



Energy Sector

SIM SECTOR PRESENTATION
Spring 2014

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Agenda

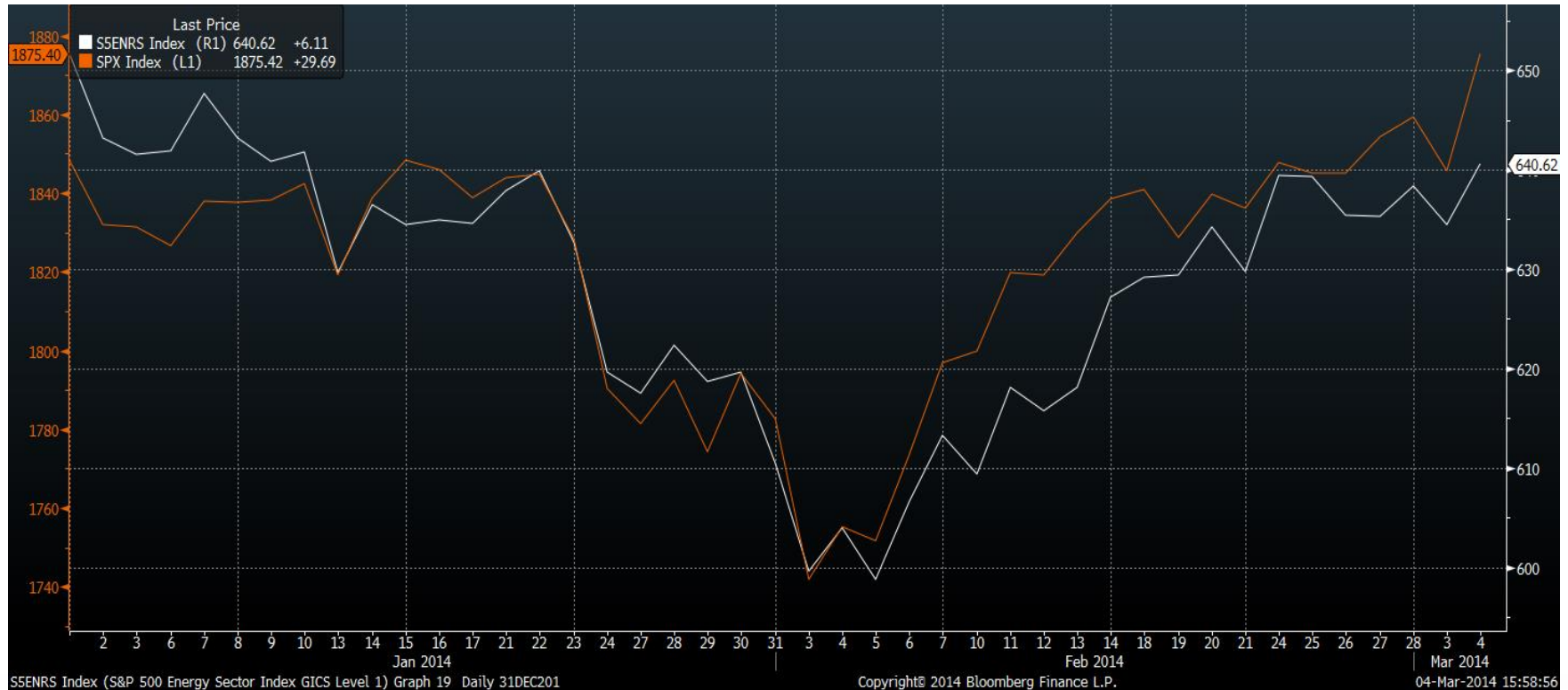
- I. Overview
- II. Business Analysis
- III. Economic Analysis
- IV. Financial Analysis
- V. Valuation Analysis
- VI. Recommendation

Sector Overview

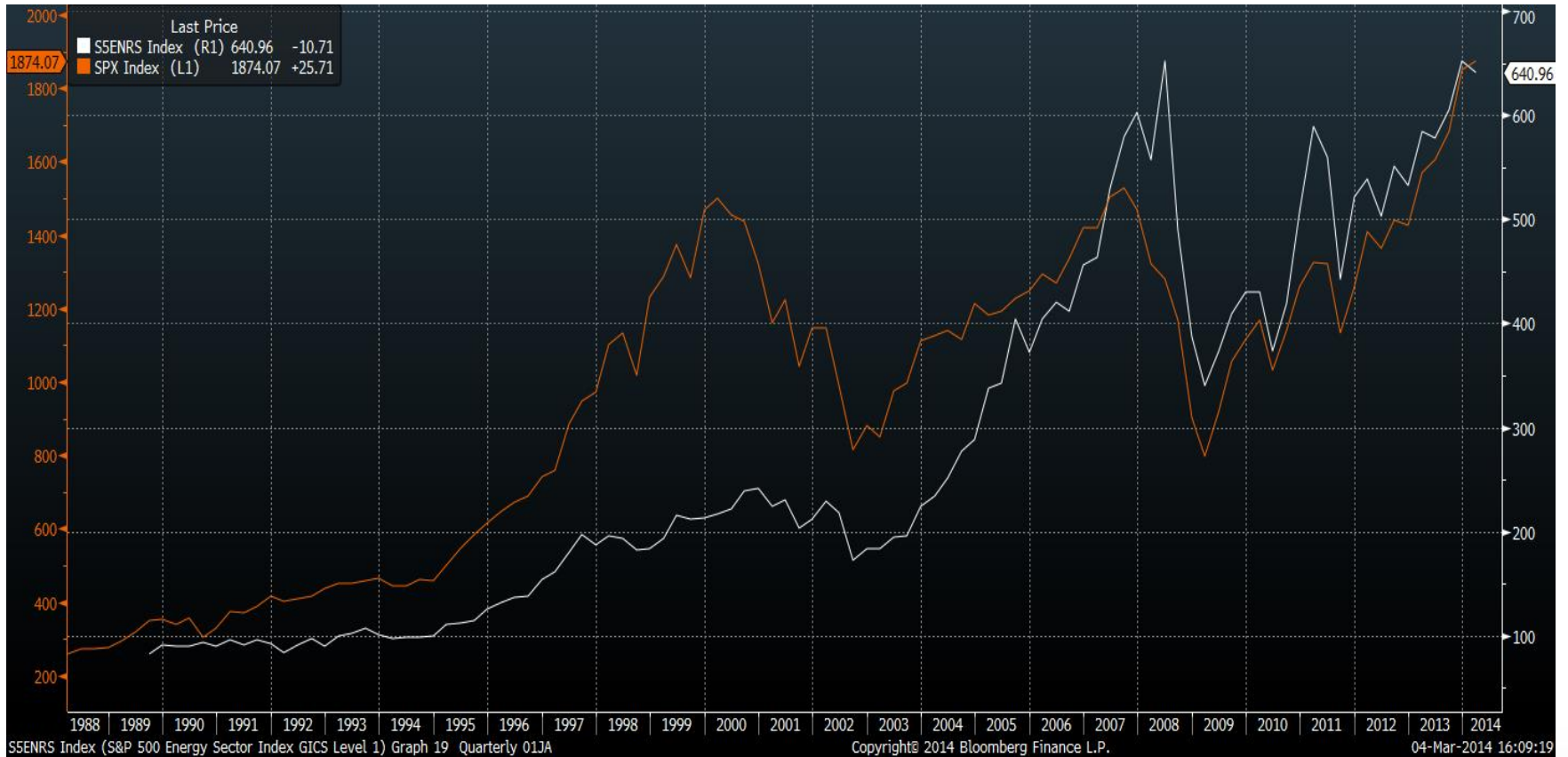
Major Companies within Energy Sector

Company Name	Ticker	Industry	Market Cap (Billions)
Exxon Mobil	XOM	Integrated Oil & Gas	415.44
Chevron	CVX	Integrated Oil & Gas	221.19
Schlumberger	SLB	Oil & Gas Equipment & Services	120.36
ConocoPhillips	COP	Oil & Gas Exploration & Production	81.61
Occidental Petroleum	OXY	Integrated Oil & Gas	76.86
EOG Resources	EOG	Oil & Gas Exploration & Production	52.60
Halliburton	HAL	Oil & Gas Equipment & Services	48.53
Phillips 66	PSX	Oil & Gas Refining & Marketing	44.32
Anadarko Petroleum	APC	Oil & Gas Exploration & Production	42.79
National Oilwell Varco	NOV	Oil & Gas Equipment & Services	33.20

Energy Sector vs. S&P 500 YTD



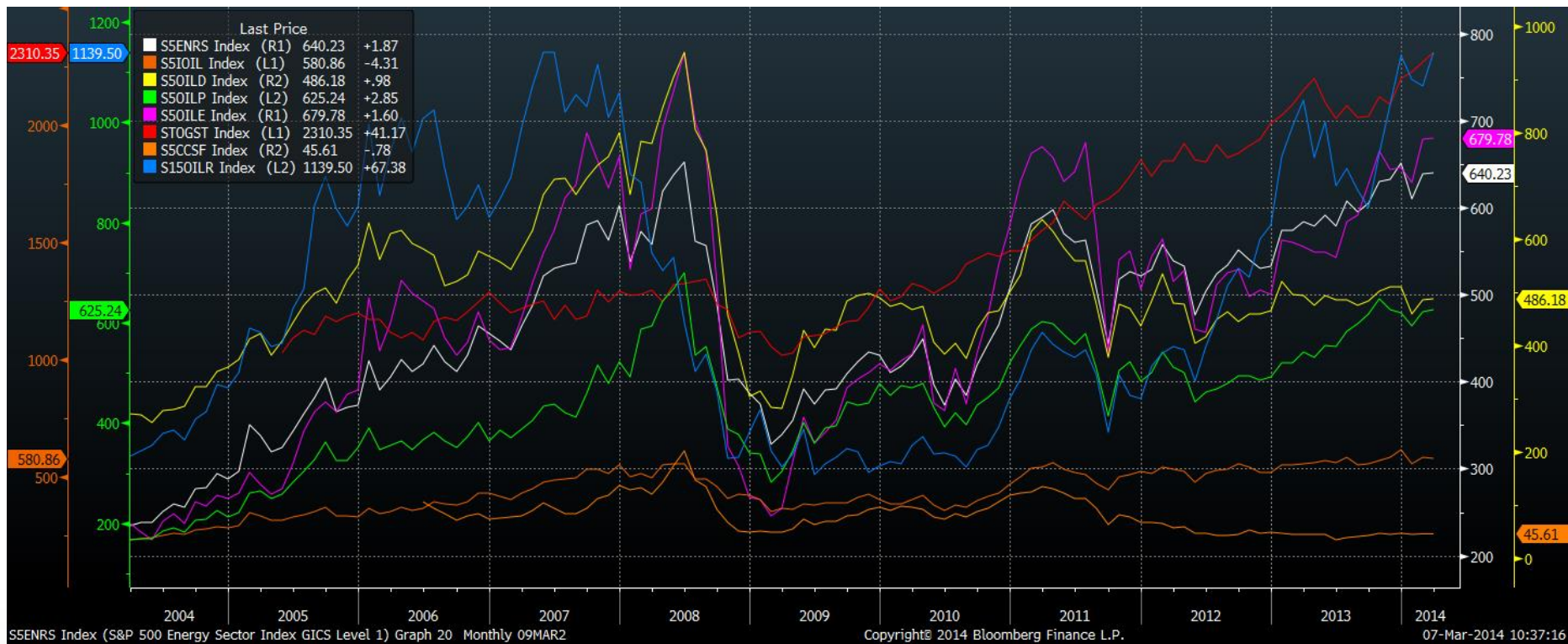
Energy Sector vs. S&P 500 Max



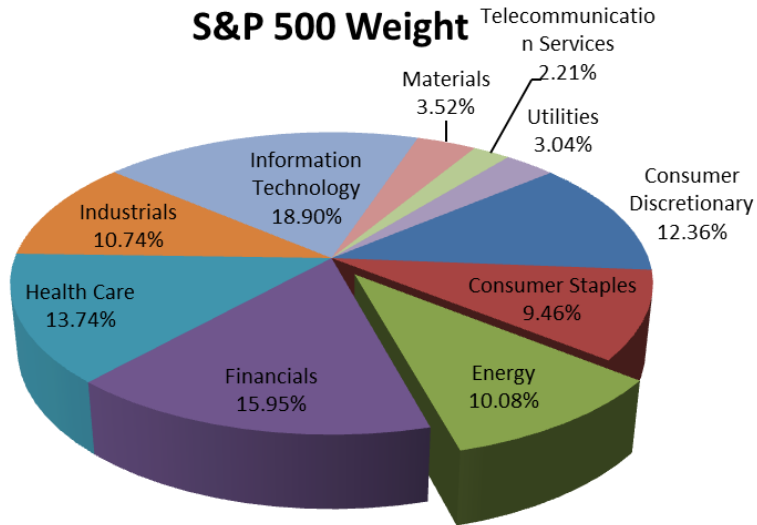
Industries

- Integrated Oil & Gas
- Oil & Gas Drilling
- Oil & Gas Exploration and Production
- Oil & Gas Equipment and Services
- Oil & Gas Storage
- Coal & Consumed Fuels
- Oil & Gas Refining and Marketing

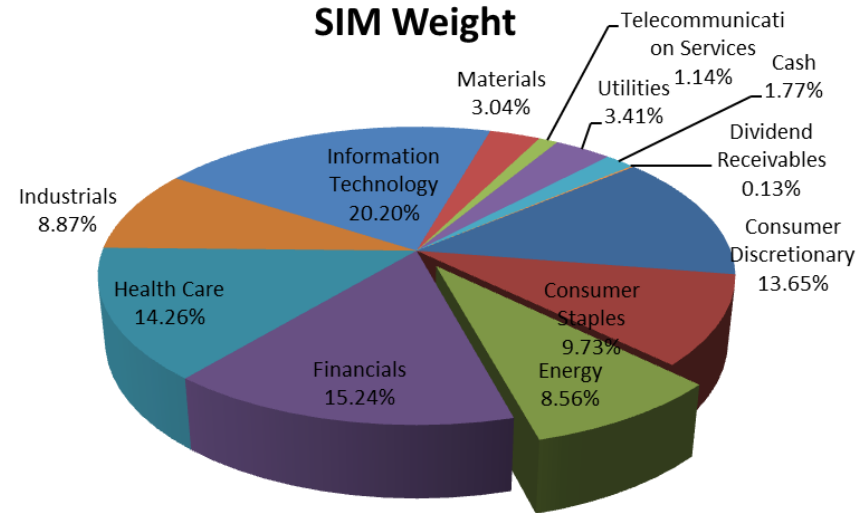
Industries Performance Last 10 Years



S&P 500, SIM Portfolio Comparison



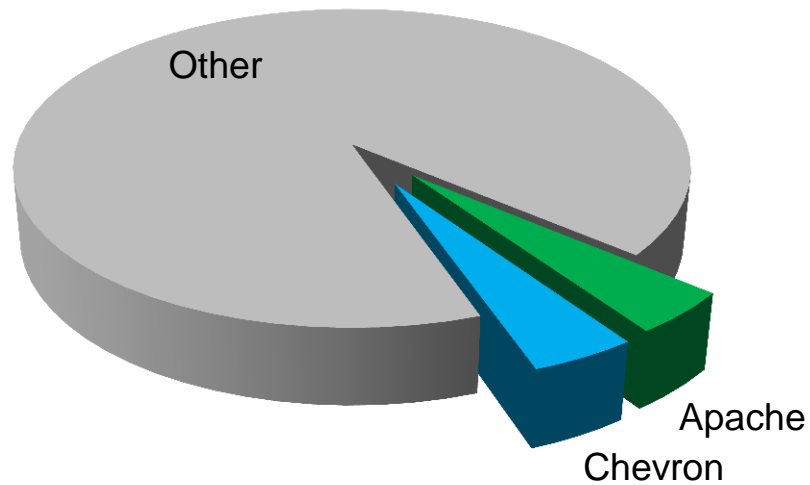
S&P 500: 10.08%



SIM: 8.56%

152 Basis Points Underweight

Energy Stocks in SIM Portfolio



- Apache Corp. (APA)
4.27%
- Chevron Corp. (CVX)
4.30%

Apache & Chevron Performance

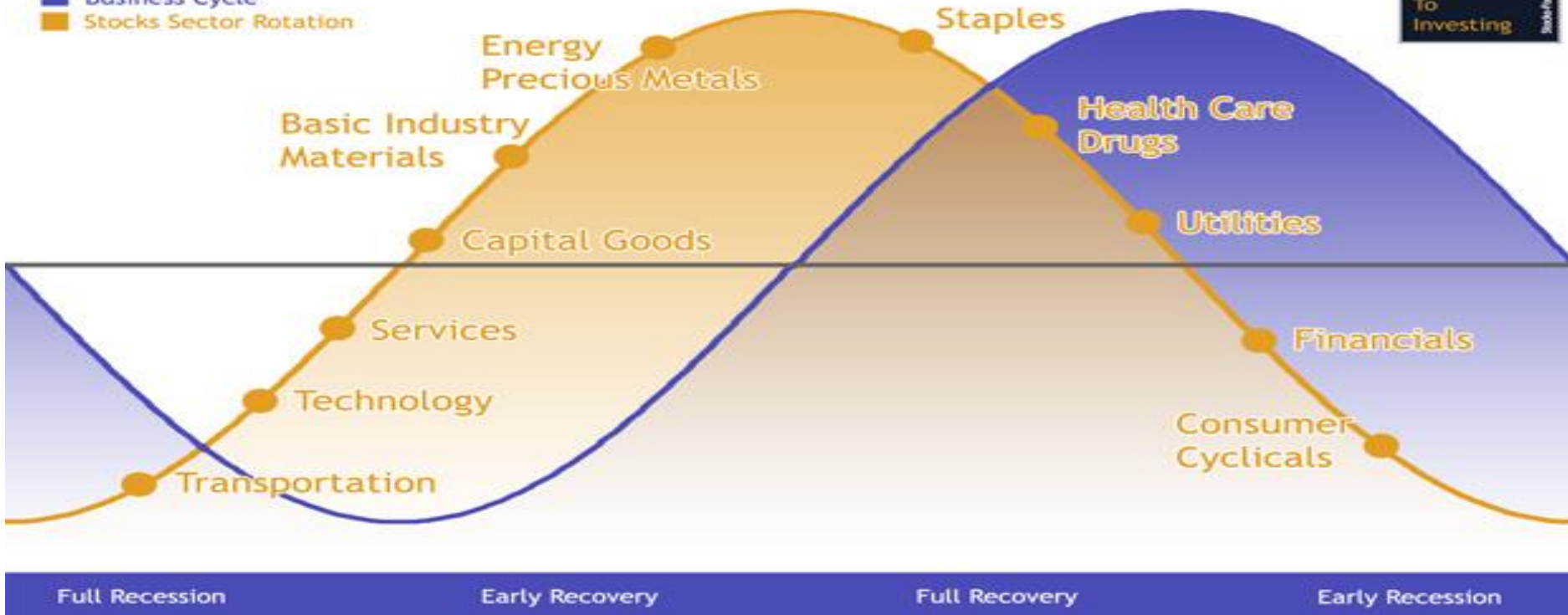


Business Analysis

Stocks Sector Rotation vs. Business Cycle

■ Business Cycle
■ Stocks Sector Rotation

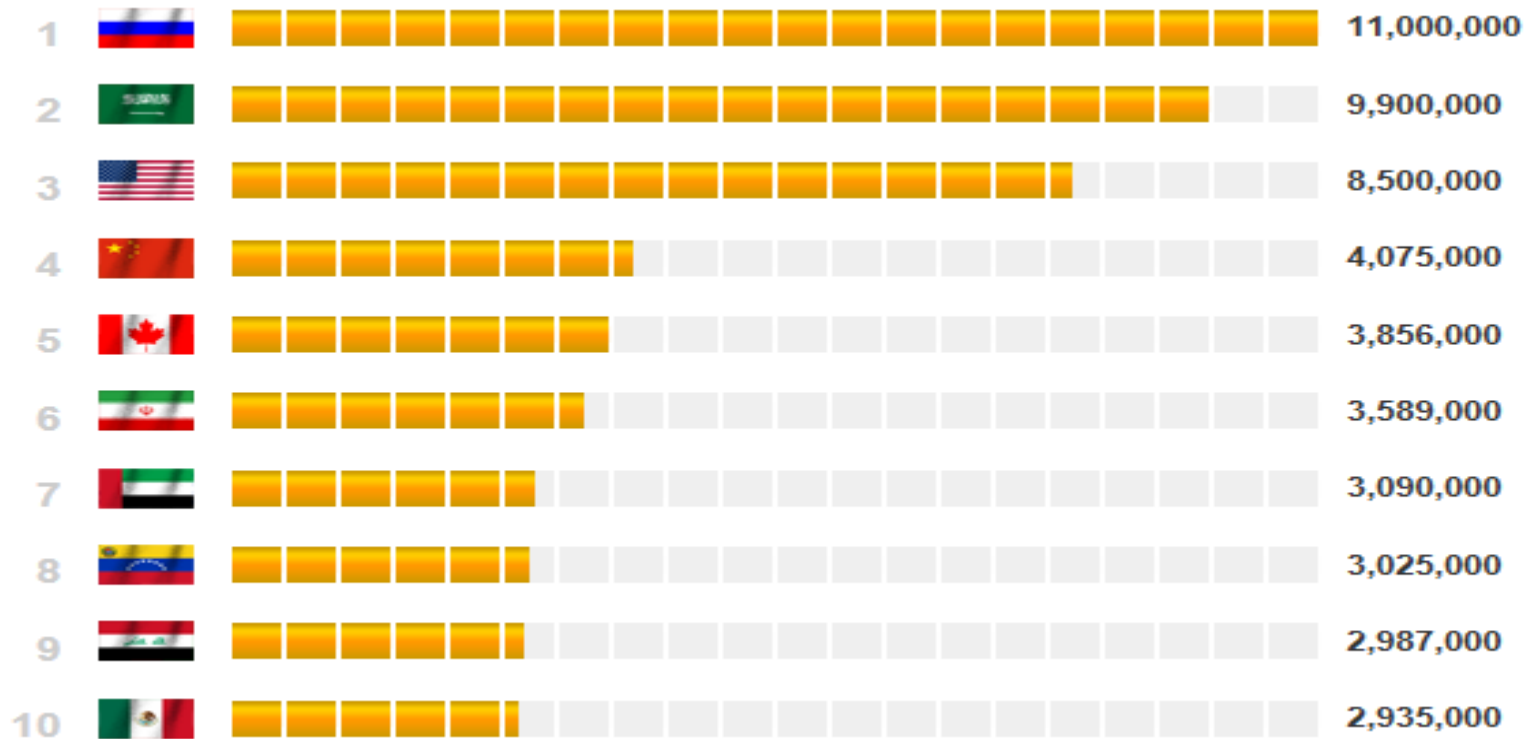
Stocks
Guide
To
Investing
Stocks for Beginners.com



- Materials and Industrials expansion sets the stage for the Energy Sector: Higher production needs more energy!
- Growth holds firm once the Energy Sector is the lead
- Energy Sector begins to slow once economic risk rises, defensive investing begins

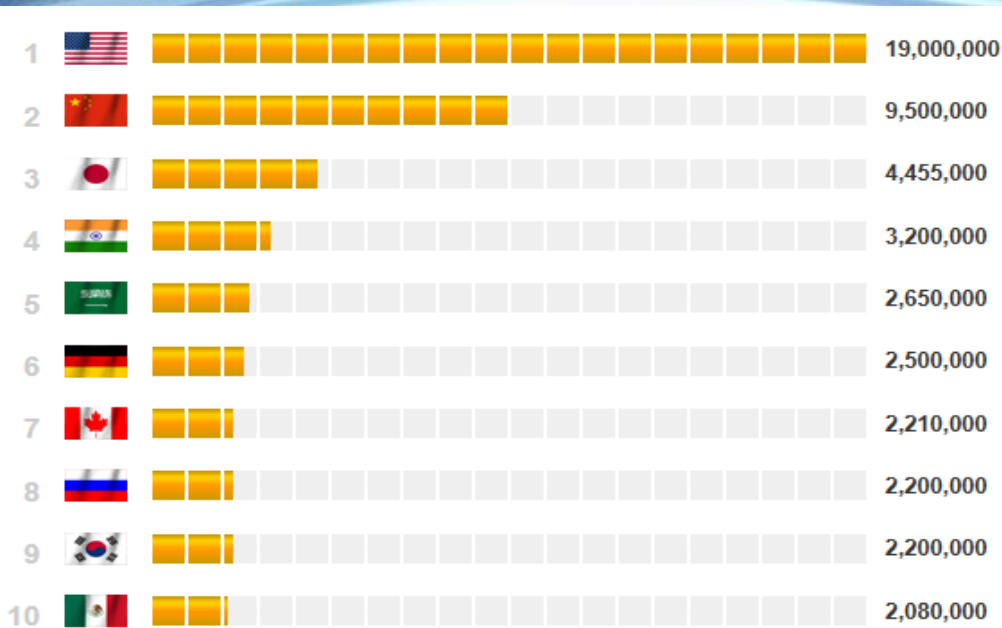
World Oil Production

Barrels Per Day: 2013



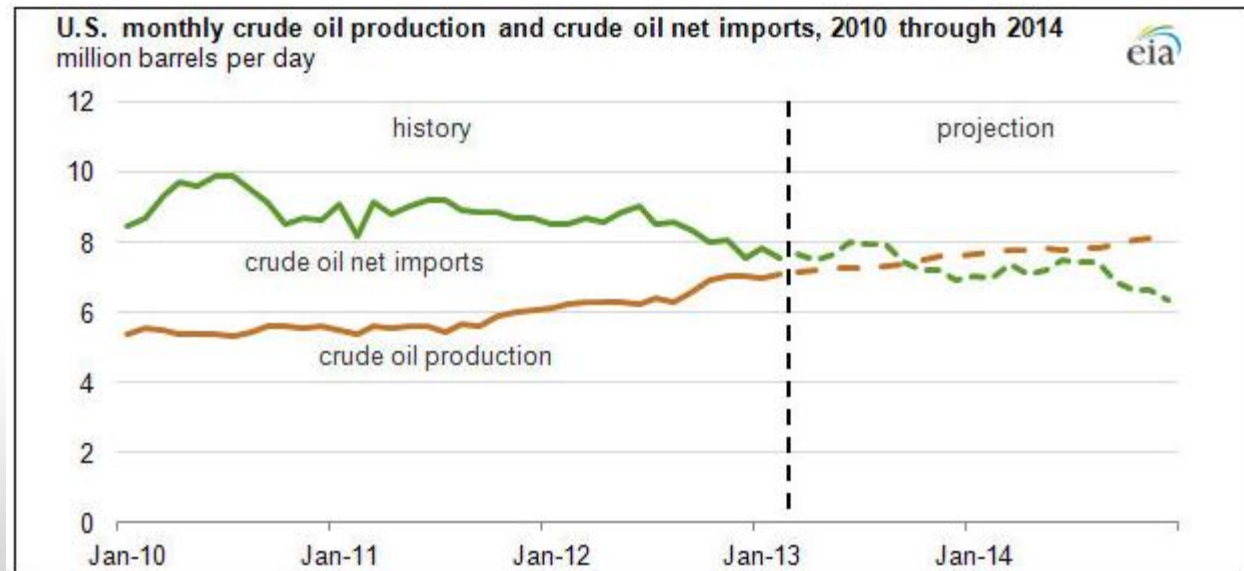
- US oil production reaches highest levels in 24 years, projected to overtake Saudi Arabia
- US is first in Natural Gas Production

World Oil Consumption

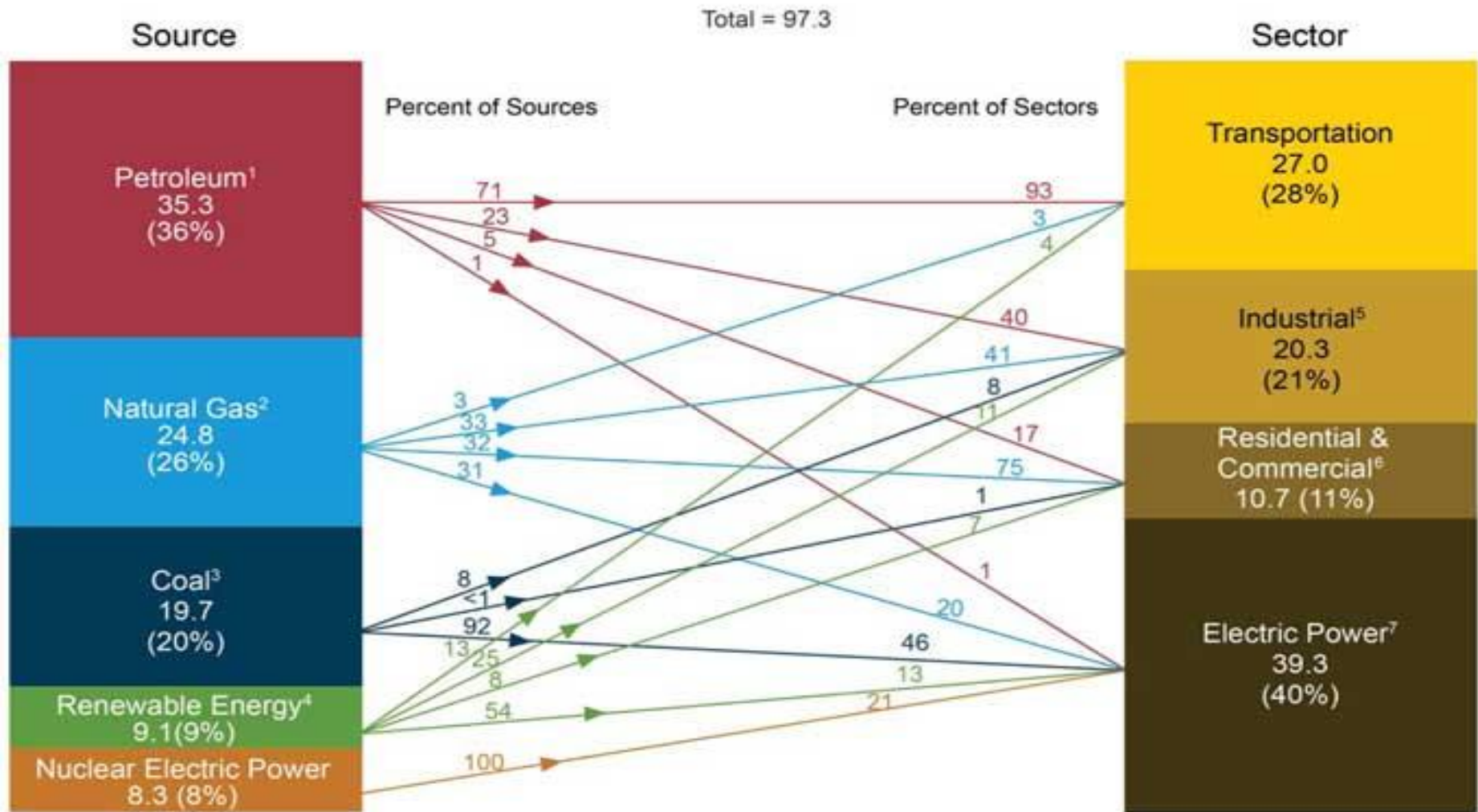


U.S. oil imports have slowly declined since 2011, hit lowest levels since 1996

U.S. was able to supply 49% of it's oil needs in 2013, up from 43%



U.S. Energy Supply & Demand



Porter's 5 Forces



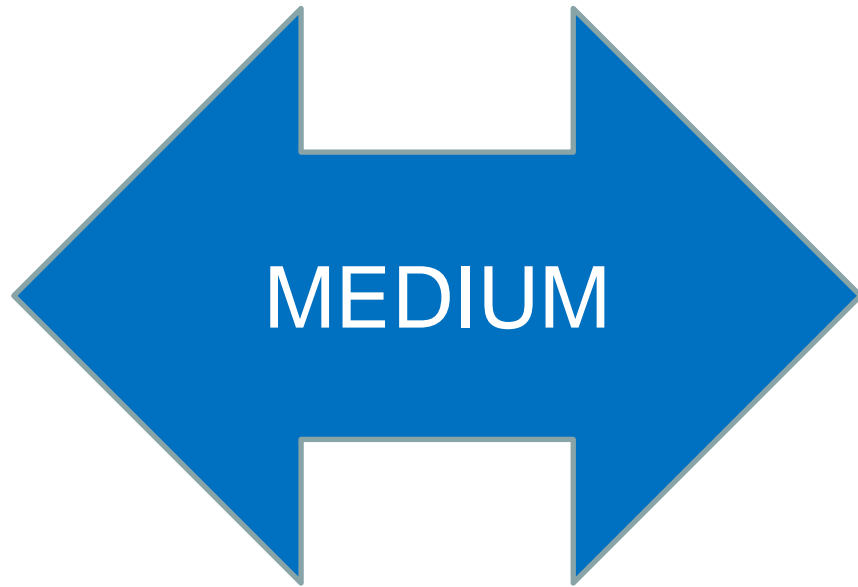
Threat of New Entrants



LOW

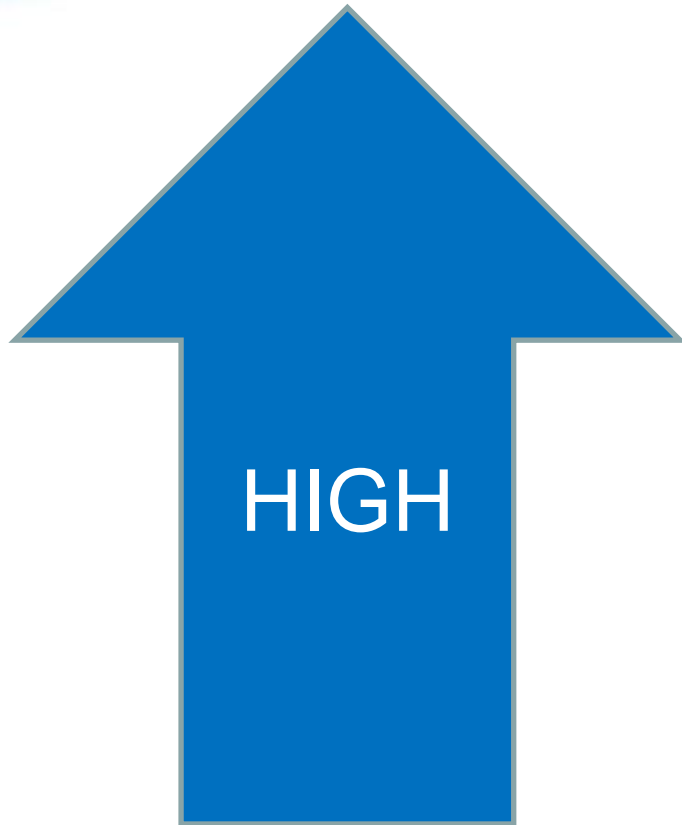
- Capital Intensive
- Specialized work forces
- Volatile oil and gas prices
- Highly Regulated

Bargaining Power of Suppliers



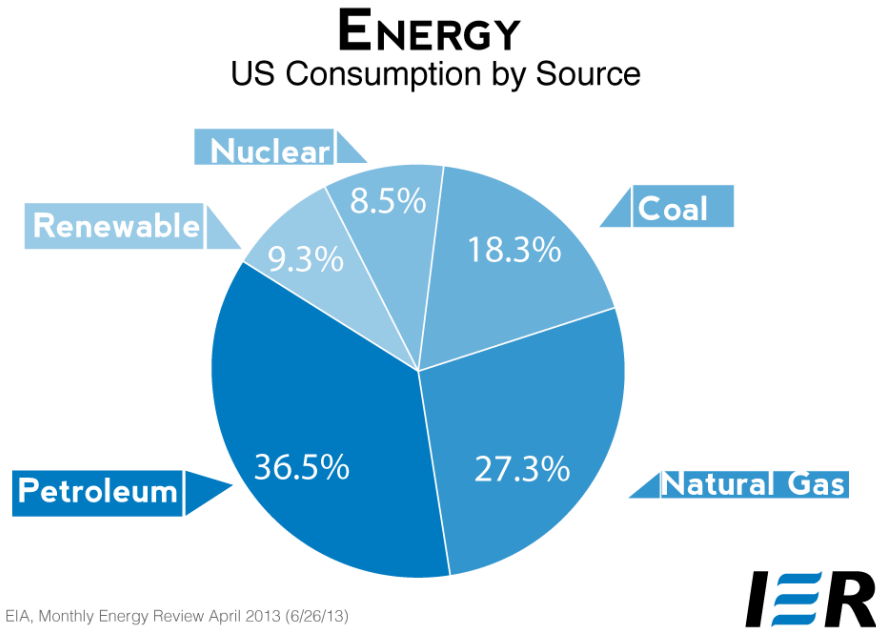
- Few companies at the top control huge market caps
- Small companies have trouble attaining market share

Bargaining Power of Customers



- Supplier's services are comparable to each other
- Allows buyers to pick lowest prices and create favorable contracts

Threat of Substitute Products



- Petroleum and Natural Gas still make up 63.8% of energy consumption
- Renewable & Nuclear energy have shown growth

LOW

Competitive Rivalry within an Industry

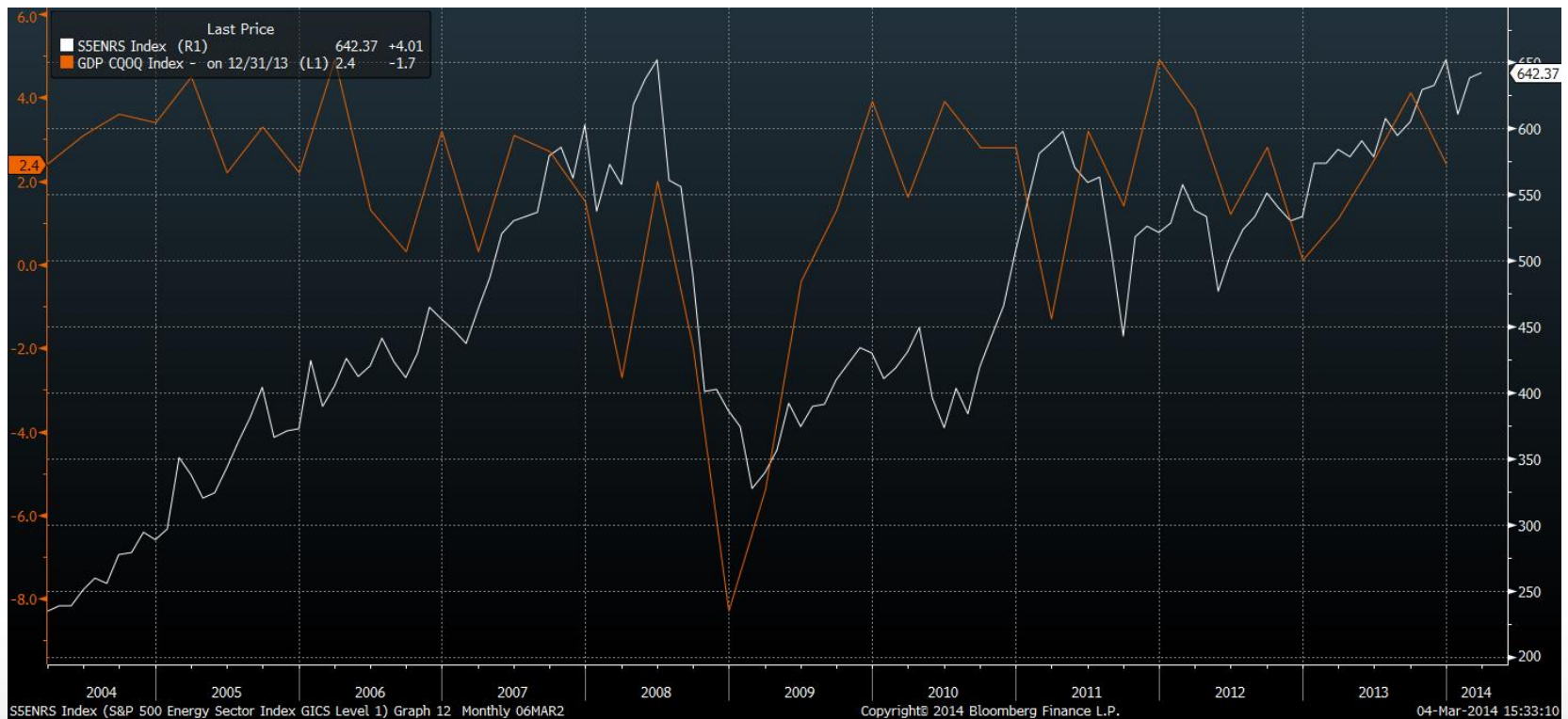


LOW

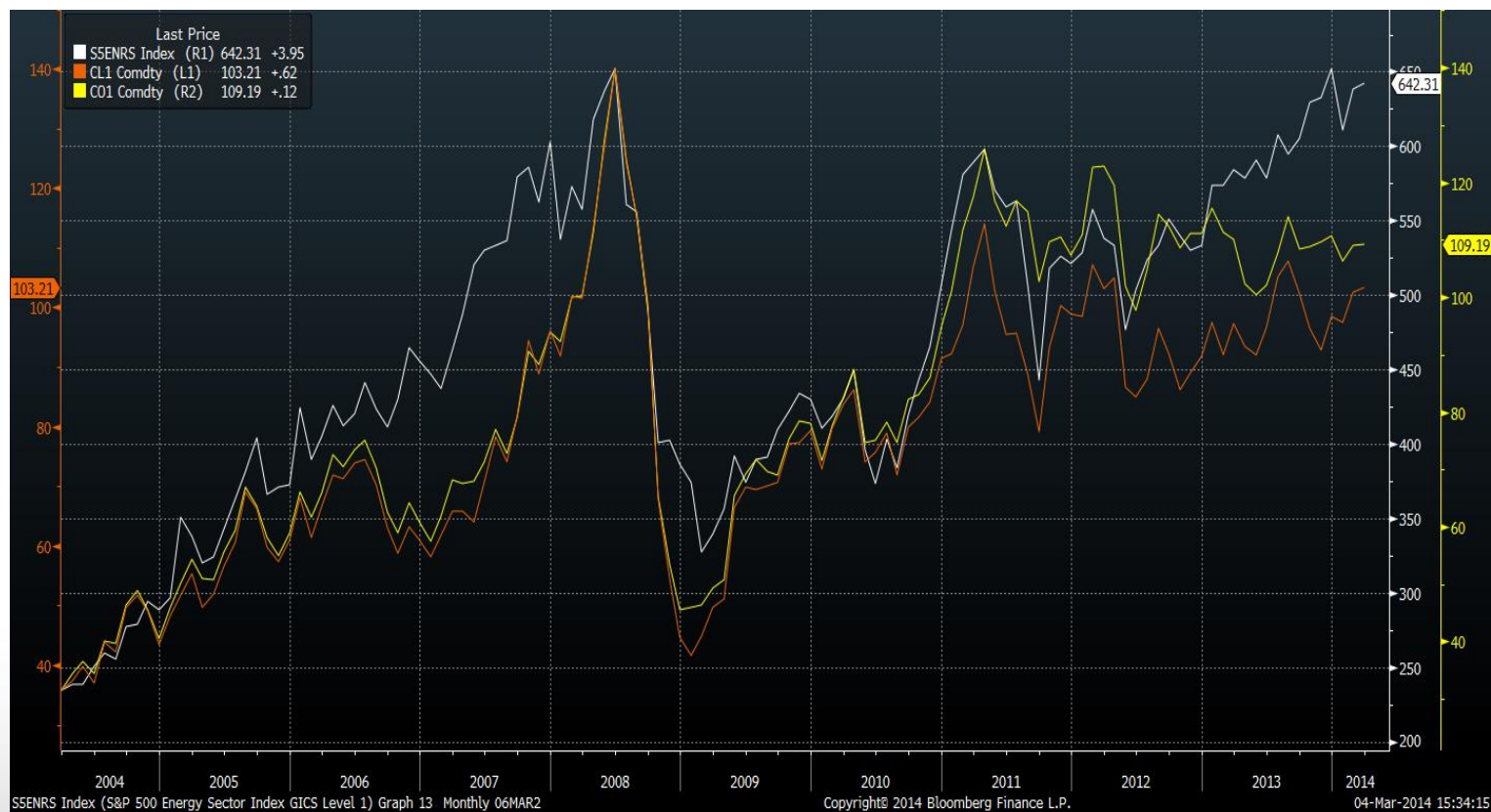
- Highly Concentrated
- Top 5 companies hold around 40% of production
- 50+ companies hold 46% of production
- Market Growth

Economic Analysis

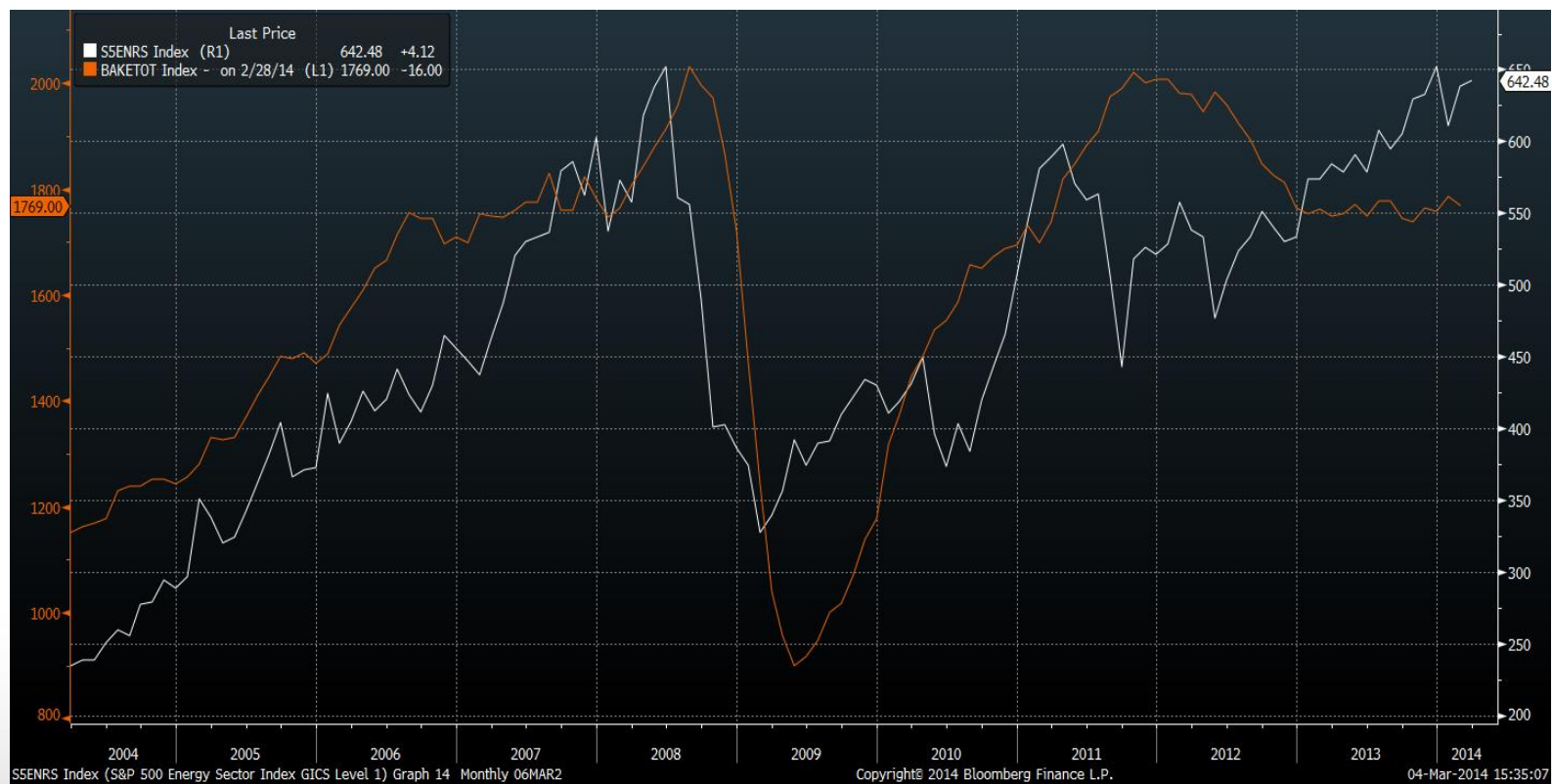
- Real GDP vs. S&P 500 Energy Index



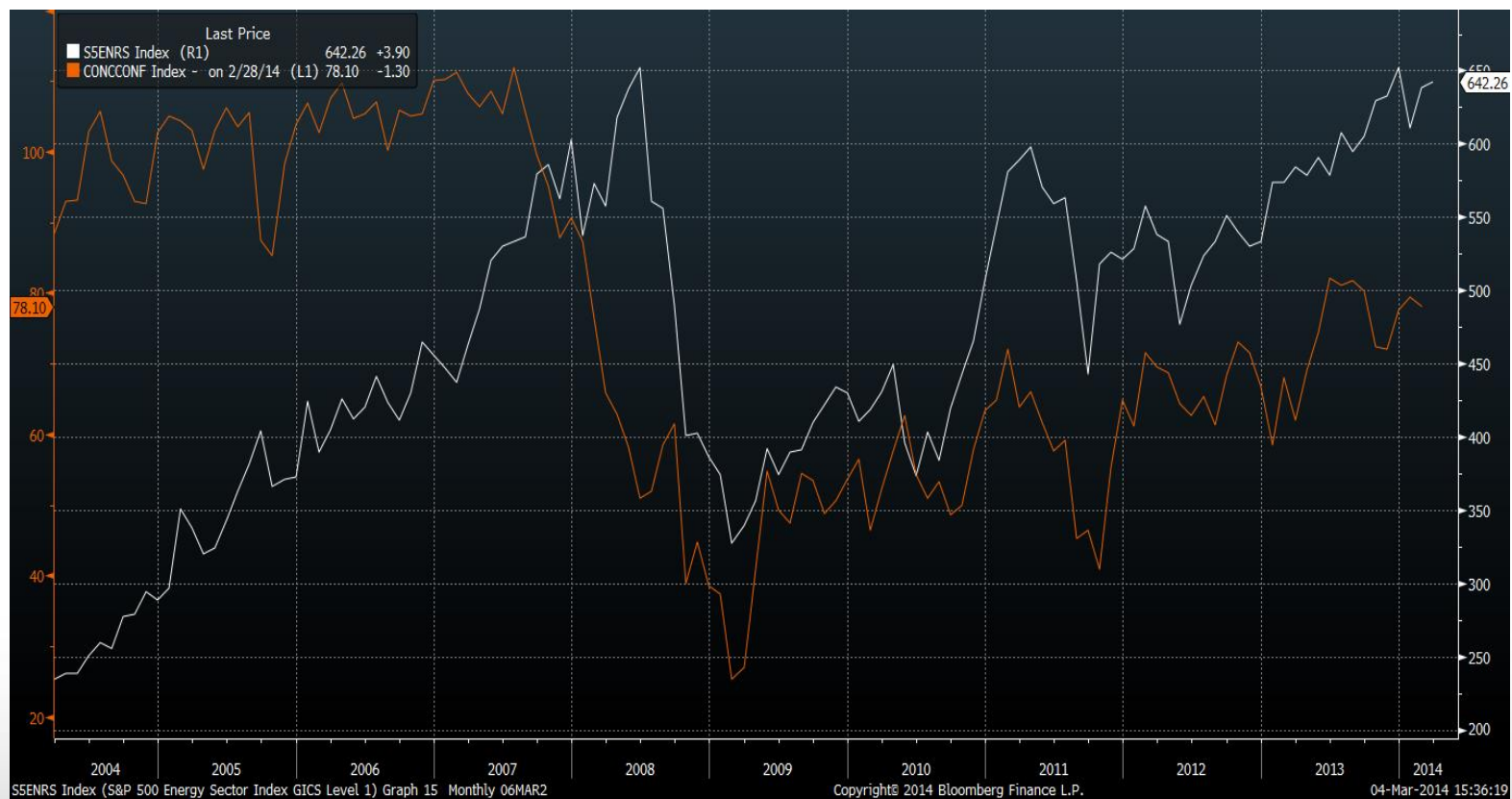
- Crude Oil Price: WTI/Brent vs. S&P 500 Energy Index



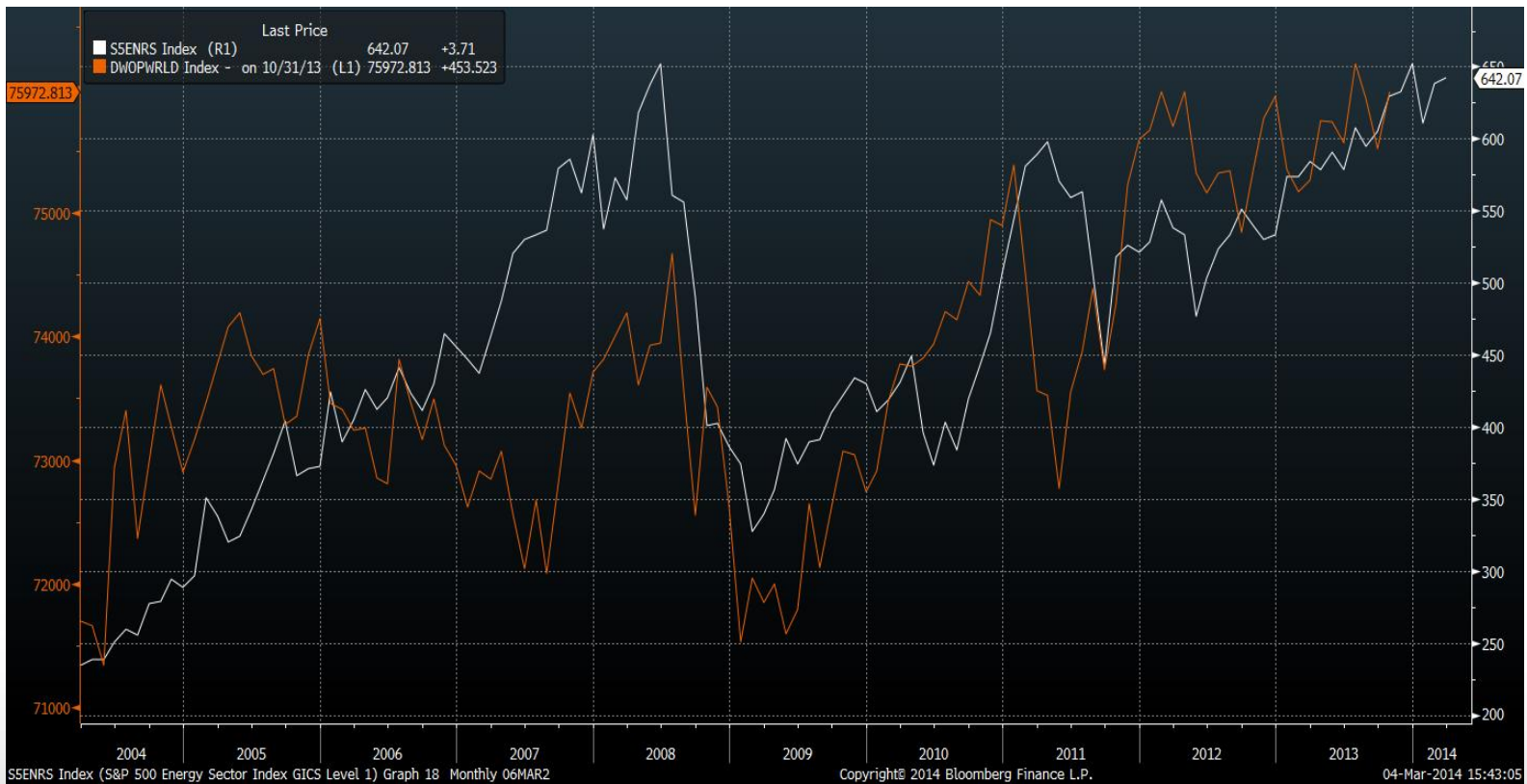
- US Oil and Gas Rotary Rig Count vs. S&P 500 Energy Index



- Consumer Confidence vs. S&P 500 Energy Index



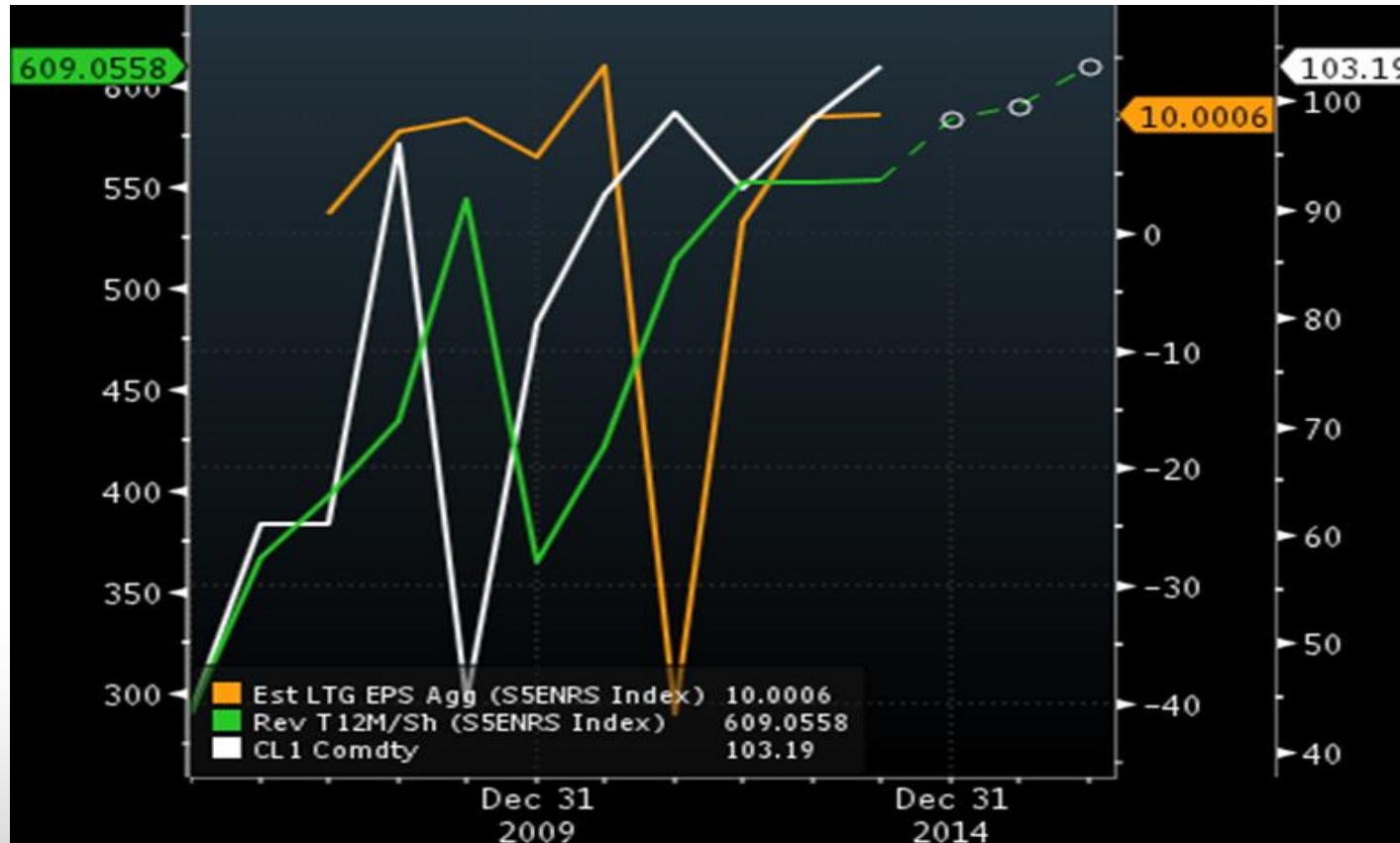
- DOE World Crude Oil Production vs. S&P 500 Energy Index

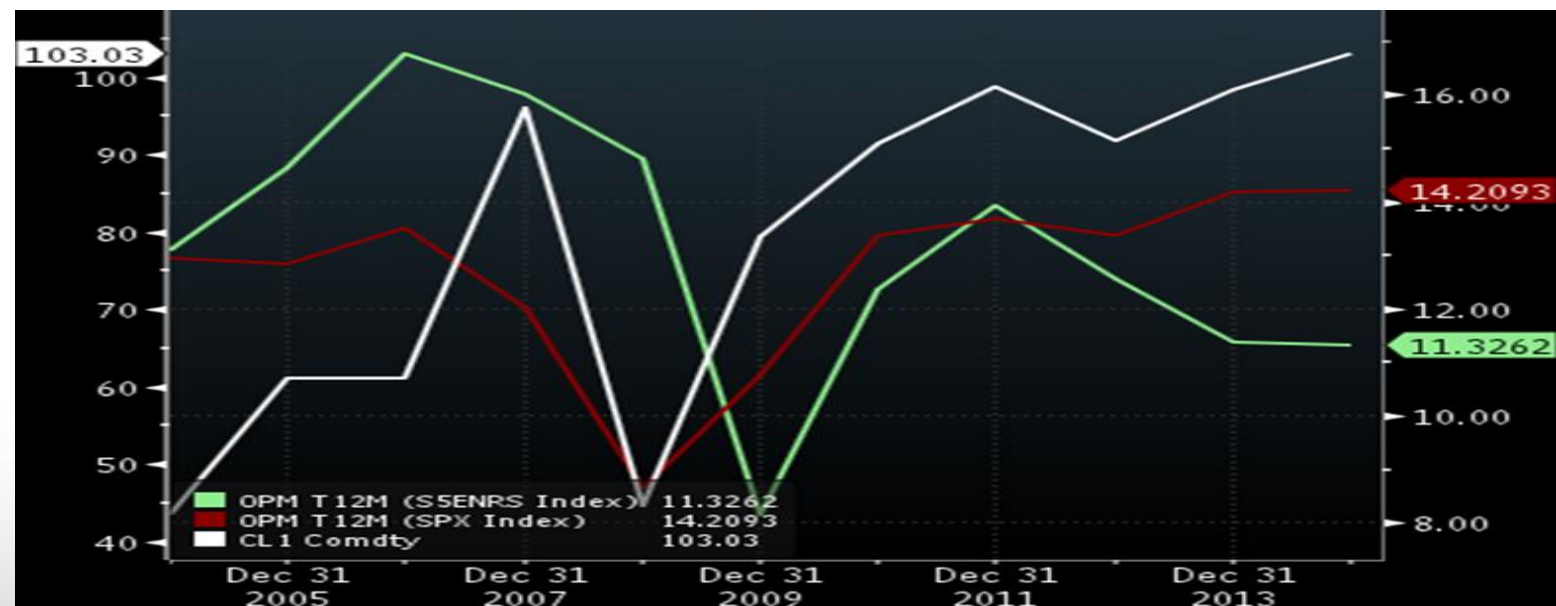


Financial Analysis

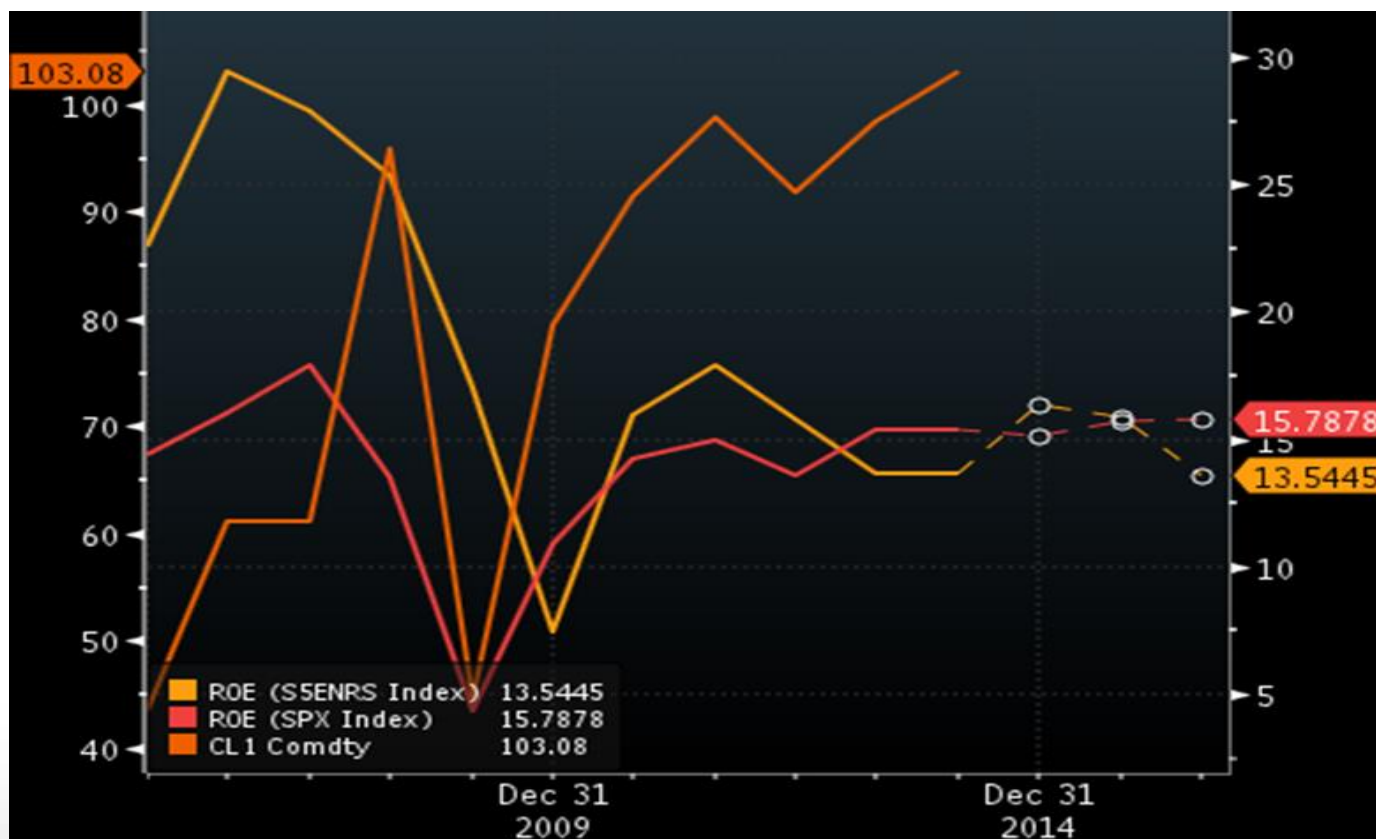
SECTOR GROWTH

- Earnings/Share Growth
- Revenue/Share Growth (comparison to Crude Oil) – positive correlation

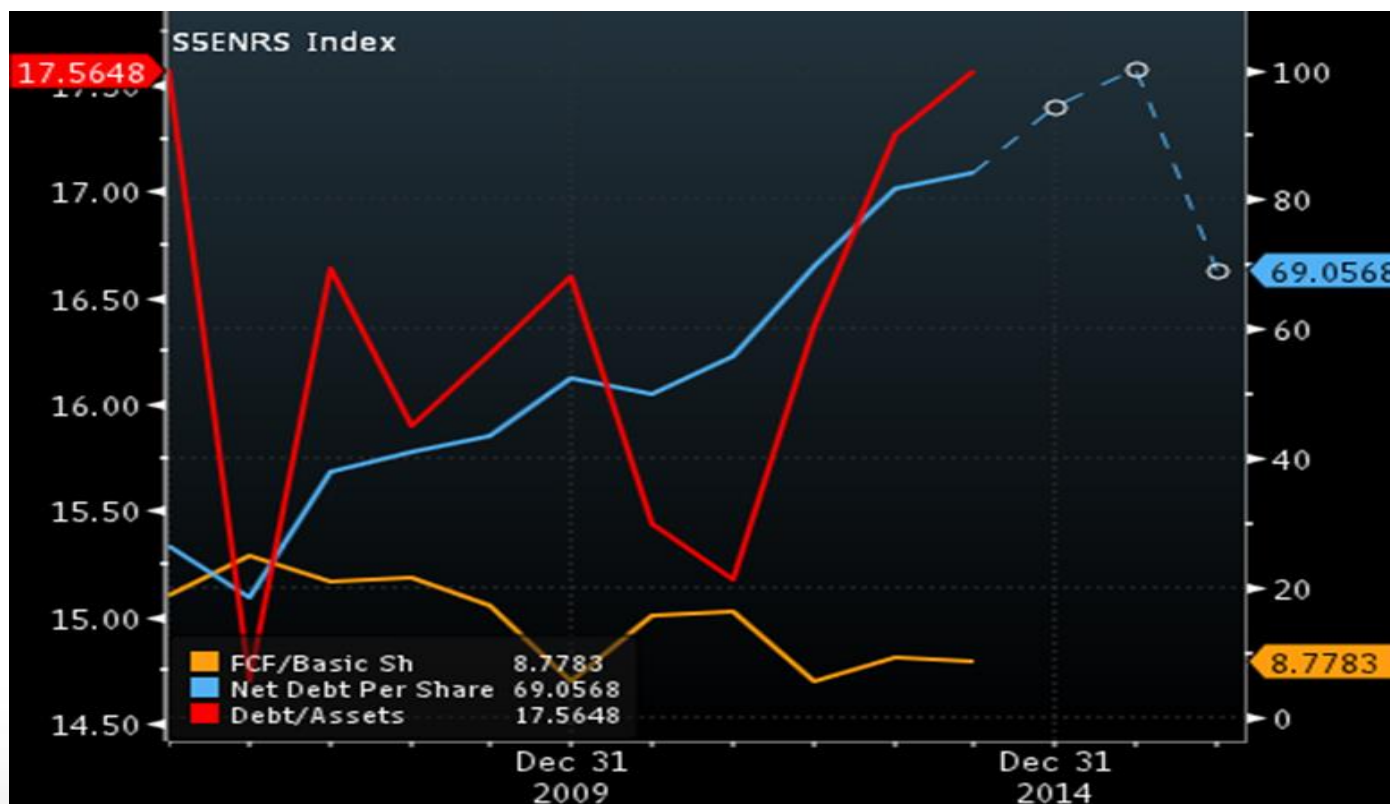




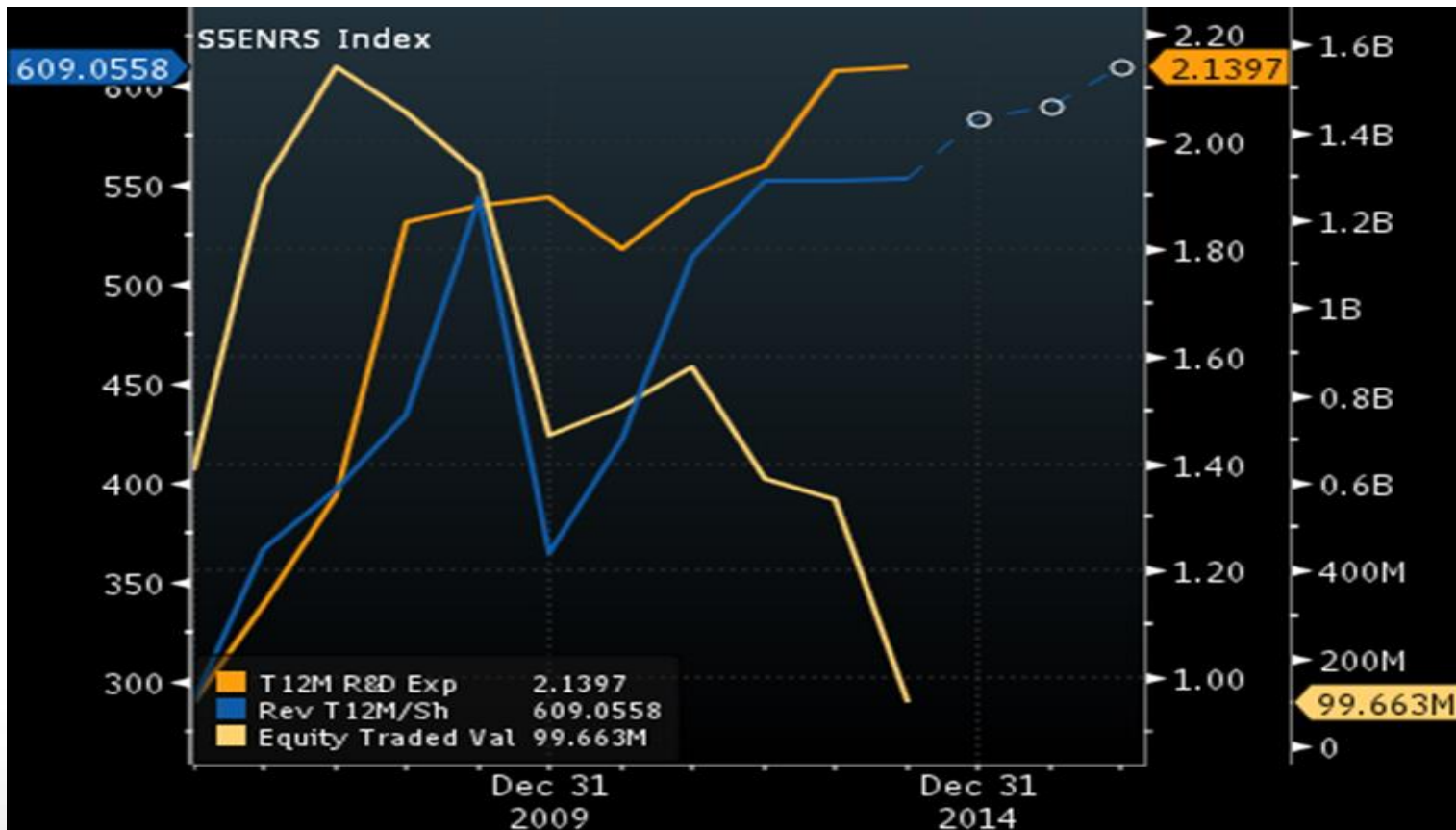
- ROE- crude oil comparison



- Net debt to assets

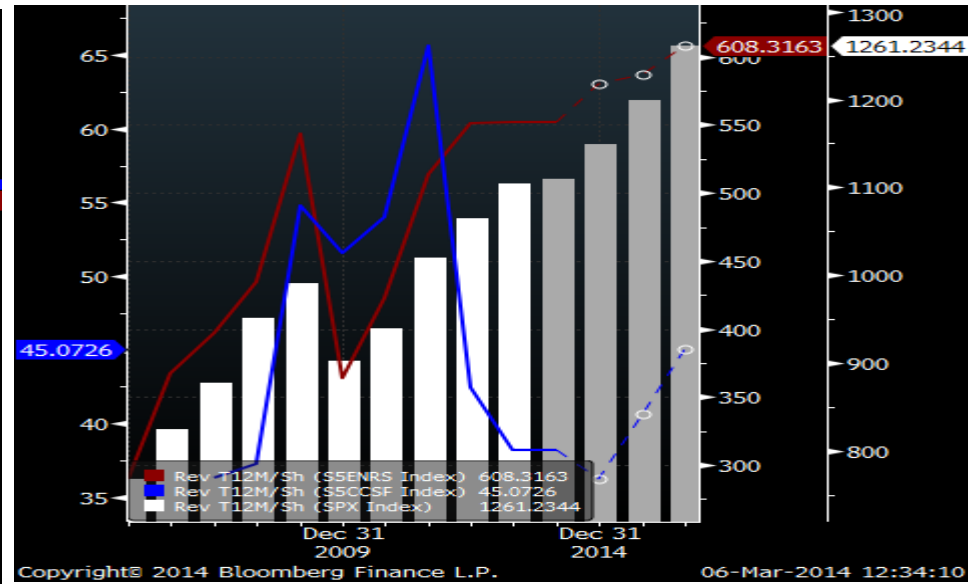
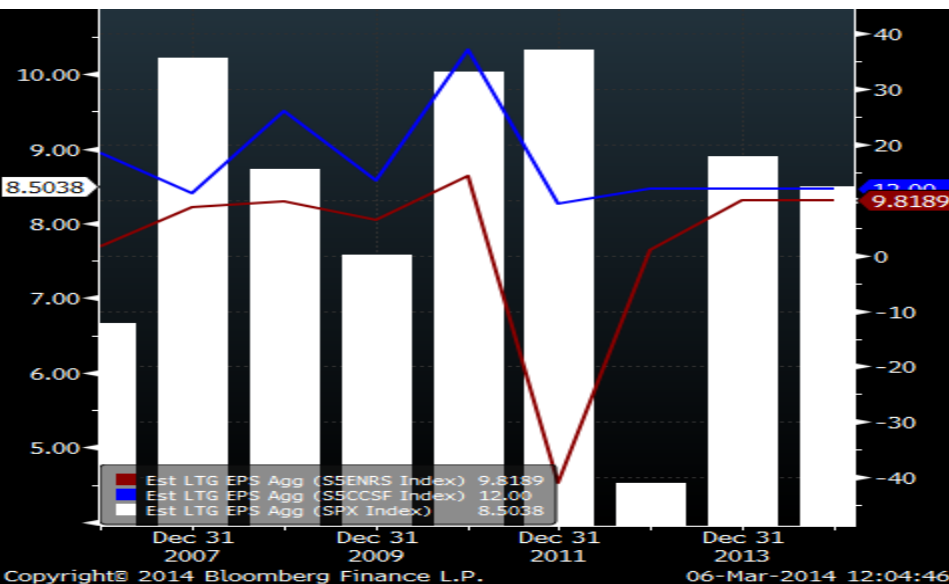


- Turnover and R&D



Industry: Coal & Consumable Fuels(COCOF)

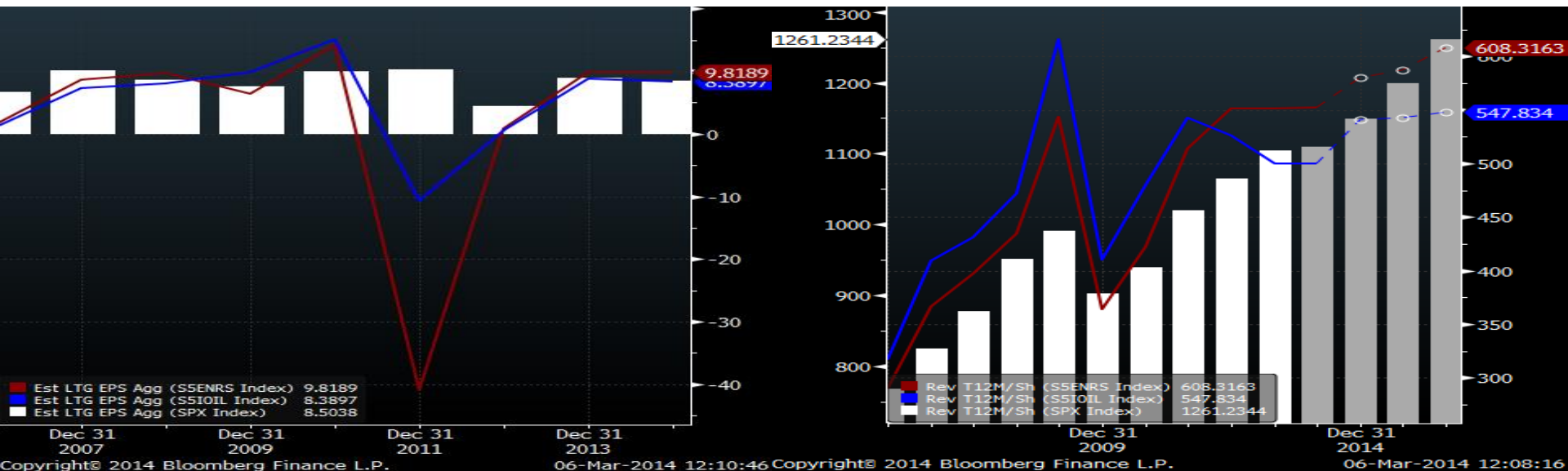
- Earnings/Share Growth & Sales/Share Growth
- Major Companies:
 - Consol Energy & Peabody Energy



Growth (YoY) %	CY 2015	CY 2014	Current	CY 2013	CY 2012	CY 2011	CY 2010	CY 2009	CY 2008	CY 2007	AVG
TRAIL_12M_SALES_PER_SH	12.11	-5.16	0	-9.96	-35.35	21.6	4.68	-5.93	47.09	2.59	3.17
TRAIL_12M_EPS	191.59	195.86	0	-81.93	-73.5	37.36	-11.97	-24.87	104.14	-20.43	31.63

Industry: Integrated Oil & Gas (OGINT)

- Earnings/Share Growth & Sales/Share Growth
- Major Companies:
 - Exxon, Chevron, Occidental Petroleum

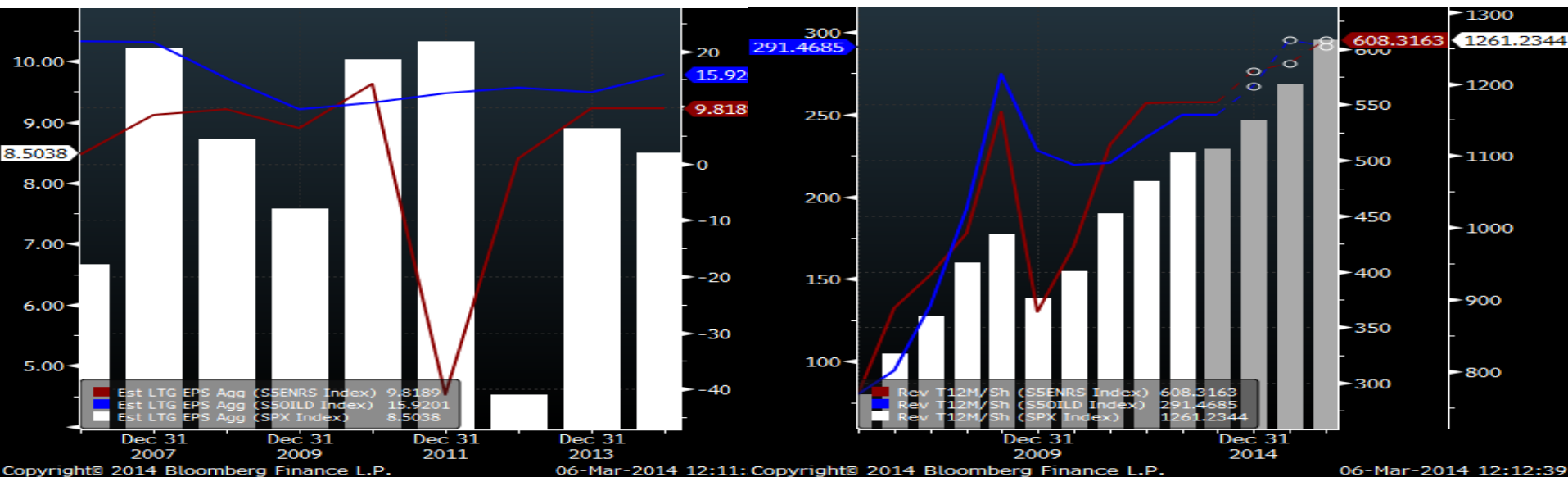


Growth (YoY) %	CY 2015	CY 2014	Current	CY 2013	CY 2012	CY 2011	CY 2010	CY 2009	CY 2008	CY 2007	AVG
TRAIL_12M_SALES_PER_SH	0.01	9.27	0	-4.85	-3.16	13.17	16.94	-33.4	30.53	9.46	3.80
TRAIL_12M_EPS	1.8	1.44	0	-9.24	-3.46	37.19	64.21	-57.7	23.13	5.81	6.32

Industry: Oil and gas Drilling (OGDRL)

- Earnings/Share Growth & Sales/Share Growth
- Major Companies:

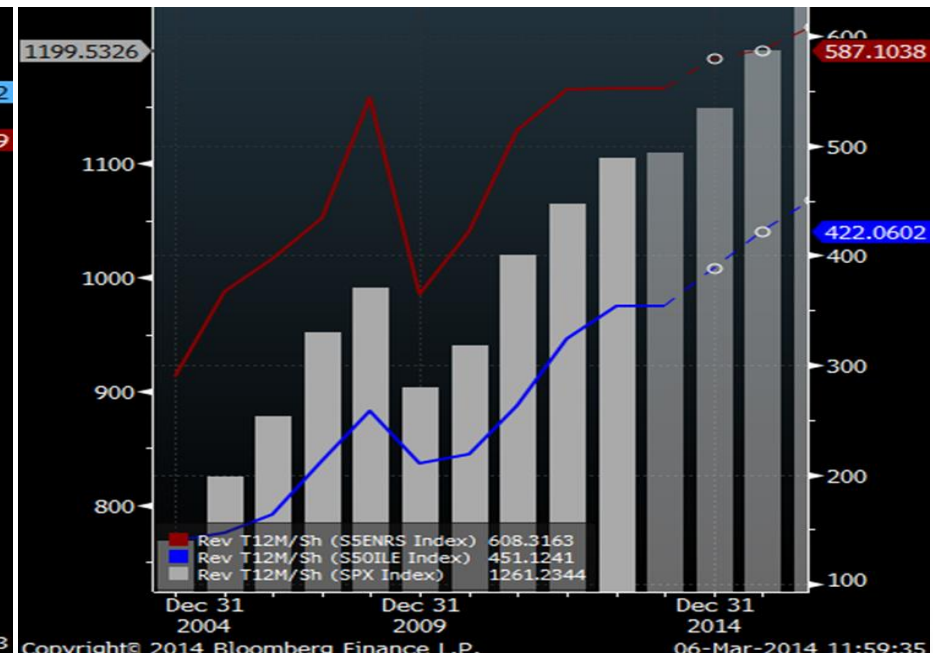
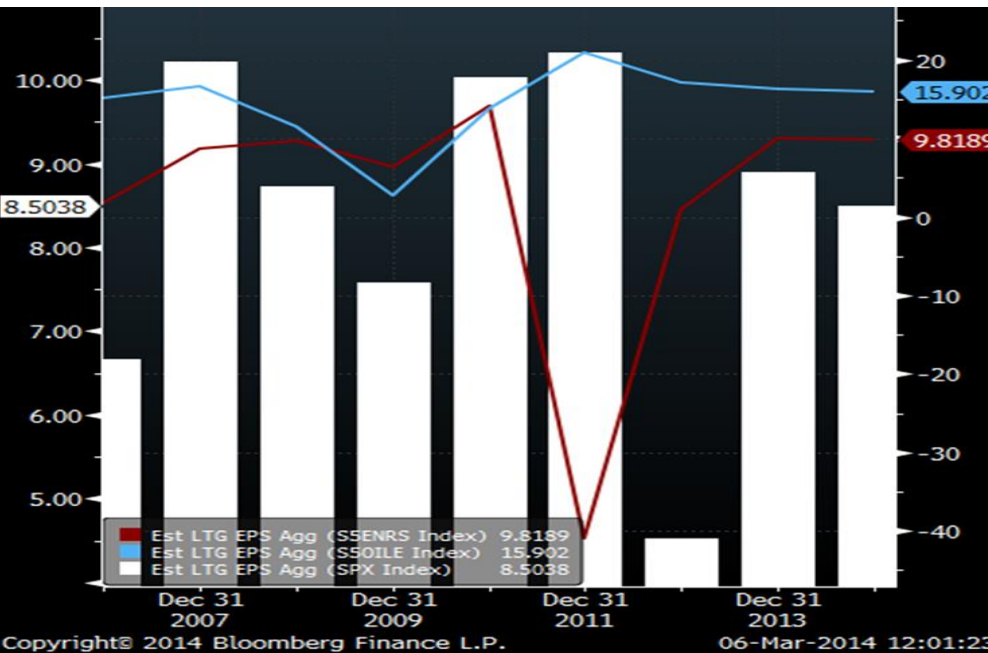
- Transocean LTD., Ensco Plc-cl A, Helmerich & Payn



Growth (YoY) %	CY 2015	CY 2014	Current	CY 2013	CY 2012	CY 2011	CY 2010	CY 2009	CY 2008	CY 2007	AVG
TRAIL_12M_SALES_PER_SH	10.56	7.11	0	5.71	7.13	0.57	-3.75	-17.03	42.57	43.82	9.67
TRAIL_12M_EPS	17.55	14.02	0	13.05	20.43	-3.79	-21.11	-49.57	24.75	104.67	12.00

Industry: Oil & Gas Equipment & Services (OGEQP)

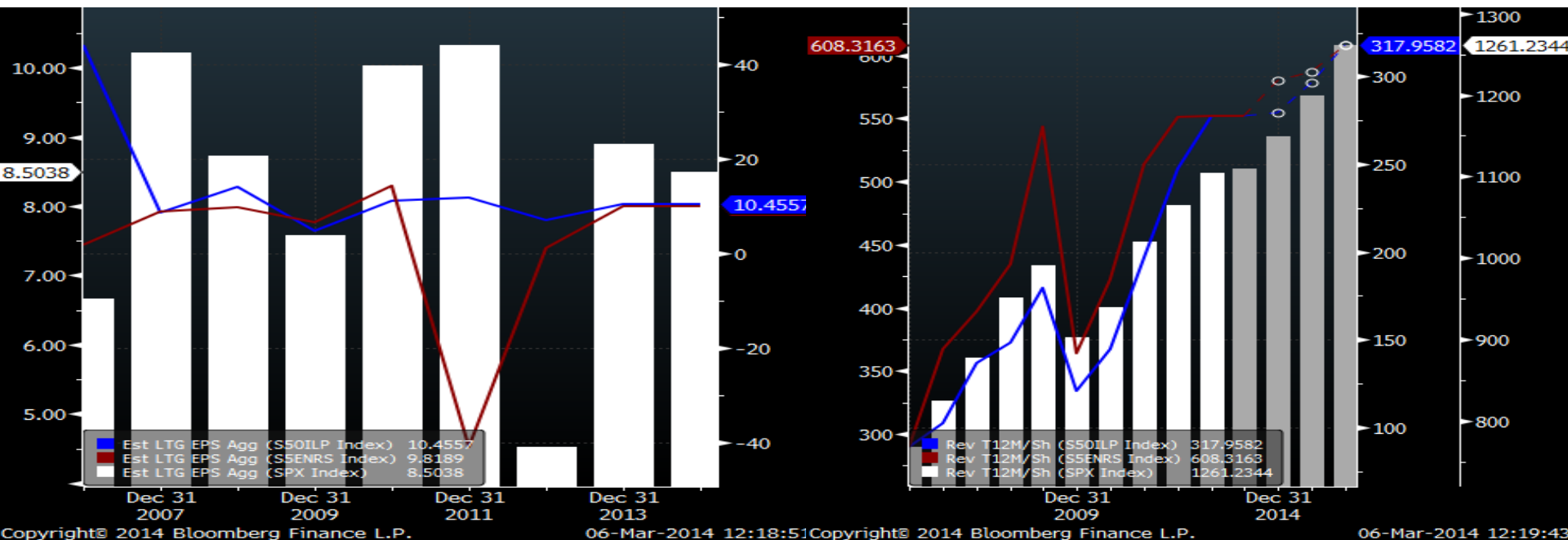
- Earnings/Share Growth & Sales/Share Growth
- Major Companies:
 - Schlumberger Ltd. , Halliburton Co.



	Growth (YoY) %	CY 2015	CY 2014	Current	CY 2013	CY 2012	CY 2011	CY 2010	CY 2009	CY 2008	CY 2007	AVG
TRAIL_12M_SALES_PER_SH		8.55	9.88	0	9.3	22.99	20.28	4.22	-18.68	21.59	29.31	10.74
TRAIL_12M_EPS		20.8	20.44	0	7.29	11.25	29.45	19.96	-49.83	17.88	47.65	12.49

Industry : Oil & Gas Exploration & Production

- Earnings/Share Growth & Sales/Share Growth
- Major Companies:
- Conocophillips, EOG Resources

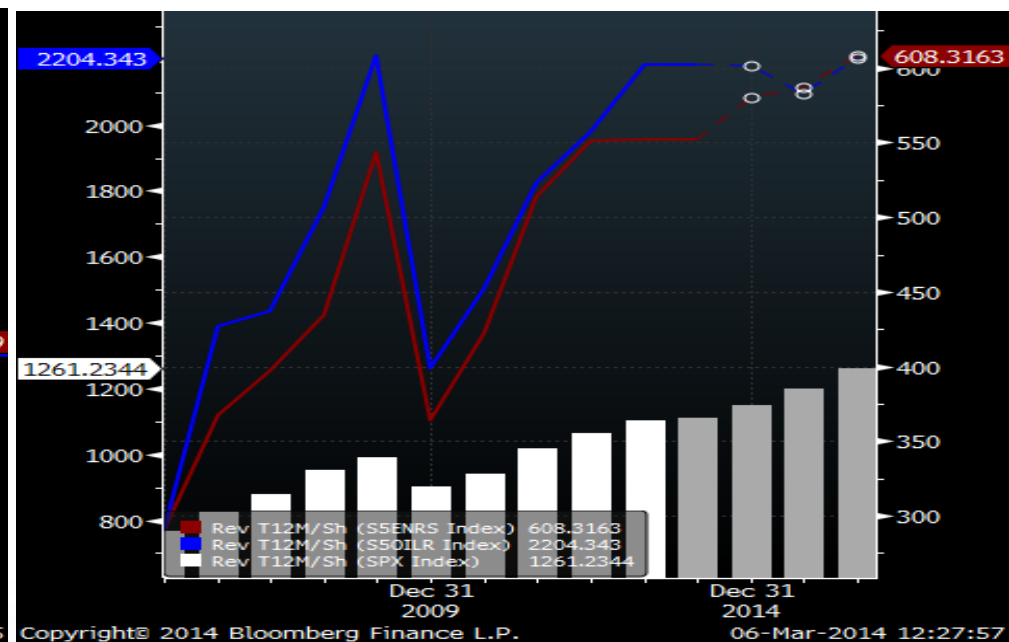
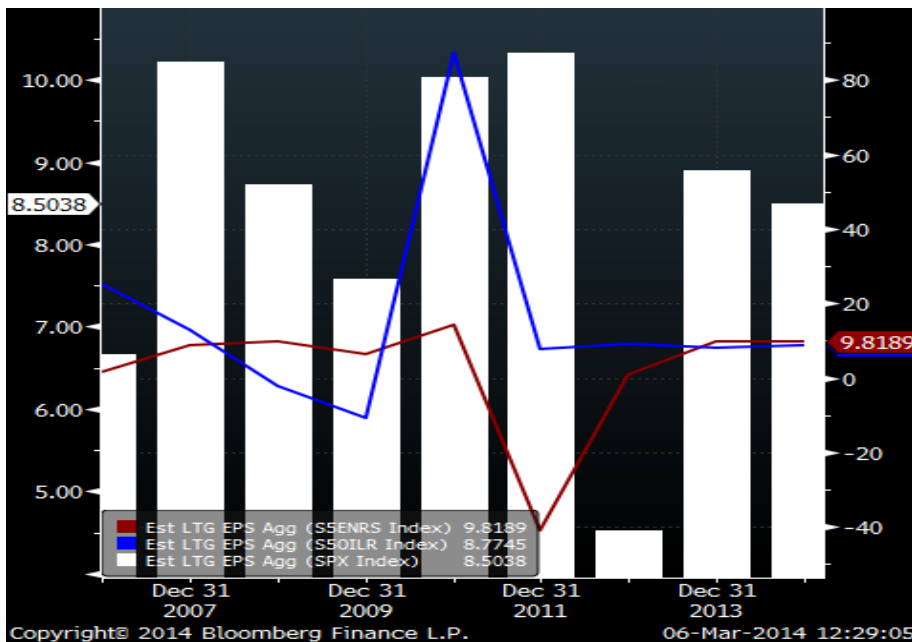


Growth (YoY) %	CY 2015	CY 2014	Current	CY 2013	CY 2012	CY 2011	CY 2010	CY 2009	CY 2008	CY 2007	AVG
TRAIL_12M_SALES_PER_SH	6.07	0.89	0	12.09	25.74	36.19	19.55	-32.64	20.89	8.62	9.74
TRAIL_12M_EPS	8.26	7.08	0	18.38	-16.6	32.41	3.33	-33.26	8.88	-13.7	1.48

Industry: Oil & Gas Refining & Marketing

- Earnings/Share Growth & Sales/Share Growth
- Major Companies:

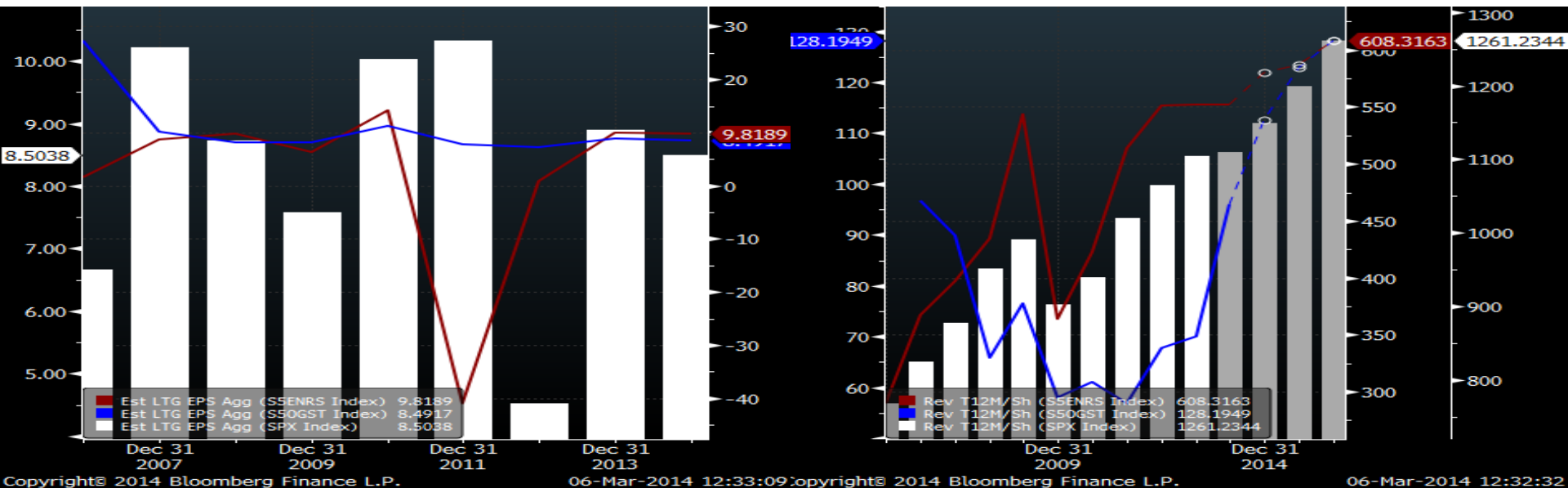
- Phillips 66, Valero Energy, marathon Petrole



Growth (YoY) %	CY 2015	CY 2014	Current	CY 2013	CY 2012	CY 2011	CY 2010	CY 2009	CY 2008	CY 2007	AVG
TRAIL_12M_SALES_PER_SH	-3.81	-0.31	0	10.47	8.37	21.34	19.11	-42.86	26.16	22.09	6.06
TRAIL_12M_EPS	6.37	39.43	0	-29.33	74.73	155.81			-33.17	-7.58	25.78

Industry: oil & gas storage & transportation

- Earnings/Share Growth & Sales/Share Growth
- Major Companies:
- Kinder Morgan In, Williams Cos Inc.



Growth (YoY) %	CY 2015	CY 2014	Current	CY 2013	CY 2012	CY 2011	CY 2010	CY 2009	CY 2008	CY 2007	AVG
TRAIL_12M_SALES_PER_SH	9.1	60.73	36.95	3.39	19.05	-7	5.38	-24.07	16.17	-26.83	9.29
TRAIL_12M_EPS	15.55	27.93	-2.53	-19.91	1.33	19.13	-1.29	-39.42	43.71	47.11	9.16

Best (Growth) Performing Sub-industry

Sub-Industry	Growth (YoY) %	
	TRAIL_12M_SALES_PER_SH	TRAIL_12M_EPS
Coal & Consumable Fuels	3.17	31.63
Integrated Oil & Gas	3.80	6.32
Oil & Gas Drilling	9.67	12.00
Oil & Gas Equipment & Services	10.74	12.00
Oil & Gas Exploration & Production	9.74	1.48
Oil & Gas Refining & Marketing	6.06	25.78
Oil & Gas Storage	9.29	9.16
Max	10.74	31.63
Min	3.17	1.48

- Oil and Gas Equipment's leads in sales growth over the course of ten years closely followed by Oil & Gas Exploration with coal and consumable fuels falling at the bottom of the pack.
- The Earnings growth leader is coal & consumable fuels with Oil & gas refining in second and Oil and Gas Exploration falling at the bottom.

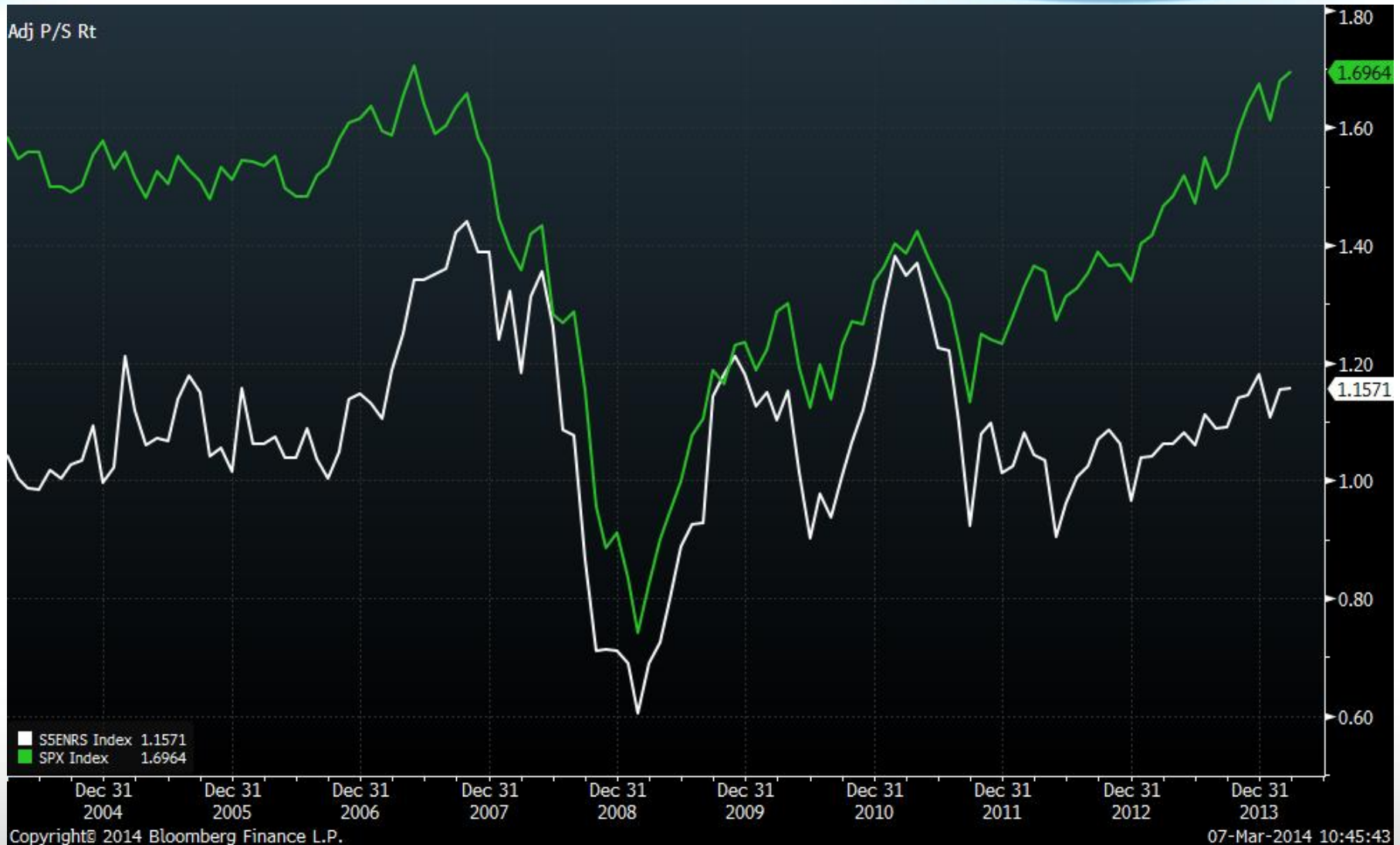
Valuation Analysis

- Energy Sector vs. S&P 500
- Industry Breakdown
- Technical Analysis

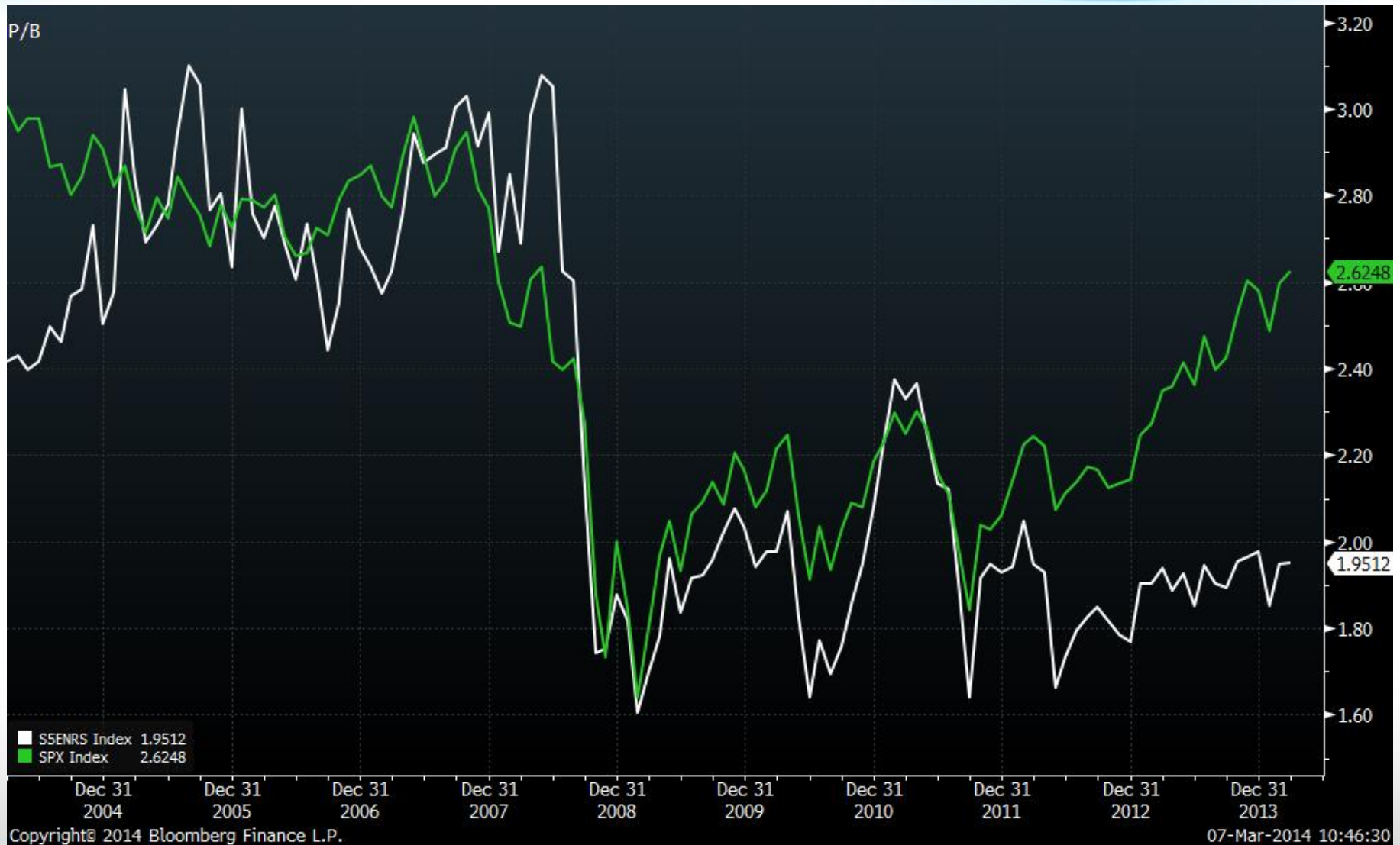
Energy Sector vs. S&P 500 P/E



Energy Sector vs. S&P 500 P/S



Energy Sector vs. S&P 500 P/B



Energy Sector vs. S&P 500 P/CF

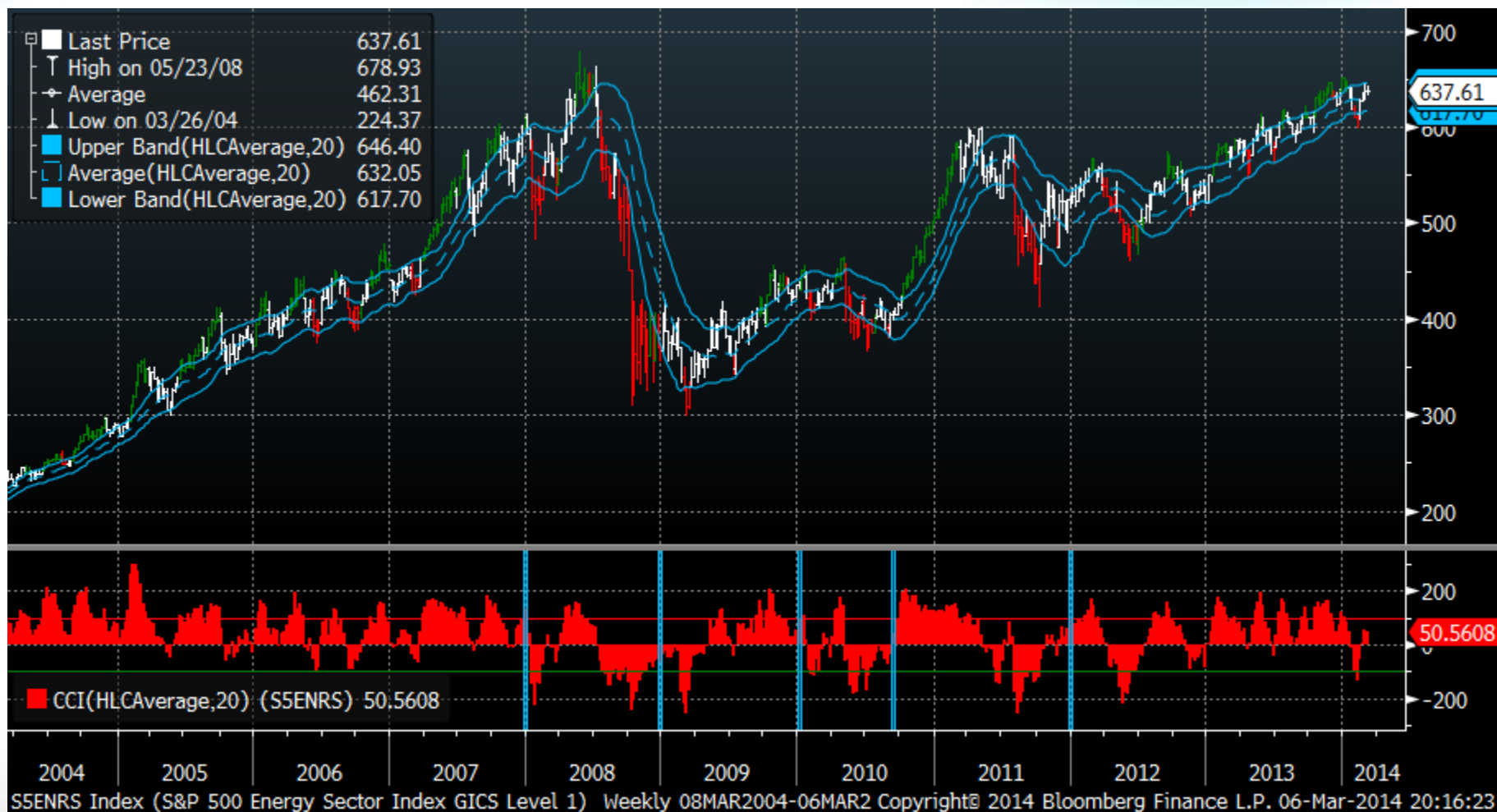


Industry Breakdown

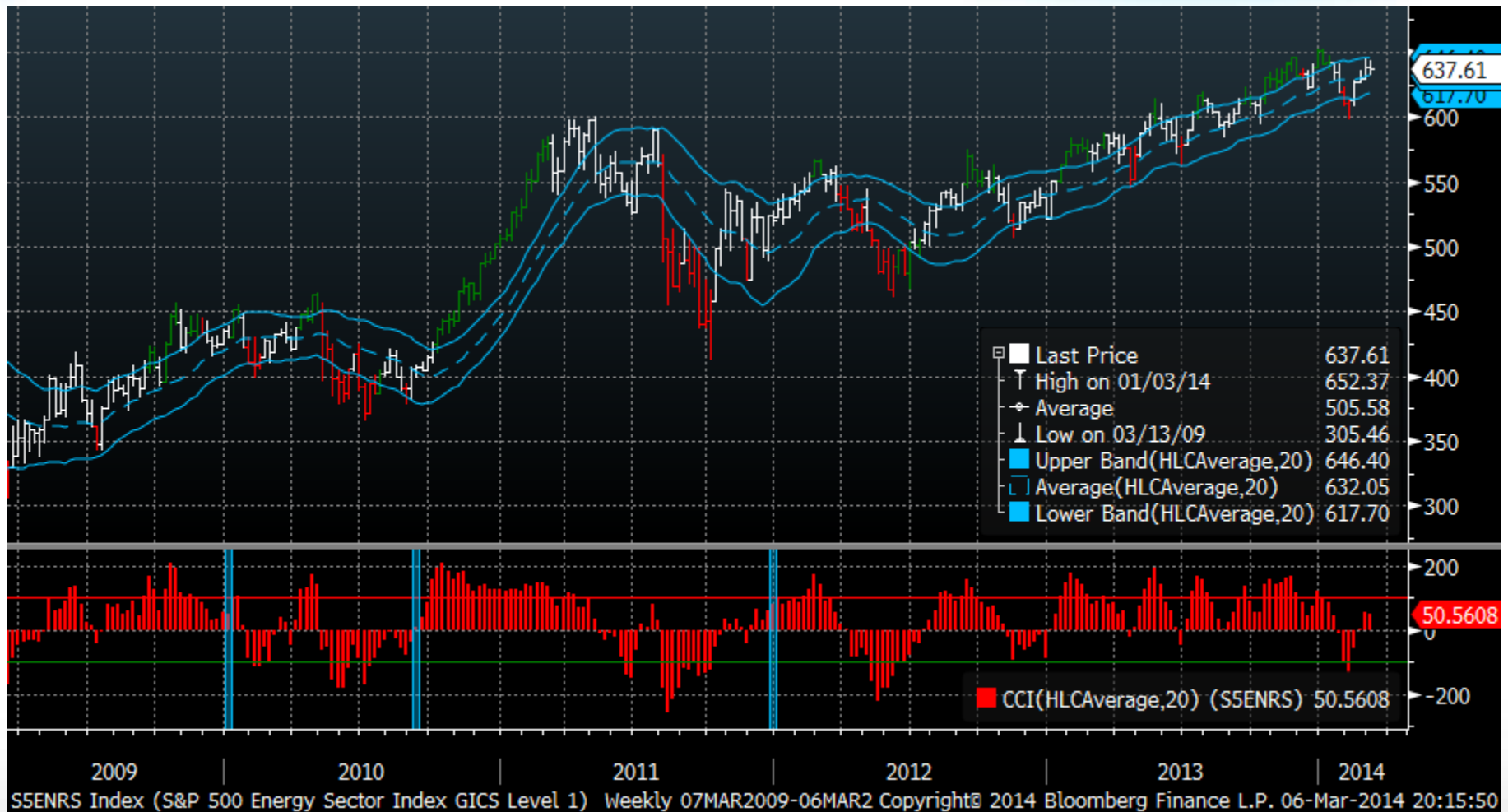
	Market-Cap (billion)	P/E	P/S	P/B	P/CF
S&P 500 Index	17231.05	17.33	1.69	2.63	9.26
Energy Sector	1676.89	14.57	1.15	1.94	7.32
Integrated Oil & Gas	727.03	12.09	1.15	1.88	7.56
Oil & Gas Exploration & Production	414.19	16.75	2.25	1.84	5.56
Oil & Gas Equipment & Services	254.18	18.54	1.92	2.53	11.63
Oil & Gas Refining & Marketing	104.11	13.3	0.26	1.9	7.02
Oil & Gas Storage & Transportation	99.75	37.75	2.57	3.62	9.57
Oil & Gas Drilling	63.83	11.89	1.95	1.09	6.62
Coal & Consumable Fuels	13.79	177.82	1.22	1.57	10.04
Max	727.03	177.82	2.57	3.62	11.63
Mean	13.79	11.89	0.26	1.09	5.56
Median	104.11	16.75	1.92	1.88	7.56

- Valuation vary widely across the sector
- The valuation ratios of the Integrated Oil & Gas and Oil & Gas Refining & Marketing is lower than that of the market

Technical Analysis (10Y)



Technical Analysis (5Y)



Recommendation

- Increase sector weight to match S&P 500
- Positives
 - Sector was growing steadily in the past two years
 - Valuation, sector is below S&P 500
 - Developing world oil consumption rising, especially in China, Brazil and India
- Negatives
 - Volatility of oil price
 - Sensitive to political events, which impact oil price
- Industries to overweigh: Integrated Oil & Gas, Oil & Gas Refining & Marketing



Thank you!

Any Questions?