



Sector IQ: Energy

Powered by McGraw Hill Financial

Oil & Gas Drill Down:

- *Energy Dealmaking: Transaction Trends*
- *Equity and Fixed Income Performance*
- *Credit Market Indicators*
- *Energy Production Shifts*

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ISSUE 1

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Introduction

Welcome to **Sector IQ: Energy**, a new publication which explores the energy industry and provides a unique perspective on oil & gas markets by leveraging content and analytics from across McGraw Hill Financial. In this issue, we see the impacts of the unfolding energy picture created by global supply and demand factors. On the demand side, the catalyst is the emergence of new and improved global economies, including China. From a supply perspective, the shale revolution is greatly impacting energy markets, creating a gas versus liquids story, as evidenced from the increasing production shifts. This issue attempts to capture the materialization of this unfolding picture through M&A, equity, and fixed income lenses, and also provide a forward looking glimpse of oil & gas markets.

WHAT'S HOT?

On April 2, S&P Capital IQ hosted its 6th Annual Energy Symposium in Houston, Texas. The event, **Exploring The Future Of The North American Oil & Gas Industry**, featured speakers from McGraw Hill Financial, Heikkinen Energy Advisors, W.L. Ross, and Wells Fargo. A key theme of the event was shale gas exploration, a topic discussed in our External Perspectives section [p.8].

[Click here for complete access to the event materials, including presentations and speaker articles.](#)

Energy Deal Making | A LOOK BACK AT M&A ACTIVITY

Top 10 Energy M&A Deals of 2013 (By Transaction Value)

Announced Date	Closed Date	Target/Issuer	Total Transaction Value (\$USDmm)	Buyers/Investors	Percent Sought (%)	Primary Seller	Category [Target]*	Region [Target]
10/17/12	3/21/13	Rosneft Limited	\$28,000.00	Open Joint Stock Company Rosneft Oil Company [LSE:ROSN]	50	Access Industries, Inc.	Upstream	EMEA
10/17/12	3/21/13	Rosneft Limited	\$26,393.45	Open Joint Stock Company Rosneft Oil Company [LSE:ROSN]	50	BP plc [LSE:BP]	Upstream	EMEA
7/23/12	2/25/13	Nexen Energy ULC	\$19,221.73	CNOOC Ltd. [SEHK:883]	100	Capital World Investors	Upstream	AMERICAS
12/5/12	5/31/13	Plains Exploration & Production Company	\$11,404.12	Freeport-McMoRan Copper & Gold Inc. [NYSE:FCX]	100	Major Shareholders	Upstream	AMERICAS
2/21/13	12/16/13	Berry Petroleum Company, LLC	\$5,963.21	Linn Energy, LLC [NasdaqGS:LINE]	100	Linn Co, LLC [NasdaqGS:LNCO]	Upstream	AMERICAS
2/21/13	12/16/13	Berry Petroleum Company, LLC	\$4,861.30	Linn Co, LLC [NasdaqGS:LNCO]	100	Winberta Holdings, Ltd.	Upstream	AMERICAS
1/29/13	5/1/13	Copano Energy LLC	\$4,519.92	Kinder Morgan Energy Partners, L.P. [NYSE:KMP]	100	TPG Capital, L.P.	Midstream	AMERICAS
3/21/13	4/30/13	ETP Holdco Corporation	\$3,801.46	Energy Transfer Partners, L.P. [NYSE:ETP]	60	Energy Transfer Equity, L.P. [NYSE:ETE]	Upstream	AMERICAS
7/18/13	9/30/13	Apache Corp., Gulf of Mexico Shelf Assets	\$3,750.00	Fieldwood Energy LLC	100	Apache Corp. [NYSE:APA]	Upstream	AMERICAS
10/31/13	12/5/13	Alliance Oil Company Ltd. [OTCPK:ALLZ.F]	\$3,667.86	OJSC Alliance Group Lambros Overseas S.A.	55.28	Euroclear Bank SA	Downstream	EMEA

*Upstream: Oil & Gas Drilling; Oil & Gas Equipment & Services; Integrated Oil and Gas; Oil & Gas Exploration & Production. Midstream: Oil & Gas Storage & Transportation. Downstream: Oil and Gas Refining and Marketing.
Source: S&P Capital IQ

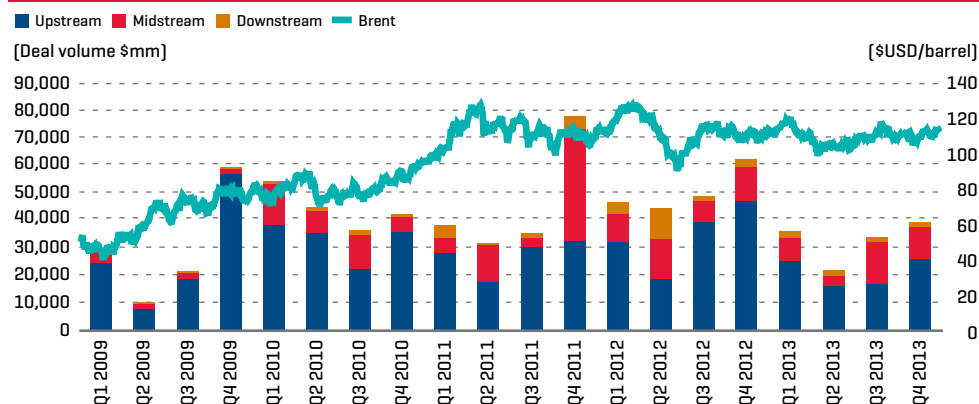
Though the top two energy sector M&A transactions completed last year involved Russian assets, most of 2013's leading finalized deals were of companies and properties located in North America. E&P businesses continued to dominate the list of energy M&A deals last year as the overall top six completed deals last year were in the upstream category. Meanwhile, of the top ten completed energy deals in 2013, four involved stake purchases of targets Rosneft Limited, ETP Holdco Corporation, and Alliance Oil Company Ltd.

Apache Corp: The \$3.75 billion sale of its former shallow water Gulf of Mexico assets to privately-held Fieldwood in July 2013 is reflective, in our view, of declining growth prospects from shallow water drilling. Most of the shallow Gulf has been well picked over and significant growth potential in the Gulf is likely only going to be found in deepwater. It's instructive that APA kept a stake in its deepwater Gulf assets.

*All charts and tables are sourced from S&P Capital IQ, unless otherwise noted.

Energy Deal Making | A LOOK BACK AT M&A ACTIVITY [continued]

Americas Deal Value vs. Oil Pricing [By Category]



Source: S&P Capital IQ

The upward move of oil prices last year was potentially associated with a modest advance during the second half of 2013 in announced M&A transactions involving targets located in the Americas. Still, despite recent advances in prices, the past year saw the quarterly nadir in Americas energy deal activity as about \$40 billion in transactions took place in the quarter ending June 2013, the lowest total since the third quarter 2009.

M&A Activity And Valuation By Category

Category	2013				2012				2011			
	# of Deals	Value (\$mil)	Median Implied EV/ LTM EBITDA [x]	Median Implied EV/ Net Income [x]	# of Deals	Value (\$mil)	Median Implied EV/ LTM EBITDA [x]	Median Implied EV/ Net Income [x]	# of Deals	Value (\$mil)	Median Implied EV/ LTM EBITDA [x]	Median Implied EV/ Net Income [x]
North America and Latin America Targets												
Upstream	804	\$85,422	5.58x	17.13x	914	\$137,981	7.19x	14.26x	998	\$110,552	9.23x	16.33x
Midstream	92	37,659	18.30x	25.46x	89	44,071	14.45x	30.34x	97	61,150	13.30x	36.50x
Downstream	46	6,203	NM	6.47x	62	17,482	5.25x	7.03x	57	8,751	8.79x	8.97x
Grand Total	942	\$129,283			1,065	\$199,534			1,152	\$180,453		
EMEA and APAC Targets												
Upstream	460	\$63,934	8.63x	8.17x	501	\$114,661	6.29x	12.58x	435	\$62,137	7.06x	11.82x
Midstream	93	12,065	9.18x	8.18x	108	13,718	6.94x	14.60x	97	13,376	14.65x	19.32x
Downstream	53	5,751	12.29x	23.61x	57	3,975	9.47x	11.96x	56	21,506	6.49x	7.96x
Grand Total	553	\$75,999			609	\$128,379			532	\$75,513		

NM = not measured in the S&P Capital IQ database
Source: S&P Capital IQ

S&P Capital IQ data indicates that:

- Americas energy M&A deals in recent years involving **midstream** targets typically have occurred at the highest multiples relative to EBITDA compared to those for upstream or downstream companies.
- Over the past two years, those deals with EMEA or APAC based targets found the richest premiums among downstream targets.
- As for deal proceeds, in all regions and during each period observed, upstream deal activity dominates.

Energy Deal Making | A LOOK AHEAD AT POTENTIAL M&A ACTIVITY

Deal Detector

[Potential Acquisition Targets] (\$USD)

Leigh Gas Partners LP (LGP)	Price: \$27.20
Era Group Inc. (ERA)	Price: \$28.97
Westmoreland Coal Co. (WLB)	Price: \$23.16
Tesco Inc. (TESO)	Price: \$16.91
Rhino Resource Partners LP (RNO)	Price: \$35.56

INDUSTRY DEAL METRICS: Recent US Energy M&A Valuations [Past 6 months]*

Average Deal Value \$mm	Average TEV/ Revenue [x]	Average EV/ EBITDA [x]	Average 1-day Premium %
902.7	3.2 x	17.0x	0.47

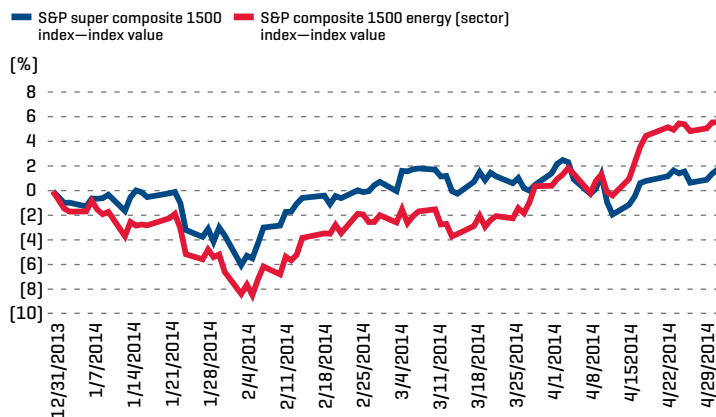
Source: S&P Capital IQ

The following is a snippet from "Deal Detector," a new report series that is designed to alert investors to potential investment ideas ahead of prospective M&A announcements, while uncovering sector and industry trends in M&A activity.

"Energy XXI [Bermuda] Limited [NasdaqGS:EXXI] signed a definitive merger agreement to acquire all of EPL Oil & Gas, Inc. [NYSE:EPL] in a transaction valued, with assumed liabilities, at nearly \$2.2 billion on March 12, 2014. The deal ranks as the largest M&A transaction in the U.S. energy sector this year."

The table on the left shows energy companies with similar metrics to Energy XXI, and thus could be potential acquisition targets. For information on how to receive the complete Deal Detector, please contact: SectorIQ@spcapitaliq.com.

Current Performance Of Equity Energy Indices vs. S&P 1500

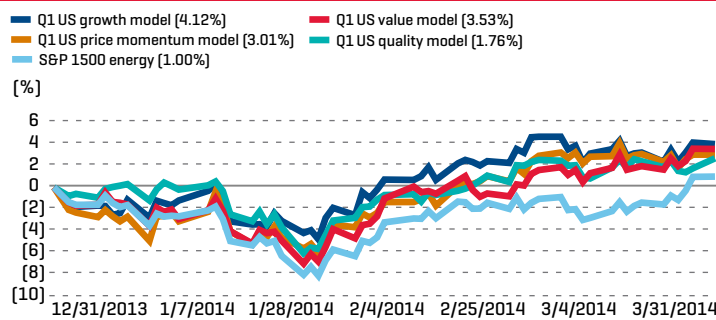


Source: S&P Capital IQ

Through April 30, the Energy Sector is up 5.4%, beating the 1.7% gain of the S&P 1500. This recent improvement is in marked contrast to the last two years, when Energy chronically underperformed. We think a recovery in natural gas prices to the \$4.50 per MMBtu range, led by an extremely cold winter in key population centers of the U.S., is a factor in recent strength.

Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns exclude dividends. Past performance is no guarantee of future results.

Q1 Alpha Factor Trends



Source: S&P Capital IQ

The Alpha Factor Library facilitates the construction of investment screens and candidate lists from a catalog of proven alpha signals. Four Alpha Models—Growth, Value, Price Momentum and Earnings Quality—follow traditional market approaches based upon combinations of individual alpha factors to form views on the market. We track the top quintile (Q1) of stocks as ranked by these models to determine relative performance. As shown in the chart to the left, the top stocks in all four models outperform the sector as a whole on a total return basis, with the top stocks in the Growth model returning 4.12% vs 1.00% for the S&P Composite 1500 Energy (sector) Index.

Alpha Factor Library Ranks (Top 5 Companies) — U.S. Growth Model

Ticker	Company	Chg% [3 mo.]*	Mkt Cap [mm]	Category
VLO	Valero Energy Corporation	4.68%	\$28,286.69	Downstream
FTI	FMC Technologies, Inc.	1.55%	\$12,341.06	Upstream
BHI	Baker Hughes Incorporated	0.55%	\$28,360.42	Upstream
MTRX	Matrix Service Company	(0.47%)	\$889.80	Upstream
PSX	Phillips 66	2.92%	\$45,282.31	Downstream

*3 month price change
Source: S&P Capital IQ

The Alpha Factor Library's U.S. Growth Model likes **Valero Energy** (VLO 55 Hold). One factor that the model might be capturing is potential growth in refined product exports from the U.S. Gulf Coast, where VLO has a strong presence. Exports of diesel to Latin America look like a potential growth story, and Platts recently noted that shipments of diesel from the Gulf Coast were on the rise.

One of the largest upside moves over the first quarter in the Energy sector was by **Penn Virginia Corp.** (PVA 17 Not Rated), up 86% over that timeframe. PVA has expanded its liquids exposure and has likely benefited from ongoing interest in the Eagle Ford Shale, which we think is one of the more prolific shale plays in the U.S. One of the laggards over this period is **Alpha Natural Resources** (ANR 4 Hold), a provider of thermal and metallurgical coal. We think the coal sub-industry still has some key secular headwinds, including substitution by utilities towards natural gas, and looming environmental regulations that could increase costs.

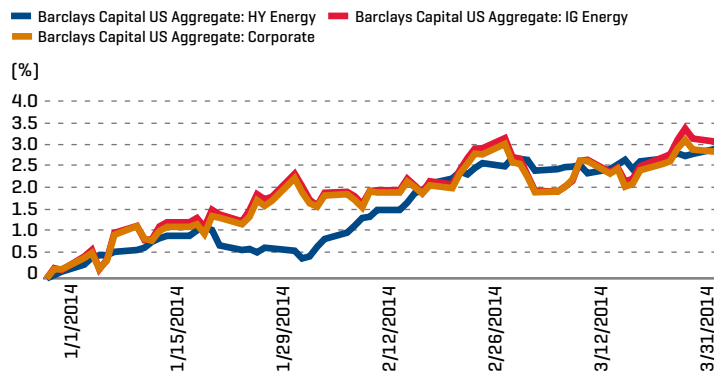
Q1 Equities Biggest Movers

Exchange:Ticker	Company Name	1/2 Open Price	3/31 Close Price	3 Month % Price Change	Category	SPCIQ Consensus Estimates (Median Price Target)
3 Month Improvement						
NYSE:PVA	Penn Virginia Corporation	9.4	17.49	86.1%	Upstream	\$19.00
NYSE:BAS	Basic Energy Services, Inc.	15.81	27.41	73.4%	Upstream	\$27.00
NYSE:PES	Pioneer Energy Services Corp.	8.01	12.95	61.7%	Upstream	\$12.25
NasdaqGS:GPPE	Green Plains Renewable Energy, Inc.	19.21	29.96	56.0%	Downstream	\$27.92
NasdaqGS:MTRX	Matrix Service Company	24.39	33.78	38.5%	Upstream	\$36.00
3 Month Decline						
NYSE:TDW	Tidewater Inc.	59.27	48.62	(18.0%)	Upstream	\$59.50
NYSE:SFY	Swift Energy Co.	13.48	10.76	(20.2%)	Upstream	\$14.50
NasdaqGS:GEOS	Geospace Technologies Corporation	94.07	66.17	(29.7%)	Upstream	\$92.50
NYSE:ANR	Alpha Natural Resources, Inc.	7.13	4.25	(40.4%)	Coal and Consumable Fuels	\$5.00
NYSE:FST	Forest Oil Corporation	3.62	1.91	(47.2%)	Upstream	\$2.00

Source: S&P Capital IQ

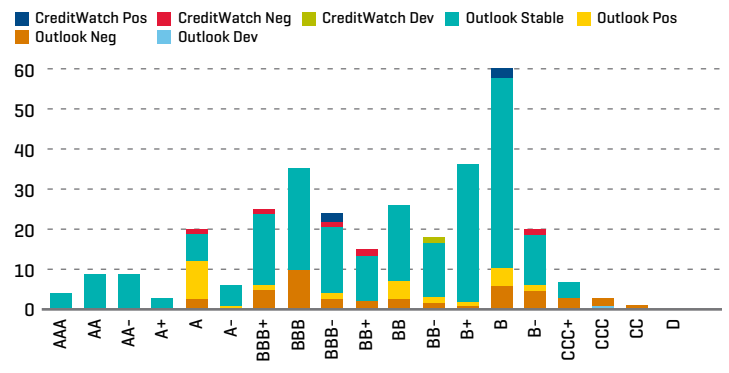
Market Perspectives | FIXED INCOME

Q1 Performance Of Fixed Income Energy Indices vs. US Corporate



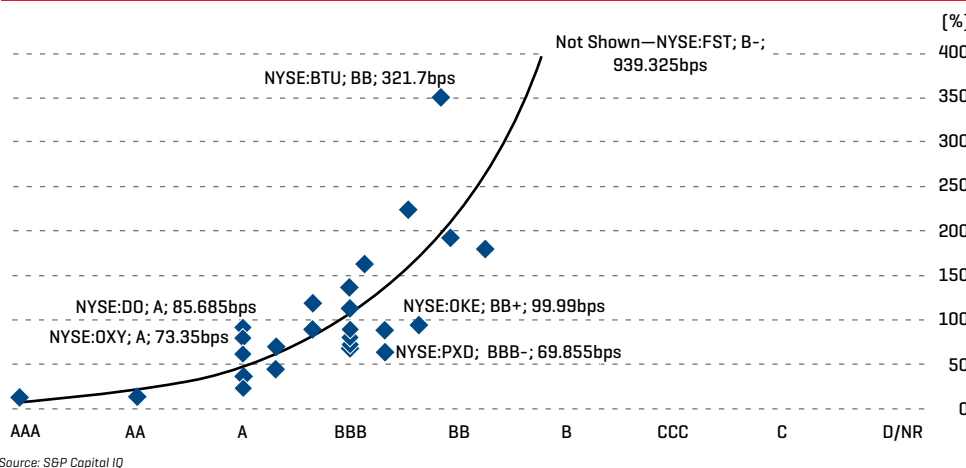
The Barclays Capital US Aggregate: Investment Grade Energy Index outperformed the overall Barclays Capital US Aggregate: Corporate Index, as well as the High Yield Energy Index. High Yield Energy suffered a selloff in late January but rallied in February to finish ahead of Corporates overall during the quarter. All indices gained about 3% during the quarter.

Energy Company Ratings Distribution And Outlook



The above chart shows the current Ratings distribution and outlook for rated companies in the energy sector. As of April 22, 2014, 75% of these companies showed Outlook Stable, 7% Outlook Positive, and 14% Outlook Negative. 1.2% were on CreditWatch Positive, while 1.5% were on CreditWatch Negative.

CDS Spreads vs. S&P Credit Ratings



The greatest CDS outliers, by rating category, are highlighted on the chart to the left. The name with both the lowest rating as well as the highest CDS spread is **Forest Oil Corporation** [NYSE:FST] at B-/Negative and 939bps respectively. **Peabody Energy Corp.** [NYSE:BTU], a coal mining firm, is priced considerably wider than its BB rated, midstream and energy, peer Kinder Morgan Inc. at 322bps vs. 196bps.

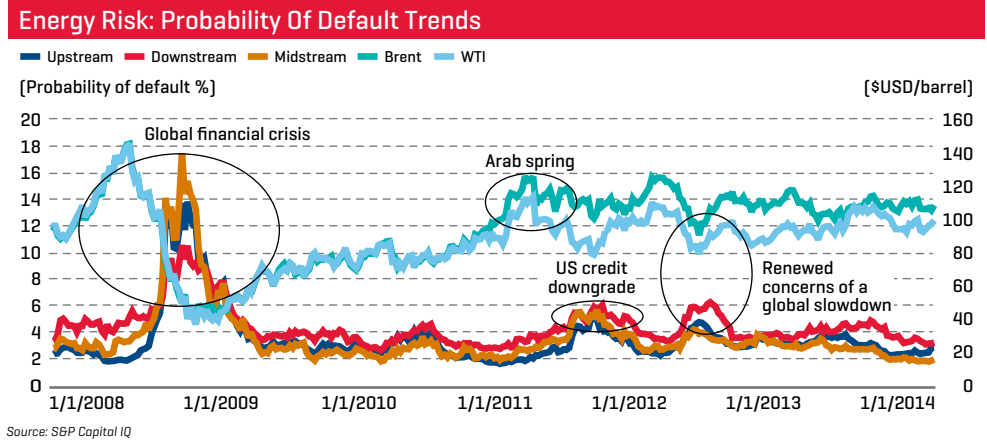
The CDS spread of **Forest Oil Corporation** increased roughly 54% during last quarter, perhaps driven by a 37% drop of stock price on February 26. The company reported a disappointing fourth quarter earnings of \$0.02 EPS and \$88.5 million revenue, versus the consensus of \$0.03 and \$96 million.

The biggest improvement in CDS spread is **Chevron Corporation** [NYSE: CVX], a decline to 14.11bps from 17.46bps in December 2013. **Exxon Mobil Corporation** [NYSE:XOM] has both the highest rating as well as the lowest CDS spread at AAA and 13.58bps, respectively. The CDS spread of **ONEOK Inc.** [NYSE:OKE], a midstream oil and gas storage and transportation firm, also decreased 14.3% to 99.99 bps.

Q1 CDS Biggest Movers

Company Name	Exchange: Ticker	S&P Rating (3/31/2014)	5yr CDS 12/31	5yr CDS 3/31	% 3M Spread Change	Category
Three Month Tightening (Improving)						
Chevron Corporation	NYSE:CVX	AA	17.46	14.11	(19.2%)	Upstream
Chesapeake Energy Corporation	NYSE:CHK	BB-	218.925	183.45	(16.2%)	Upstream
ONEOK Inc.	NYSE:OKE	BB+	116.67	99.99	(14.3%)	Midstream
Exxon Mobil Corporation	NYSE:XOM	AAA	15.075	13.58	(9.9%)	Upstream
Anadarko Petroleum Corporation	NYSE:APC	BBB-	98.14	88.65	(9.7%)	Upstream
Three Month Widening (Deteriorating)						
Baker Hughes Incorporated	NYSE:BHI	A	47.41	55.465	17.0%	Upstream
Occidental Petroleum Corporation	NYSE:OXY	A	58.975	73.35	24.4%	Upstream
Apache Corp.	NYSE:APA	A-	45.28	61.905	36.7%	Upstream
Forest Oil Corporation	NYSE:FST	B-	611.46	939.325	53.6%	Upstream
Diamond Offshore Drilling, Inc.	NYSE:DO	A	44.205	85.685	93.8%	Upstream

Source: S&P Capital IQ



Median PD trends for up, mid and downstream energy companies have generally responded strongly to global events over the last six years. We clearly see how events like the Global Financial Crisis, Arab Spring, and US Credit Downgrade likely impacted risk levels for energy companies. Equally apparent is the generally inverse relationship between crude prices and PD levels.

In the Energy Risk: Probability of Default Trends section (above) and Q1 Probability of Default Biggest Movers section (below), we utilize S&P Capital IQ's proprietary probability of default (PD) model, 'Market Signals'. This model provides daily changing, 1-year forward looking PDs of publicly listed companies and is based on a distance to default framework. In the table below, Biggest Improvements and Deteriorations are measured based on notch changes, where we have mapped the PD Market Signal to a ratings scale utilizing S&P Ratings' historical ratings transitions. Additionally we have not included duplicate companies—so if a company shows up in the Global section it will not be repeated in the Americas section, and the next ranked company will appear instead.

Q1 Probability Of Default Biggest Movers*

CATEGORY	HIGHEST CURRENT PD	BIGGEST IMPROVEMENT PD	BIGGEST DETERIORATION PD
Upstream GLOBAL	BRVM:TTLC Total Cote d'Ivoire SA [ccc] [17.00%]	NYSE:PES Pioneer Energy Services Corp. bbb- ▶ aa- 0.53% ▶ 0.02%	XTRA:O2C C.A.T. Oil AG aa ▶ bb 0.01% -> 0.93%
	KASE:PPL Pakistan Petroleum Ltd. [ccc+] [10.63%]	NYSE:HAL Halliburton Company a- ▶ aaa 0.08% ▶ 0.01%	OB:DNO DNO International ASA aaa ▶ bbb+ 0.01% ▶ 0.14%
Upstream AMERICAS	BASE:PESA Petrobras Argentina SA [ccc] [16.24%]	TSX:MEG MEG Energy Corp. bb+ ▶ aaa 0.78% ▶ 0.01%	NYSE:KWK Quicksilver Resources Inc. bbb ▶ b 0.26% ▶ 3.89%
	BASE:YFPD YPF S.A. [ccc+] [11.62%]	NYSE:BAS Basic Energy Services, Inc. bb -> aa- 0.88% ▶ 0.03%	NYSE:MUR Murphy Oil Corporation aa+ ▶ bbb+ 0.01% ▶ 0.16%
Midstream GLOBAL	DSE:TITASGAS Titas Gas Transmission and Distribution Company Limited [ccc+] [10.32%]	ENXTBR:FLUX Fluxys Belgium SA bbb- ▶ a 0.36% ▶ 0.05%	DSM:QGTS Qatar Gas Transport Company Limited (Nakilat) Q.S.C. a+ ▶ bb+ 0.04% ▶ 0.76%
	PSE:PNX Phoenix Petroleum Philippines Inc [b] [3.83%]	LSE:FSJ James Fisher and Sons Public Limited Company a+ ▶ aaa 0.04% ▶ 0.01%	NYSE:ETP Energy Transfer Partners, L.P. aa- ▶ a- 0.02% ▶ 0.08%
Midstream AMERICAS	NasdaqGS:EROC Eagle Rock Energy Partners, L.P. [b] [3.77%]	NYSE:SXE Southcross Energy Partners, L.P. bb+ ▶ a+ 0.54% ▶ 0.05%	NYSE:APL Atlas Pipeline Partners, L.P. a+ ▶ bbb+ 0.04% ▶ 0.17%
	NYSE:FRO Frontline Ltd. [bb-] [1.46%]	NasdaqGS:MMLP Martin Midstream Partners LP bbb+ ▶ aa- 0.15% ▶ 0.02%	NYSE:EPB El Paso Pipeline Partners, L.P. a- ▶ bbb- 0.10% ▶ 0.38%
Downstream GLOBAL	NGSE:OANDO Oando PLC [ccc+] [14.69%]	LSE:ESSR Essar Energy plc ccc ▶ b+ 17.69% ▶ 2.68%	XTRA:CE2 CropEnergies AG aaa ▶ bb+ 0.01% ▶ 0.78%
	KASE:BYCO Byco Petroleum Pakistan Limited [ccc+] [10.74%]	ASX:CTX Caltex Australia Ltd. a ▶ aa+ 0.07% ▶ 0.01%	NYSE:APL TonenGeneral Sekiyu k.k. aaa ▶ bbb- 0.01% ▶ 0.36%
Downstream AMERICAS	BVL:RELAPAC1 Refineria La Pampilla S.A.A. [b-] [7.08%]	NasdaqGS:GPPE Green Plains Renewable Energy, Inc. bb ▶ aa- 1.24% ▶ 0.02%	NYSE:PBF PBF Energy Inc. a ▶ bb- 0.06% ▶ 1.60%
	BOVESPA:CZLT33 Cosan Ltd. [b+] [2.93%]	NYSE:CVRR CVR Refining, LP bbb ▶ a+ 0.28% ▶ 0.04%	NYSE:TSD Tesoro Corporation a ▶ bb 0.06% ▶ 1.29%

*Data reflects changes from 1/2/2014 through 3/31/2014. We observed companies with more than \$500mm USD in revenues. Source: S&P Capital IQ

Globally, energy companies in the upstream category had the highest PD levels with **Total Côte d'Ivoire S.A.** and **Petrobras Argentina S.A.** [17.00% and 16.24% respectively] topping the list. In the improvements section, we see U.S. giant **Halliburton Company** with a significantly improved PD level [from 0.08% to 0.01%], resulting from an increase in share price due to strong 2013 financial results. On the deteriorations side we see downstream company, bioethanol producer **CropEnergies AG** with the biggest fall, sliding from 0.01% to 0.78%, likely feeling the impact of loosening European Union sugar import restrictions and an upcoming 2017 expiration of sugar quotas.

Energy | A LOOK AHEAD

The estimates data to the right shows the changes in analyst expectations on oil & gas production from 1/2/2014 to 3/31/2014.

- **Range Resources Corporation (RRC):** analyst expectations of average daily NGL volumes for CY2014 were **33.96% higher** on 3/31/2014 than on 1/2/2014. RRC has recently completed the expansion of some ethane pipelines that allows them to produce and move more NGLs.
- **Devon Energy:** analyst expectations of average daily natural gas volumes for CY2014 were **19.55% lower** on 3/31/2014 than on 1/2/2014. We think this is partly a function of the 2014 sale of its conventional natural gas assets in Canada.

Estimates: Analyst Revisions on Oil & Gas Production

Oil and Gas Estimates	3/31/14 Median Estimates (CY2014)	Median Estimate % Change CY2014 (YTD)
Avg Daily Production - Oil (MBBL)	30.39	[5.26%]
Total Production - Oil (MBBL)	8,506.68	[3.94%]
Revenue - Oil (USD mm)	890.29	[5.45%]
Avg Daily Production Natural Gas (MMCF)	393.02	[1.45%]
Total Production - Natural Gas (MMCF)	134,761.98	[2.40%]
Revenue - Natural Gas (USD mm)	465.50	2.24%
Avg Daily Production - NGL (MBBL)	17.86	[1.41%]
Total Production - NGL (MMBBL)	7.07	[2.87%]
Revenue - NGL (USD mm)	201.75	[1.22%]
Total Avg Daily Production (MBOE)	141.35	[2.36%]
Total Production (MBOE)	50,631.40	[1.49%]

Source: S&P Capital IQ

Top 5 Energy IPOs Of Q1 2014 (By Total Transaction Value)

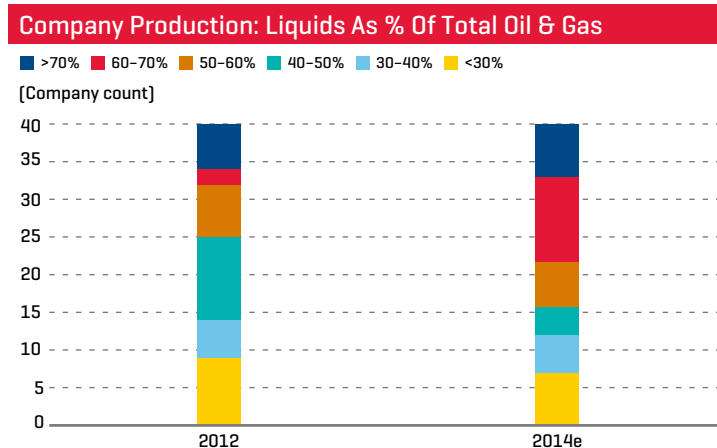
Announced Date	Closed Date	Target/Issuer	Exchange: Ticker	Total Transaction Value (\$USDmm)	% Price change since IPO*	Category	Currency
12/16/2013	01/23/2014	Rice Energy Inc. (NYSE:RICE)	NYSE:RICE	924.00	25.67%	Upstream	USD
02/14/2014	02/26/2014	Gaztransport & Technigaz Sas (GTT) (ENXTPA:GTT)	ENXTPA:GTT	848.65	2.15%	Midstream	EUR
09/04/2013	01/16/2014	EP Energy Corporation (NYSE:EPE)	NYSE:EPE	704.00	[2.15%]	Upstream	USD
08/25/2011	01/20/2014	Shaanxi Coal Industry Co., Ltd. (SHSE:601225)	SHSE:601225	660.68	536.74%	Coal and Consumable Fuels	CYY
03/18/2014	03/28/2014	OW Bunker A/S (CPSE:OW)	CPSE:OW	498.32	535.35%	Downstream	DKK

*Percentage price change is as of 3/31/14 and represents change measured in local currency. Source: S&P Capital IQ

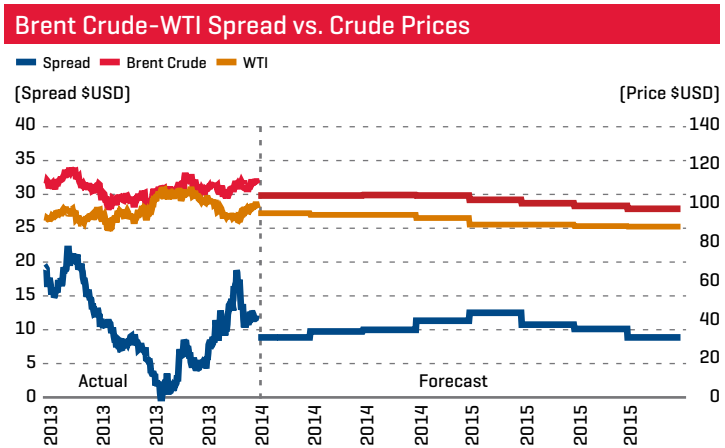
While the S&P 500 Energy Sector Index posted a modest price increase of 0.19% during the first quarter 2014, several recently priced energy sector initial public offerings saw strong price appreciation since the completion of their deal. As indicated in the accompanying table, four of the five largest energy IPOs completed in the first quarter 2014 have posted gains.

Energy | PRODUCTION SHIFTS

Expected 2014 median production growth of 2.5% masks a larger shift going on with the composition of that production. Liquids (which means both crude oil as well as natural gas liquids) comprised just 44% of average daily production for our Oil & Gas Exploration & Production coverage universe in 2013. For 2014, we see liquids finally taking the lead, reaching 52%. In our view, margins on liquids production are likely to be better than corresponding margins for natural gas production. As seen through the chart below, consensus estimates project that nearly half of companies will have liquids comprise more than 60% of their total production in 2014, up from about 20% of companies in 2012. Brent and WTI are projected to moderate in 2015 with the Brent WTI spread peaking at 12.75 in Q1 2015 and then pulling back the rest of the year.



e—Estimate. Source: S&P Capital IQ



Source: S&P Capital IQ

SPOTLIGHT ON FRACKING: REVOLUTIONIZING THE ENERGY INDUSTRY

A burst of drilling in shale and other long-overlooked rock formations has created an energy revolution, one that's moving the U.S. closer to energy independence and transforming the economy. Daily oil production is more than eight million barrels a day, the highest level in twenty five years. Natural gas production is up nearly 25% in just six years. The U.S. is poised to overtake Russia as the world's largest energy producer and low natural gas prices and stable crude prices have sent the nation's trade deficit lower and given the U.S. economy a boost. The energy boom could generate more than two million new jobs by 2020, offsetting the jobs lost in the housing market's collapse.

The shifts that have taken place in the U.S., and those on the way around the globe, are in many ways not nearly as astonishing as the story of how a small group of individuals made it all happen, against all odds. These modern-day wildcatters ignored the skepticism and derision of experts, major oil companies, and even colleagues to drill in rock they believed was packed with oil and gas miles beneath the earth's surface.

George Mitchell discovered a novel way to extract gas from shale formations. His impact eventually could approach that of Henry Ford and Alexander Graham Bell. Aubrey McClendon and Tom Ward turned \$50,000 into one of the nation's largest natural gas producers, one that would control the mineral rights to fifteen million acres. Mark Papa built a \$43 billion oil power from the discards of

Enron Corporation. And Harold Hamm, born to poor Oklahoma sharecroppers, amassed a fortune figuring out a way to get crude to flow from North Dakota. Hamm's ongoing divorce could leave his wife with more money than Oprah Winfrey, thanks to the \$17 billion he's amassed.

For all the criticism the country has fielded for losing its edge in innovation, surging American energy production is a reminder of the deep pools of ingenuity, risk taking, and entrepreneurship that remain in the nation.



—from *The Frackers: The Outrageous Inside Story of the New Billionaire Wildcatters* by Gregory Zuckerman, special writer at The Wall Street Journal.

Learn more at <http://www.gregoryzuckerman.com/the-books/the-frackers/>

LIST OF CONTRIBUTORS:

Jay Bhankharia
jay.bhankharia@spcapitaliq.com

Christine Davis
christine.davis@spcapitaliq.com

James Elder
james.elder@spcapitaliq.com

Stewart Glickman
stewart.glickman@spcapitaliq.com

Alyssa Le
ale@spcapitaliq.com

Brandon Newland
bnewland@spcapitaliq.com

Richard Peterson
richard.peterson@spcapitaliq.com

Thomas Yagel
thomas.yagel@spcapitaliq.com

Dhwani Vahia
dvahia@spcapitaliq.com

Gregory Zuckerman
gregory.zuckerman@wsj.com

We welcome your feedback to
SectorIQ@spcapitaliq.com.

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