

Offshore & Marine

Small-mid cap oil & gas picks

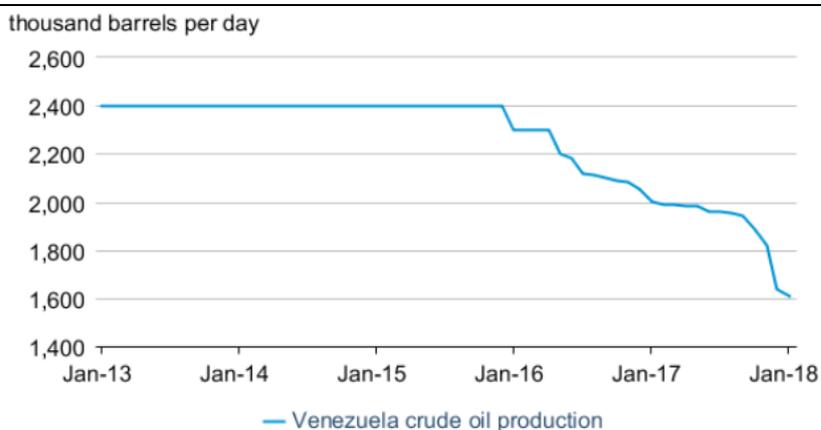
Event

Firm oil prices. Brent oil prices have firmed above US\$60/bbl since the start of 2018, more than double the lows seen in 2016. Oil prices have been supported by declining global oil inventories on the back of OPEC's oil production cuts, as well as stronger-than-expected demand from an accelerating global economy.

Impact

Potential upside from supply-side disruption. A key contributing factor to the decline in the supply-side is the rapid decline in Venezuelan crude oil output. According to data by the US EIA, crude production in the country had declined to 1.6mb/d in January 2018 compared to 2.4mb/d three years ago. We believe production may continue to decline as Venezuela's national oil company, PDVSA, lost as many as 10,000 workers (~7% of 2016 workforce) in January 2018 due to low wages and growing risk of accidents. Just 0.5mb/d of further production decline in Venezuela is enough to tilt the global supply/demand back into deficit, thus providing a boost to oil prices and O&G companies.

Figure 1: Venezuela Crude Oil production has declined 33% since January 2016



Source: US EIA

Valuation & Action

Opportunities in Small-mid cap O&G companies Industry blue-chip bellwethers, Keppel Corp and Sembcorp Marine, have gained 30-70% over the past year. As such, we would prefer to rotate to small-mid cap companies that may offer potentially higher upside. Among the better small-mid cap O&G companies, we would look at Mermaid Maritime, CSE Global, KimHeng Offshore and POSH. We will give further updates after their latest quarterly earnings results.

Risks

Crash in oil prices if global inventories start building up again. A key contributor to potential global oversupply is mainly from faster-than-expected increases in US shale production.

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BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
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