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## **LONG: Oil Equipment & Services Sector Global Markets**

**Target Price: \$20.56**

**Entry Price (February 2, 2022): \$15.67**

*Upside Potential: +31.20%*

**Recommendation: BUY**

**Investment Horizon: 4 months**

Vienna, February 10, 2022

# Team Overview

## Global Markets



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Head of Global Markets

- Editorial Board
- Story Guideline
- Trade Execution



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Head of Global Markets

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 **Raiffeisen Bank International**

- BSc. (Universität Wien) – International Business Administration

# Agenda

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# Oil equipment & service companies underperformed US equities and Oil prices

## Market Overview



### Overview

- Expectation of increasing Oil and Gas investments in 2022
- High profitability of new oil wells will lead to new investments by the profitable oil companies
- Political tensions in Ukraine and Russia put further tension on the already heated energy market
- A possible increase in output by Iran could be possible in Q1 2022 due to the new negotiations for a Nuclear Deal
- Increasing Inflation puts further pressure on Energy and Commodity markets



# Global Energy Production and Consumption

## Macro and Markets Environment

### Overview

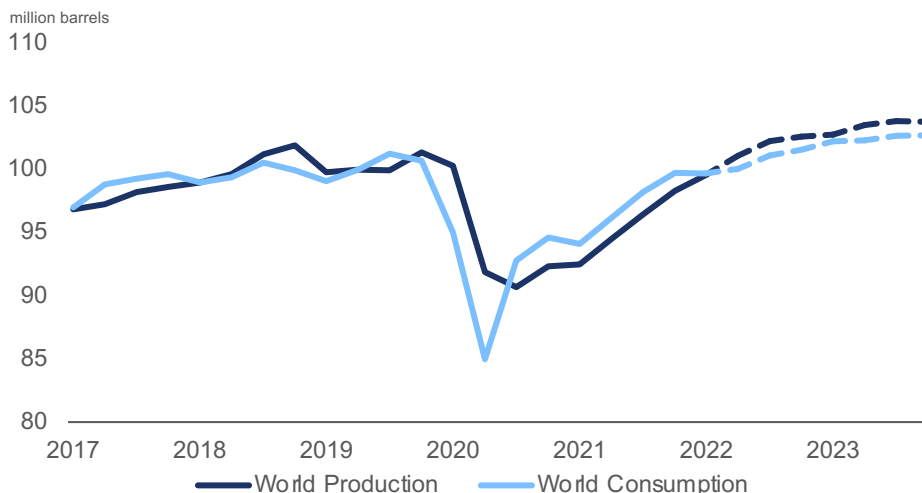
#### Production and Consumption

- Sharp drop in consumption and production of Crude Oil and refinery products
- Supply should meet demand in Q1 2022
- Demand: Global economic recovery after the Covid crisis continues
- Supply: The Covid induced drop in cross-border trade led to supply shortages

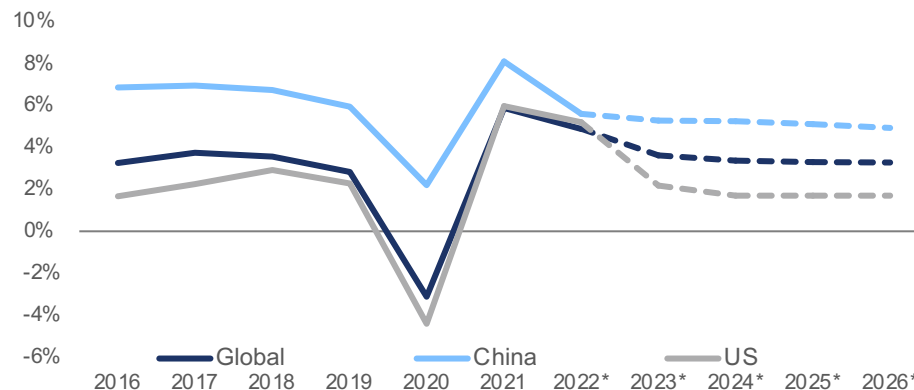
#### Storages

- 24th OPEC meeting, adjust upwards the monthly overall output
- Shrinking of US Crude Oil inventories
- Most of surplus will go toward storages

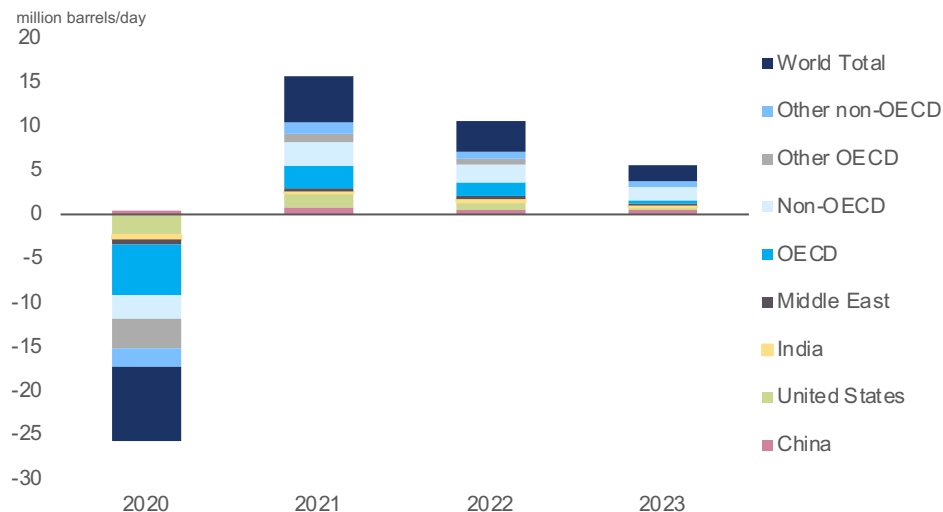
### Global liquid fuels production and consumption



### Annual GDP growth



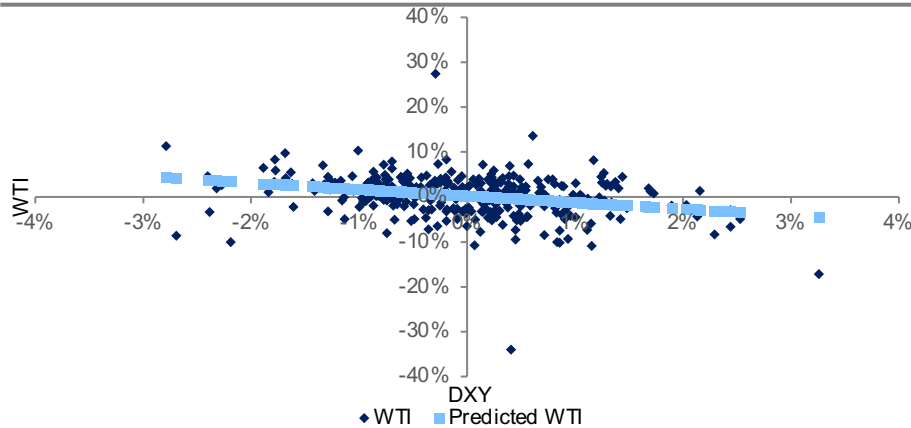
### Annual change in liquid fuels consumption



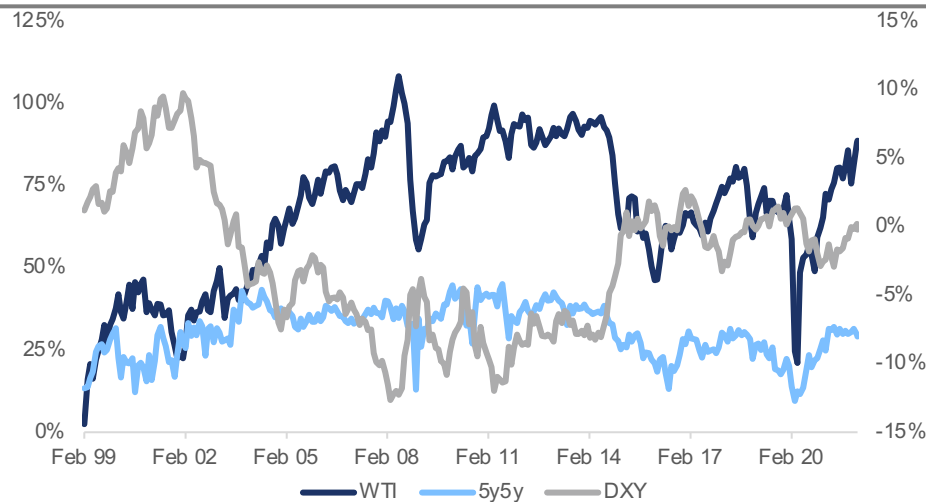
# Correlation of Crude Oil with the USD and Inflation

## Macro and Markets Environment

### Correlation between Oil prices and the USD



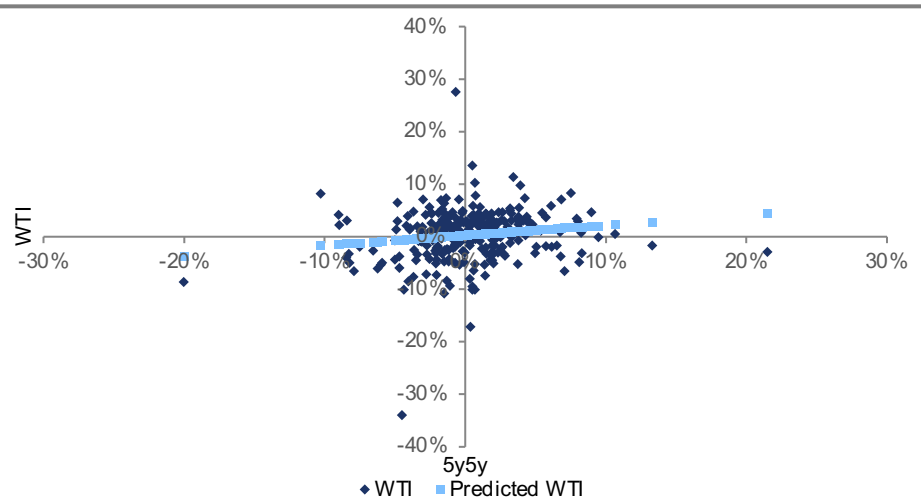
### Oil, USD and Inflation



### Overview

- Direct correlation between Inflation and Oil prices
- Fed's imminent rate hikes
- Rise for demand side
- 5y5y forward inflation rate – another indicator for rising price levels

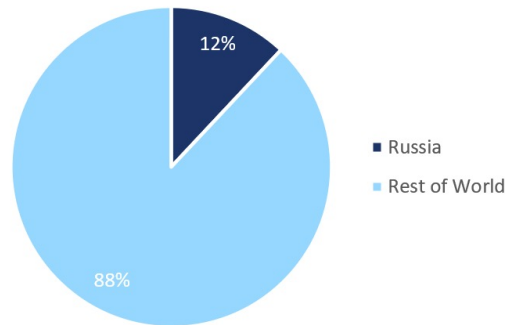
### Correlation between Oil prices and 5y5y forward inflation rate



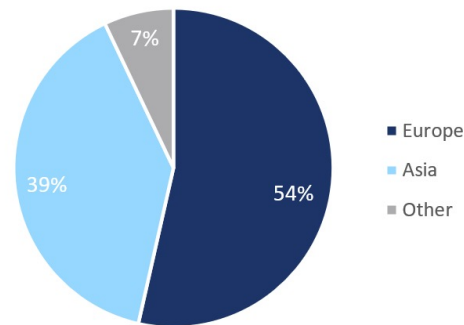
# Political tensions and the possibility of a Nuclear Deal

## Political Landscape

### Russian Share in global Crude Oil exports



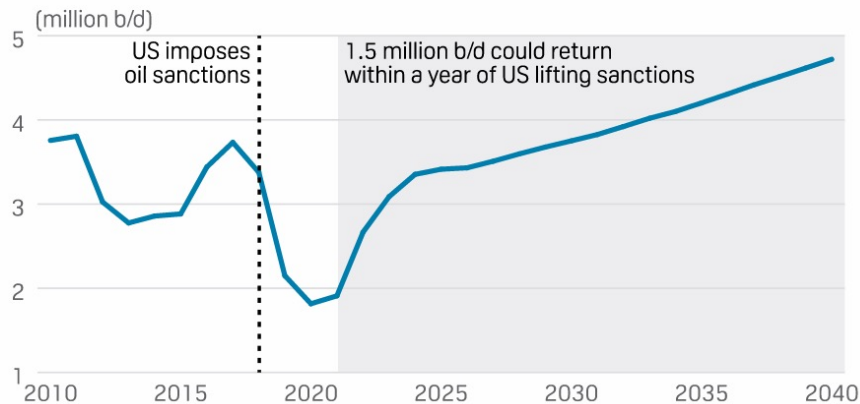
### Russian Crude Oil exports by destination



### Russia and Ukraine

- Europe is highly dependent on Russia
- Sanctions against Russia could harm the West
- Imposes a strong uncertainty for the markets
- Any sanctions would have an immediate impact on Energy Markets

### IRANIAN OIL EXPORTS UNDER US SANCTIONS RELIEF



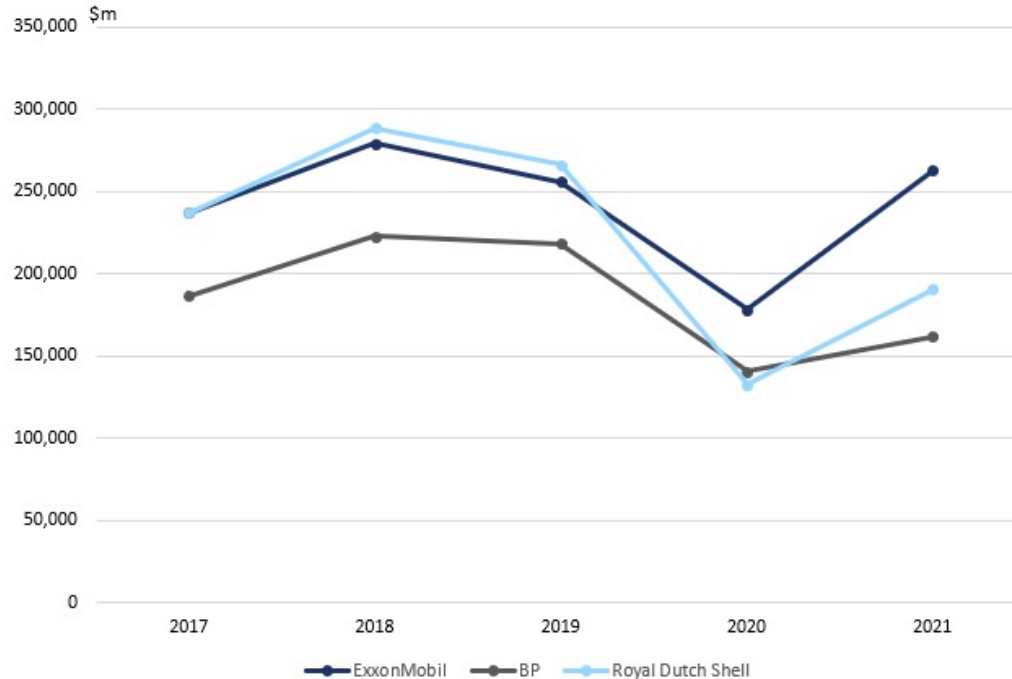
### Iran Nuclear Deal

- Due to US sanctions Iran exported at historic lows of 2m barrels per day
- Iran has estimated reserves of 120m barrels of Crude Oil
- Possible increase in production to 3m barrels/day
- One of the major risks on the supply side

# Profitability of the Oil Companies

## Fundamentals

Revenue 2016 - 2021



Revenue in \$m	2017	2018	2019	2020	2021
ExxonMobil	237,156	279,202	255,995	178,170	263,140
BP	186,523	223,055	218,224	140,652	161,380
Royal Dutch Shell	237,003	288,951	266,537	132,546	190,051

## Profitability

- Current WTI Price: \$90.45
- New wells haven't been consistently profitable in the recent years
- Average cost of production for existing wells is at \$28.28 and for new wells at \$50.85
- At the moment investing into new wells as well as ongoing projects are very lucrative
- Profitability also shows in the revenue of big oil companies

Oilfield	CoP - new well	CoP - existing well
Eagle Ford	\$46.00	\$17.00
Permian (Midland)	\$46.00	\$27.00
Permian (Delaware)	\$49.00	\$26.00
Bakken	\$51.00	\$28.00
Other U.S. (non-shale)	\$53.00	\$34.00
Permian (other)	\$53.00	\$33.00
Other U.S. (shale)	\$58.00	\$33.00

# Overview of the Equipment and Service Industry

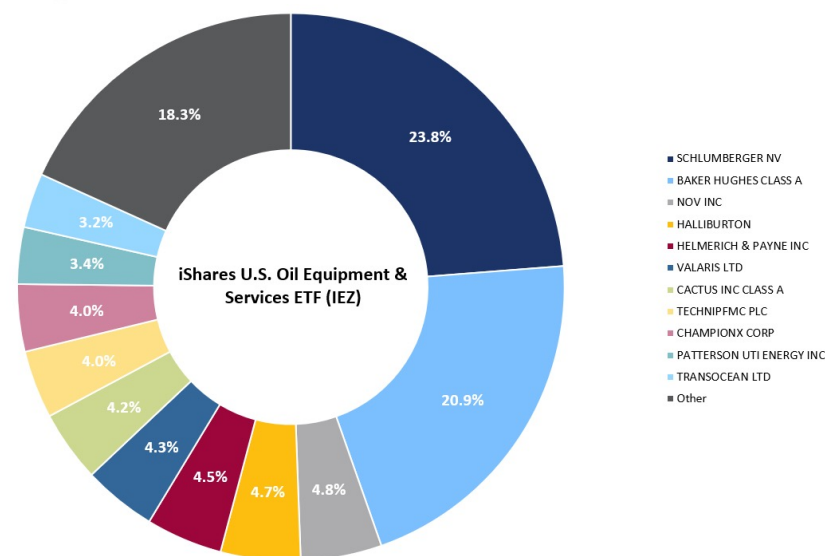
## Fundamentals

Earnings per Share	2017	2018	2019	2020	2021	Holding %
SCHLUMBERGER NV	-	-\$7.32	-\$7.32	-\$7.57	\$1.32	23.77%
BAKER HUGHES CO	-\$0.24	\$0.45	\$0.23	-\$14.73	-\$0.27	20.86%
NOV INC	-\$0.63	-\$0.08	-\$15.96	-\$6.62	-\$0.58	4.79%
HALLIBURTON	-\$0.53	\$1.89	-\$1.29	-\$3.34	\$1.63	4.72%
HELMERICH & PAYNE INC	-\$1.20	\$4.37	-\$0.34	-\$4.60	-\$3.48	4.52%
VALARIS LTD	-\$3.66	-\$5.90	-\$1.14	-\$24.41	-\$14.37	4.33%
CACTUS INC	-	\$1.58	\$1.88	\$0.72	\$0.70	4.21%
TECHNIPFMC PLC	\$0.24	-\$4.20	-\$5.39	-\$7.33	\$0.37	4.01%
CHAMPIONX CORP	\$1.43	\$1.19	\$0.67	-\$5.01	\$0.57	3.97%
PATTERSON UTI ENERGY INC	\$0.03	-\$1.47	-\$2.10	-\$4.27	-\$1.91	3.35%
TRANSOCEAN LTD	-\$8.00	-\$4.26	-\$2.05	-\$0.92	-\$0.63	3.22%
Other (average)	-\$0.27	-\$1.23	-\$7.32	-\$18.25	-\$2.66	18.25%

Total Liabilities in \$m	2017	2018	2019	2020	2021
SCHLUMBERGER NV	34,726	33,921	32,136	29,945	26,225
BAKER HUGHES CO	18,090	17,426	18,870	19,765	18,602
NOV INC	6,046	5,907	5,624	4,856	4,489
HALLIBURTON	16,736	16,438	17,352	15,697	15,593
HELMERICH & PAYNE INC	2,376	1,907	1,904	1,574	2,185
VALARIS LTD	5,896	5,935	7,622	8,503	8,486
CACTUS INC CLASS A	303	222	319	265	384
TECHNIPFMC PLC	14,854	14,315	15,790	15,435	6,734
CHAMPIONX CORP	266	997	906	1,863	1,727
PATTERSON UTI ENERGY INC	1,776	2,338	1,606	1,693	1,292
TRANSOCEAN LTD	9,641	12,551	12,238	10,369	9,709

## Overview

- \$IEZ holdings performing best in 2021
- Last years earnings went toward reducing debt
- On average: 13.38 % reduction of total debt



## Macroeconomic environment in favor of higher oil equipment manufacturer valuations

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WUTIS expects investments in the Oil & Gas industry to increase in 2022

- Inflation
- Rising commodity prices

High profitability of Crude Oil wells, elevated political tensions and ongoing inflation concerns point to further increasing Oil prices

- OPEC+ wants to increase its output but struggles

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### *Long Oil Equipment & Services ETF (IEZ)*

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Oil Producers and Equipment Manufacturers recovered 2020 demand gap throughout 2021

- Oil Producers highly profitable in 2021
- Will lead to more investments

Long position in iShares U.S. Oil Equipment & Services ETF (\$IEZ) and individual holdings \$SLB & \$BKR

- The \$IEZ gives a good overview of the sector
- \$SLB & \$BKR make up ~50% of the sector ETF



# The two largest Equipment and Service providers

## Fundamentals



### Overview

- Largest holdings of \$IEZ (44.63%)
- One of the most valuable equipment and service providers by market cap
- Exceptional development
- \$BKR almost profitable again
- \$SLB one of first positive years again
- Ongoing reduction of debt

Baker Hughes Co	2017	2018	2019	2020	2021	% change 2020 - 2021
Revenue	\$17,179	\$22,877	\$23,838	\$20,705	\$20,536	-0.82%
EPS	-\$0.24	\$0.45	\$0.23	-\$14.73	-\$0.27	
Total Liabilities	\$18,090	\$17,426	\$18,870	\$19,765	\$18,602	-5.88%

Schlumberger NV	2017	2018	2019	2020	2021	% change 2020 - 2021
Revenue	\$30,440	\$32,815	\$32,917	\$23,601	\$22,929	-2.93%
EPS	-	-\$7.32	-\$7.32	-\$7.57	\$1.32	
Total Liabilities	\$34,726	\$33,921	\$32,136	\$29,945	\$26,225	-12.42%



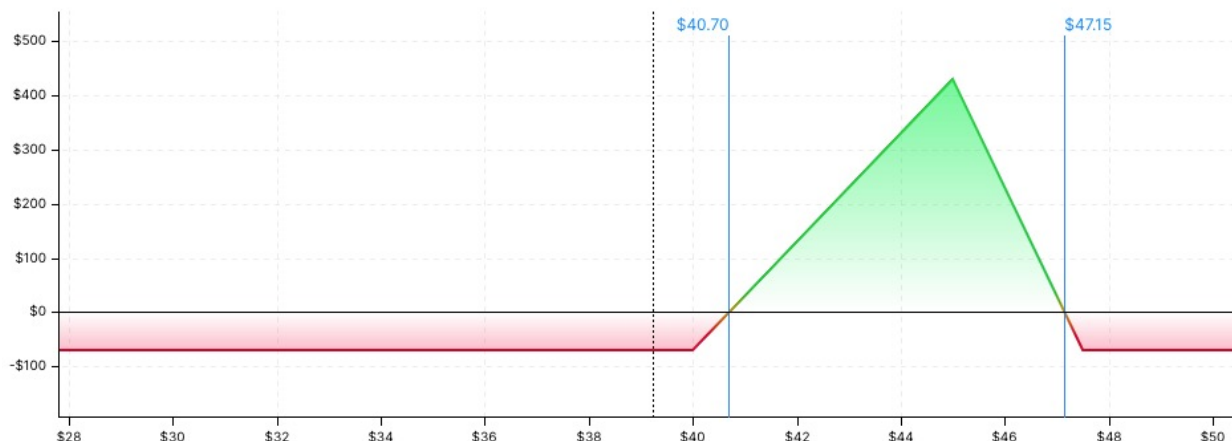
# Christmas tree butterfly with calls on \$SLB

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## Trading Strategy

### Trade Description

- **Setup:**
- 1 long call at \$40 (Delta: 0.523)
- 3 short calls at \$45 (Delta: 0.317)
- 2 long calls at \$47.5 (Delta: 0.238)
- Expiration date: 17th of June 2022 (127 days till expiration)
- IV: 38% (RV: 43%)
- R:R of 6.1



### Entry/Exit, Stop Loss

- Entry price: \$39.51
- Maximum loss: \$70 per contract
- Break-even: \$40.70 and \$47.15
- Max Profit: \$429

### Risk management

- Risk is capped
- Vega exposure

		Feb			Mar				Apr				May			Jun		
		9	17	25	4	14	21	29	6	14	22	29	9	16	24	1	9	17
\$48.50	24%	8	10	11	13	15	17	20	22	25	28	32	36	40	43	43	28	-70
\$47.50	21%	11	12	14	16	19	21	24	27	31	35	40	47	53	62	71	74	-70
\$46.50	18%	12	14	16	18	21	24	27	31	35	41	46	56	65	78	96	121	130
\$46	17%	13	14	17	19	22	25	28	32	37	43	48	59	69	84	106	142	230
\$45	15%	13	15	17	19	23	26	29	34	39	45	51	63	75	93	120	172	429
\$44	12%	13	15	17	19	23	26	29	34	39	45	52	64	76	94	123	179	330
\$43.50	11%	12	14	16	19	22	25	29	33	38	44	51	63	74	92	120	172	280
\$42.50	8.3%	11	13	15	17	20	23	26	30	35	41	47	57	67	83	105	141	180
\$41.50	5.7%	8	10	12	14	17	19	22	26	30	35	40	48	56	66	80	94	80
\$41	4.4%	7	8	10	12	15	17	20	23	27	31	35	42	48	56	65	68	30
\$40	1.9%	3	5	6	8	10	12	14	16	19	22	24	29	32	34	33	19	-70
\$39.50	0.6%	1	2	4	5	7	8	10	12	14	17	19	21	22	22	17	-3	-70
\$38.50	-1.9%	-3	-3	-2	-1	1	1	3	4	5	5	6	5	4	-1	-11	-35	-70
\$37.50	-4.5%	-9	-8	-8	-7	-7	-6	-6	-6	-6	-6	-7	-10	-14	-21	-34	-54	-70
\$37	-5.7%	-12	-11	-11	-11	-10	-10	-10	-11	-11	-12	-14	-18	-22	-30	-43	-60	-70
\$36	-8.3%	-17	-17	-17	-18	-18	-18	-19	-20	-22	-24	-26	-32	-37	-45	-56	-67	-70
\$35	-11%	-24	-24	-24	-25	-26	-27	-28	-30	-32	-34	-37	-43	-48	-56	-63	-69	-70
\$34.50	-12%	-27	-27	-28	-28	-30	-31	-32	-34	-36	-39	-42	-48	-53	-59	-66	-70	-70
\$33.50	-15%	-33	-34	-34	-35	-37	-38	-40	-42	-45	-48	-51	-56	-60	-65	-68	-70	-70
\$32.50	-17%	-39	-40	-41	-42	-44	-45	-47	-49	-52	-55	-57	-62	-65	-68	-69	-70	-70
\$32	-18%	-42	-43	-44	-45	-47	-48	-50	-52	-55	-57	-60	-64	-66	-68	-70	-70	-70
\$31	-21%	-47	-48	-49	-51	-52	-54	-56	-58	-60	-62	-64	-67	-68	-69	-70	-70	-70
\$30	-24%	-52	-53	-54	-55	-57	-58	-60	-62	-63	-65	-67	-68	-69	-70	-70	-70	-70

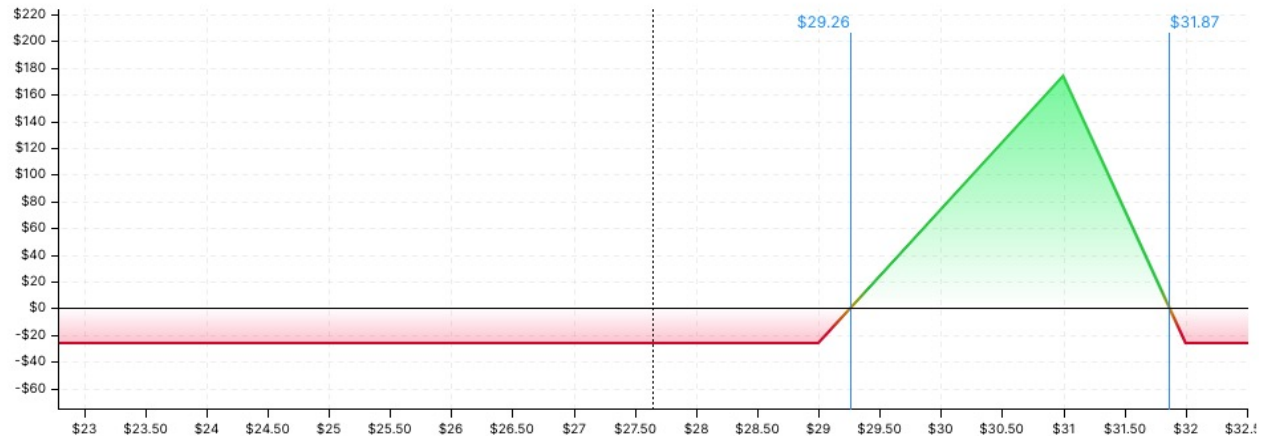


# Christmas tree butterfly with calls on \$BKR

## Trading Strategy

### Trade Description

- **Setup:**
- 1 long call at \$29 (Delta: 0.41)
- 3 short calls at \$31 (Delta: 0.254)
- 2 long calls at \$32 (Delta: 0.186)
- Expiration date: 15th of April 2022 (63 days till expiration)
- IV: 37.6% (RV: 45%)
- R:R of 5.5



### Entry/Exit, Stop Loss

- Entry price: \$27.78
- Maximum loss: \$26 per contract
- Break-even: \$29.26 and \$31.87
- Max Profit: \$144

### Risk management

- Risk is capped
- Vega exposure

		Feb					Mar									Apr			
		9	14	17	21	25	1	4	9	14	17	21	25	29	1	6	11	14	
\$32.50	18%	5	6	6	7	7	8	8	9	10	11	12	13	15	16	17	10	-26	
\$32.10	16%	6	7	7	7	8	9	9	11	12	13	15	16	19	21	25	27	-26	
\$31.60	14%	7	7	8	8	9	10	11	12	14	15	17	20	23	26	34	49	54	
\$31.20	13%	7	8	8	9	10	10	11	13	15	16	18	21	25	29	40	64	134	
\$30.70	11%	7	8	8	9	10	11	11	13	15	16	19	22	26	30	42	71	144	
\$30.30	9.6%	7	8	8	9	9	10	11	13	15	16	18	21	25	29	40	66	104	
\$29.90	8.1%	6	7	7	8	9	10	10	12	14	15	17	20	23	27	36	53	64	
\$29.40	6.3%	6	6	6	7	8	8	9	10	12	13	14	17	19	22	27	31	14	
\$29	4.9%	5	5	5	6	6	7	7	8	10	10	12	13	15	16	18	12	-25	
\$28.50	3.1%	3	3	4	4	4	5	5	6	6	7	7	8	8	8	6	-6	-26	
\$28.10	1.6%	2	2	2	2	2	3	3	3	3	4	4	3	3	2	-3	-16	-26	
\$27.70	0.2%	0	0	0	0	0	0	0	0	0	0	-0	-1	-3	-4	-10	-21	-26	
\$27.20	-1.6%	-2	-2	-2	-2	-2	-3	-3	-3	-4	-4	-5	-7	-9	-11	-17	-25	-26	
\$26.80	-3.1%	-4	-4	-4	-4	-5	-5	-5	-6	-7	-8	-9	-11	-13	-15	-21	-26	-26	
\$26.30	-4.9%	-6	-7	-7	-7	-8	-8	-9	-10	-11	-12	-13	-15	-17	-19	-23	-26	-26	
\$25.90	-6.3%	-8	-9	-9	-9	-10	-11	-11	-12	-14	-14	-16	-18	-20	-22	-25	-26	-26	
\$25.40	-8.2%	-11	-11	-12	-12	-13	-13	-14	-15	-17	-18	-19	-21	-22	-24	-25	-26	-26	
\$25	-9.6%	-12	-13	-13	-14	-15	-16	-16	-17	-19	-20	-21	-22	-24	-25	-26	-26	-26	
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\$24.10	-13%	-16	-17	-17	-18	-19	-20	-20	-21	-22	-23	-24	-25	-25	-26	-26	-26	-26	
\$23.70	-14%	-18	-19	-19	-20	-20	-21	-21	-22	-23	-24	-25	-25	-26	-26	-26	-26	-26	
\$23.20	-16%	-20	-20	-21	-21	-22	-22	-23	-24	-24	-25	-25	-26	-26	-26	-26	-26	-26	
\$22.80	-18%	-21	-21	-22	-22	-23	-23	-24	-24	-25	-25	-26	-26	-26	-26	-26	-26	-26	

Source Name	Link	Date of Retrieval
WUTIS Article	<a href="https://wutis.at/wp-content/uploads/WUTIS_GlobalMarkets_IEZ_202202.pdf">https://wutis.at/wp-content/uploads/WUTIS_GlobalMarkets_IEZ_202202.pdf</a>	04.02.2022
S&P Global	<a href="https://www.spglobal.com/platts/en/market-insights/latest-news/electric-power/090920-us-elections-biden-win-could-lead-to-surge-in-iranian-oil-exports-by-2022">https://www.spglobal.com/platts/en/market-insights/latest-news/electric-power/090920-us-elections-biden-win-could-lead-to-surge-in-iranian-oil-exports-by-2022</a>	07.02.2022
OptionStrat	<a href="https://optionstrat.com/">https://optionstrat.com/</a>	07.02.2022
US Energy Information Administration	<a href="https://www.eia.gov/outlooks/steo/report/global_oil.php">https://www.eia.gov/outlooks/steo/report/global_oil.php</a>	04.02.2022
iShares	<a href="https://www.ishares.com/us/products/239518/ishares-us-oil-equipment-services-etf">https://www.ishares.com/us/products/239518/ishares-us-oil-equipment-services-etf</a>	04.02.2022
FRED	<a href="https://fred.stlouisfed.org/series/T5YIFR">https://fred.stlouisfed.org/series/T5YIFR</a>	05.02.2022

# Appendix

## Regression Model: WTI & DXY

### Regression Statistics

Multiple R	0,2864918
R Square	0,08207755
Adjusted R Square	0,07914489
Standard Error	0,04623567
Observations	315

### ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0,05982973	0,05982973	27,9874126	2,2993E-07
Residual	313	0,66911175	0,00213774		
Total	314	0,72894148			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 99,0%</i>	<i>Upper 99,0%</i>
Intercept	0,00242431	0,00260544	0,93047723	0,35284113	-0,0027021	0,00755071	-0,004328	0,00917665
log returns DXY	-1,4491598	0,27392704	-5,2903131	2,2993E-07	-1,988131	-0,9101886	-2,1590767	-0,7392429

Observations (monthly) from: 30.11.1995 – 08.02.2022

Source: Bloomberg

# Appendix

## Regression Model: WTI & 5y5y forward inflation rate

### Regression Statistics

Multiple R	0,15381629
R Square	0,02365945
Adjusted R Square	0,02010912
Standard Error	0,04901542
Observations	277

### ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	0,01601037	0,01601037	6,66401585	0,01035596
Residual	275	0,66069055	0,00240251		
Total	276	0,67670093			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 99,0%</i>	<i>Upper 99,0%</i>
Intercept	0,0028561	0,00294611	0,96944897	0,33317309	-0,0029437	0,0086559	-0,0047856	0,0104978
5y5y	0,1943778	0,07529717	2,58147552	0,01035596	0,04614569	0,34260992	-0,0009299	0,3896855

Observations (monthly) from: 26.02.1995 – 08.02.2022

Source: Bloomberg