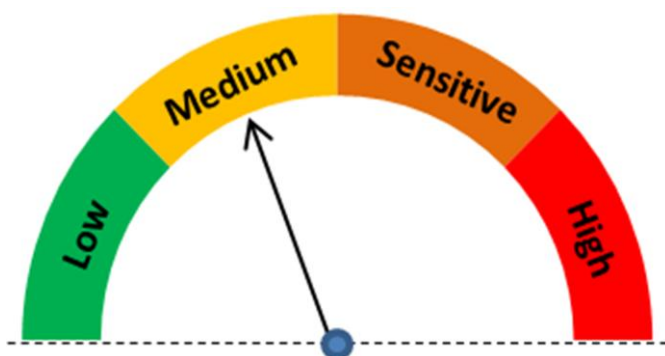


Sector Risk Rating



What to Watch?

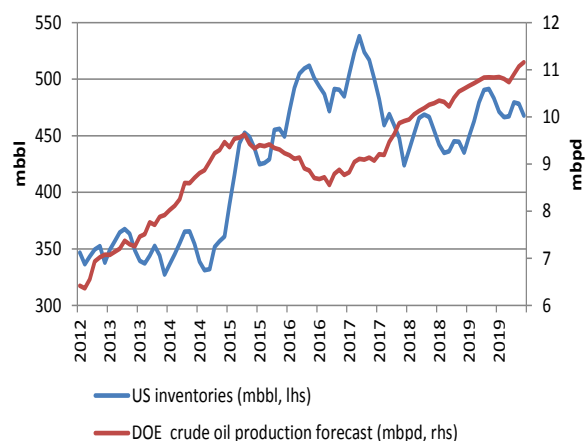
- Further growth in US production, positively correlated to oil prices
- OPEC's (and Russia's) reaction next June to increasing US shale output
- Renewables tenders as indications of cost levels
- Potential further M&A in the power, gas and clean tech sectors

Growth: Now in your energy sector

Supported by high oil prices and global demand strength, a deleveraged energy industry is returning to growth while keeping capital discipline. Global capex of growth of +15% y/y 2018 is underpinned by +25% average sector cash flow growth, according to Bloomberg consensus. Oil prices will be governed by the interplay of demand strength and inventory reduction (bullish) vs US production growth and prospects for revision of the November 2017 OPEC/non-OPEC supply cut agreement (bearish).

The power sector may also be returning to growth after several years of commodity price weakness, declining earnings and resulting aggressive deleveraging and cost cutting. The European sector alone could deploy funds for growth capex or M&A in the order of EUR 75bn according to our estimate. Power prices provide earnings upside on the basis of 2019 futures standing 25% above current hedge levels. The phase out of coal is one of the major risks for thermal generation. Capex in the coal sector has declined by -50% between 2012 and 2016, a trend that is likely to continue as more policies get refined, particularly in China and Germany but also on emissions markets. Supply and low carbon technologies have become the strategic growth sectors of choice. In these sectors, technology disruption and structural change will continue as a key theme. Clean energy could see new growth going forward as the maturing technologies (wind, solar) come off subsidies.

US crude oil inventories and oil production forecast



Sources: Bloomberg, DOE

Key Players

Country	Role	Sector Risk
Saudi Arabia	#1 producer	●
Russia	#2 producer	●
United States	#3 producer	●

Strengths

- Synchronised global expansion supports demand growth and pricing
- The industry has deleveraged, cut costs and lowered breakeven points. It has become more resilient and returns to growth
- Green energy to deliver structural growth

Subsectors Insights

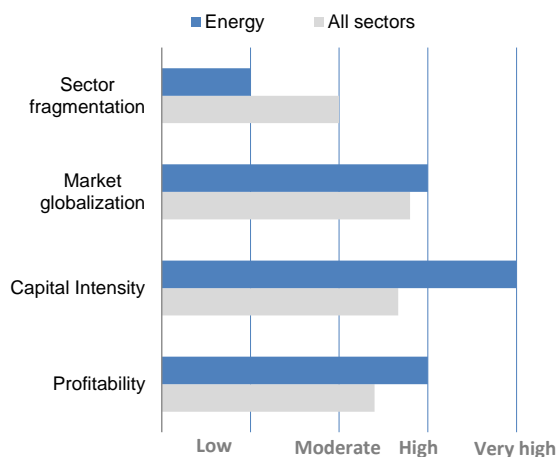
E&P: Profitability continues on the path of recovery in the silage of high oil prices

Refining: Falling refining margins along with rising oil prices could put pressure on margins

Networks and infrastructure: Pipelines to benefit from volume growth. New opportunities for electricity and gas infrastructure, turning into backbone of energy transitions. But intense regulatory scrutiny, as returns are reconsidered

Clean energy growth will benefit from high oil

ID Card



Weaknesses

- Secular substitution of fossil fuels and reinforcement of the dynamic with rising commodity prices
- Cyclicity (oil, thermal generation) and political risk exposure
- Intense competition in the power, gas and renewables sectors

Recent Sector Risk Changes



DISCLAIMER

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