services from the subject companies in the next three months.

Stock Charts, Target Prices, and Valuation Methodologies

Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences.

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