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Oasis Petroleum Inc: OAS

Keusseyan Nelson

Sector: Energy
Industry: Oil and gas
Current Price: $8.29
Target Price: $9.50

Oasis Petroleum Inc. operates as an oil and gas exploration company. The activities of the company is to explore, produce, acquire and supplies petroleum products. OAS is operating 100% in the United States.

BUY

Current Price:	$8.29
Target Price:	$9.50
Market Cap:	2.63B
EBITDAX margin:	53.74
Net Income Margin:	9.98
ROE:	3.85
ROIC:	4.41

Thesis:

This report will explain why we should buy the stock of OAS because after analysis of the company, the stock OAS is undervalued. To support this position, the report will discuss how companies in the energy sector are affected by the prices of oil and gas, especially the company Oasis Petroleum Inc. This report will describe how the prices of oil and gas are linked to the profitability of the company, as well as how the forecast of the production of the company will impact the revenue in the future along with the future of oil prices.

Catalysts:

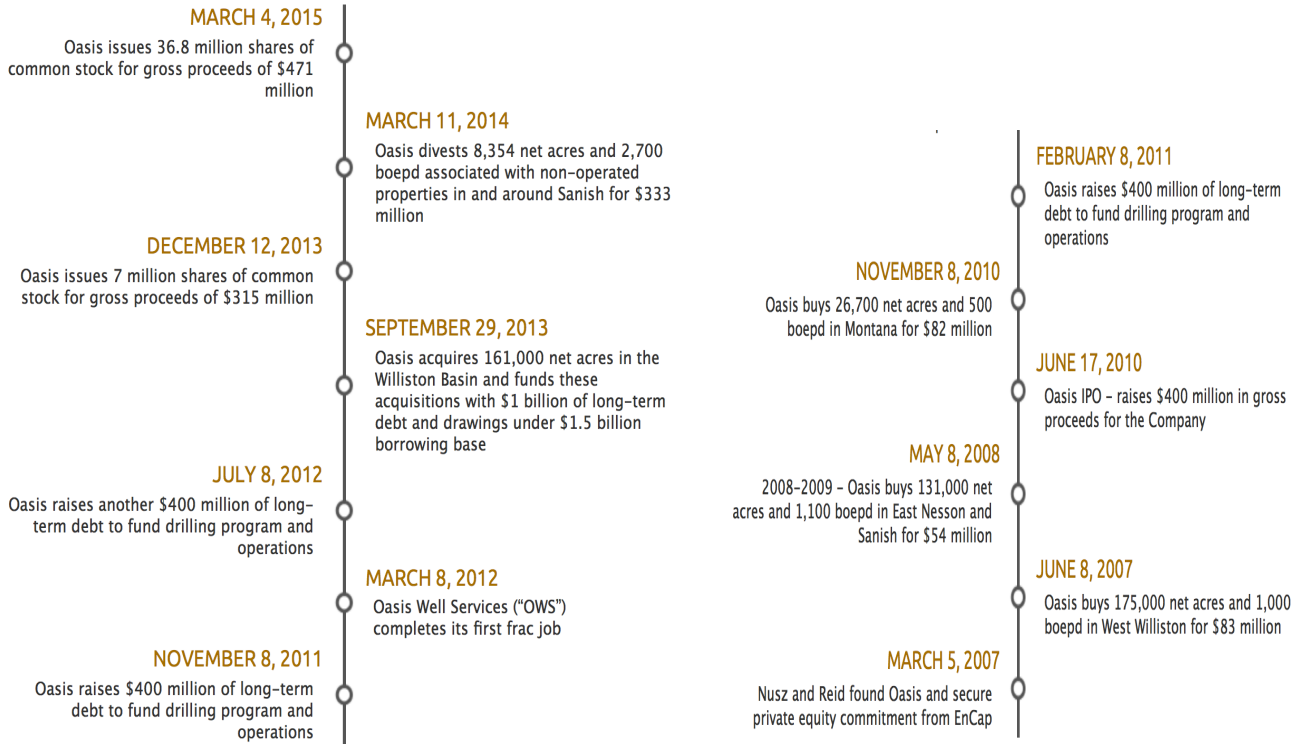
- Short Term (within the year): The company just released the annual report of 2017.
- Mid Term (1-2 years): Oil price is going to increase. Thus, the growth profit is going to increase dramatically.
- Long Term (3+): The company will expand its operation.

Business Description

Oasis Petroleum is an independent exploration and production company focused on the acquisition and development of unconventional oil and natural gas in the United States. The unconventional oil and gas refers to oil reserves that cannot be drill is a conventional way. The company is using a vertical drilling and not a horizontal drilling which is more common. Oasis Petroleum North America LLC (OPNA) conducts exploration and production of Oasis Petroleum and also OPNA owns proved and unproved oil and natural gas properties located in the North Dakota and Montana regions (Williston Basin).

Major developments in 2017

According to the 10-K, at the end of 2017, the company have accumulated 502,660 net leasehold acres in the Williston Basin, approximately 95% is held by production. Furthermore, during the last year, the company placed on production 88 gross operated wells in the Williston Basin. At the end of 2017, the company had 1,568 gross producing wells in the Bakken. The net proved reserves was estimated 312.2 MMboe at the end of 2017 (64% classified as proven). Furthermore, on February 14th, 2018 the company closed on an acquisition of 22,00 acres in the Delaware Basin.



Industry Outlook

Companies which are involved in the energy sector, especially in the production and acquisition of oil and gas have their cash flow, borrowing ability, the present value of their reserve and ability to develop future reserves which are depending with the oil and natural gas price. Indeed, oil and natural gas are commodities, thus, these commodities are highly volatile. It means, Energy company are very dependent on the price of oil and gas. Thus, the supply and demand changes because of actions of OPEC, the price and the quantity of imports of foreign oil and gas and many other factors. As shown by the chart below, the oil price at the beginning of 2015 was $53.45 and it collapsed to $34.73 at the end of the year. The drop off for the oil price during this period was a result of several factors. The price of the oil is determined by the supply and demand as it said before. Therefore, during this period the supply was much higher than the demand. The demand was low due to slowing global growth. Also, the American production increased thanks to unconventional hydrocarbon. Concerning the natural gas price in 2015 it followed the oil price for many reasons. First, the natural gas price is indexed by the oil price. This means if the oil price goes down the natural gas will go down and if the oil price goes up, the price of the natural gas will go up. However, oil price is not the only cause for the decrease of the natural gas. The natural gas price is linked by five other factors. First, the natural gas is driven by the outside temperature. Secondly, it is linked by electricity consumption. Thirdly, the price of natural gas is impacted by the supply. Fourthly, the natural gas follows the currency exchange rate of two currencies. Finally, the natural gas is driven by the global macro environment. As we can see from the chart, the natural gas went down in the same way as the oil price for the reasons listed below. So, in the past two years, the company saw a drop in its revenue especially due to the drops in the oil and natural gas prices.

The graphs of the oil and gas prices show how the oil and gas impacted Oasis Petroleum sector stock price.

As these graphs show, the company Oasis Petroleum is highly dependent of the oil and gas prices. Indeed, in 2015 and 2016 the stock price of the company saw a high decrease due to the drop off of the gas and oil prices. Moreover, companies in this sector, hedge their revenue thank to derivative. In fact, oil E&P companies are confined to two risks. The first risk is the price risk, and second risk is the volume of production. Thus, energy producers have to focus on these two risks when they have to choose a coverage strategy. The price risk can be covered by the derivative assets, while the volume risk can be covered by the weather derivatives. Thus, in the company segment, the derivative assets will be more developed.

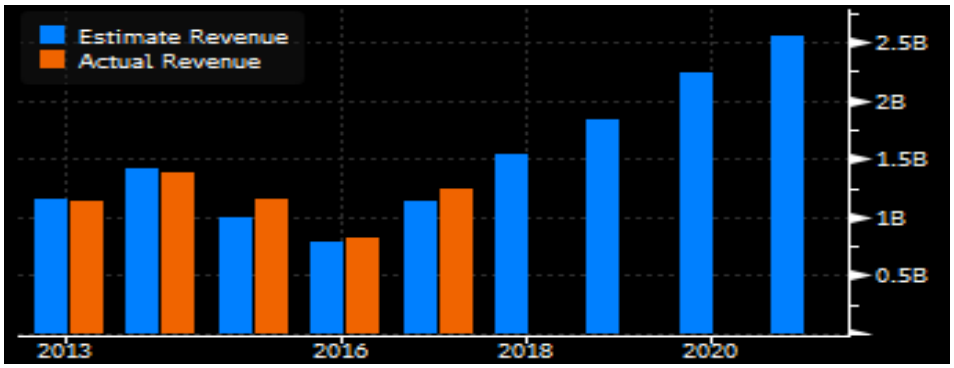
Segment:

In Millions of USD except Per Share 12 Months Ending	2014 Y 12/31/2014		2015 Y 12/31/2015		2016 Y 12/31/2016		2017 Y 12/31/2017	
Revenue	1,397.0	100.0%	1,160.1	100.0%	826.6	100.0%	1,240.2	100.0%
Exploration and Production	1,304.0	93.3%	721.7	62.2%	635.5	76.9%	1,122.9	90.5%
Midstream Services	11.6	0.8%	23.8	2.0%	35.4	4.3%	72.8	5.9%
Well Services	74.6	5.3%	44.3	3.8%	33.8	4.1%	52.8	4.3%
Eliminations	–		0.0		0.0		0.0	
Derivative Settlements	6.8	0.5%	370.4	31.9%	122.0	14.8%	-8.3	-0.7%

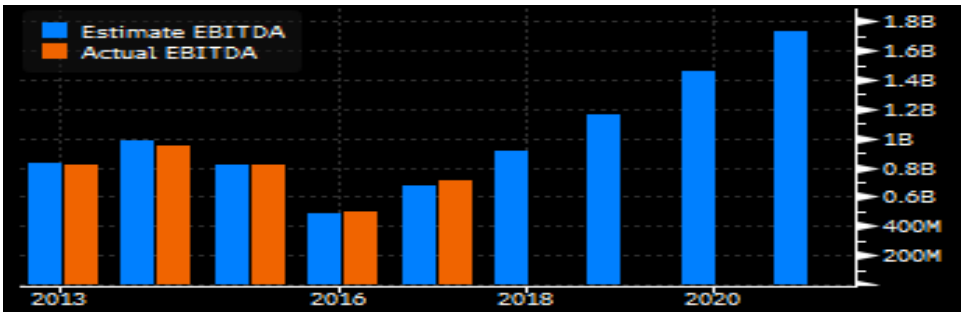
The activities of the company are divided by four segments. The biggest activities of the company is the exploration and production of oil and gas. The percentage of revenue for this activity is 93.3%. This percentage is divided by two main activities. The oil exploration and production represent 88% of this segment and the gas production and exploration is 5.2%. The second bigger segment for the company is the Midstream Services. Midstream service sector involves the transportation by pipeline, barge, oil tanker or truck. It represents 5.9% of the revenue. Thirdly, the well services represent 4.3%. The well service is operating through Oasis Well Services LLC (OWS). The main activity for this segment is to drill oil and gas. Finally, as the chart show, there is a Derivative Settlement which is represents, for 2017, -0.7%. Derivative settlement is a way for a company dealing which commodities to hedge their revenue using forward and futures. For 2015 the company earned 370.4 million thank to derivative. This amount was specially based to the drop off of the oil and gas prices during 2015.

Earning Performance

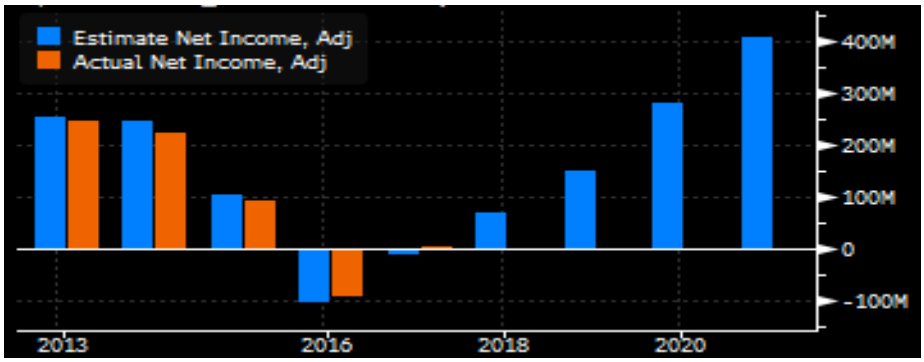
As the chart shows, the revenue of the company during the 5 past years was very close to the estimate revenue. Furthermore, the revenue of the company increased from 2013 to 2014 by 23.2%. However, in 2015 and 2016 the company saw a decrease in its revenue. The decrease in its revenue represents 17% for 2015 and 28.7% for 2016. This decrease was due mainly to the decrease of the oil and gas prices. These decreases in the oil and gas prices engendered in 2015 and 2016 loses in Abnormal Derivatives. Indeed, during 2015 and 2016 the price of oil and gas saw a decrease. The oil and natural gas decreased by 35.02%. In fact, thanks to the oil and gas price took from Bloomber.com we can notice, there is a direct link between the revenue and the oil and gas prices. According to the estimate revenue for the next 3 years, the revenue will increase thanks to the increase of oil and natural gas prices.



As the revenue, the EBITDA of the company decrease in 2015 and 2016 due to the collapse of the oil and gas prices. In 2015 the EBITDA decreased by 16.85% and in 2016 compared to the 2015 it decreased by 67.18% to reach $473.5 million. This decrease can be explained because of their position with derivative that were impacting than 2015. The average price with derivative settlement for the oil was $46.68 while in 2015 it was $66.06. The graph shows a positive increase for the next 3 years concerning the Net income of the company. It means, forecast concerning the oil and gas prices will increase.



The Net Income of Oasis Petroleum saw huge decrease in 2015 by 56% due to the drop off of the oil and natural gas prices. Furthermore, due to the same reason in 2016 the company had a negative Net Income ($-100 million) and in 2017 even if their production increased by 31.31% the net income was negative too (-2.5). It important to know that in 2015 the company secured their Net income thanks to their position with derivative settlement. Because the price of the oil for the company without Derivative settlement was $43.04 while the prices with derivatives settlements was $66.06. As the chart shows, the forecast concerning their revenue will increase to reach in 2021 $400 million. It also shows a positive forecast for the oil and gas prices.

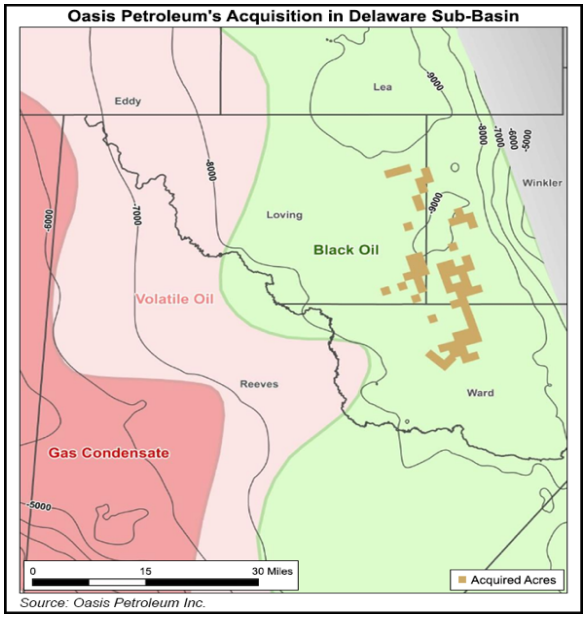


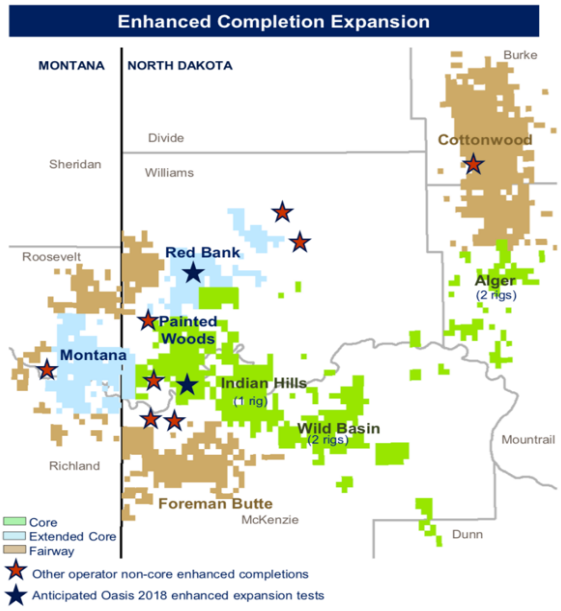
The difference between estimate and actual EBITDA can be attributed to the prices of the oil and gas because of the importance of the oil and gas prices this paper will focus and the oil price and indirectly to the gas price.

Potential Business Growth

For the future, the company has many projects which they will help the company to growth. Firstly, according to the 10-K, the company develops efficiently their Williston Basin leasehold positions. Indeed, the OAS is developing its acreage position to maximize the value of its resource potential. In the same the company wants to preserve its flexibility about future surprise of the oil and gas prices. The capital plan for 2018 is 110 gross operated wells in the Williston Basin and between six to eight in the Delaware Basin. Secondly, the management team is focused on continuous improvement of their operating cost-efficient. It means, OAS has the ability to drill their multiple wells from a single drilling pad. The operating cost is willing to decrease for the next few years. Furthermore, thanks to the Permian Basin acquisition, the company is able to transfer their technical, operational and managerial skills from the Williston Basin and Delaware Basin. Thirdly, because of their advanced technology, OAS will increase their production performance compared to the past year. It will allow the company to increase its return on invested capital. Finally, the company will pursue its strategic acquisitions with significant resources potential. As February 14, 2018 the closed the acquisition of the Permian Basin Acquisition, and OAS acquired more additional acreage in the Williston Basin and Delaware Basin.

For 2018, OAS will spend, according to the last announce for the last quarter of 2017, the company is going to approximately $ 850 million for capital expenditure. For the Williston Basin it will allocate $750 million and for the Delaware Basin $ 100 million.



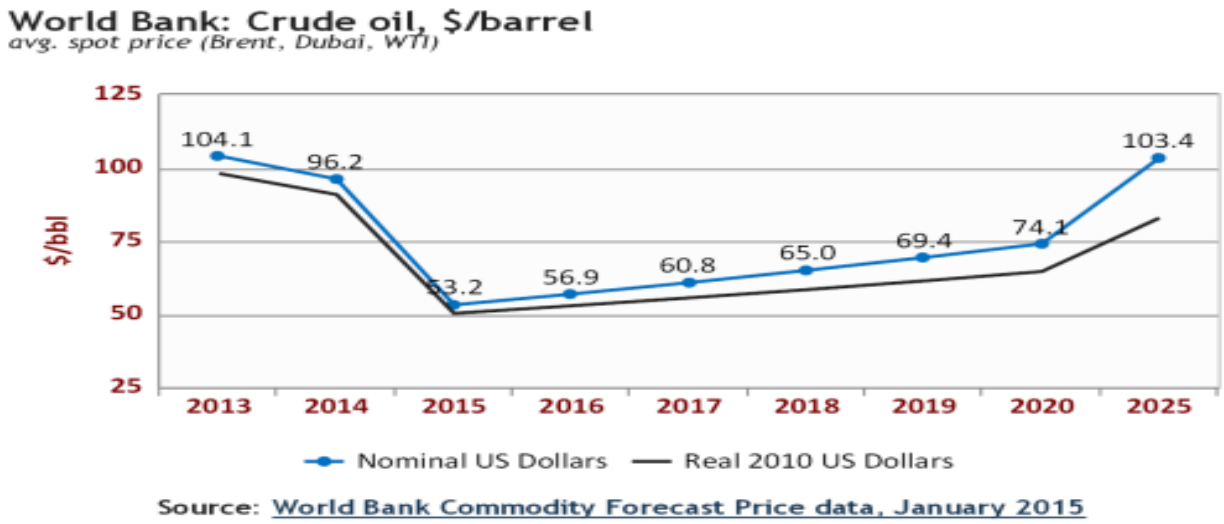


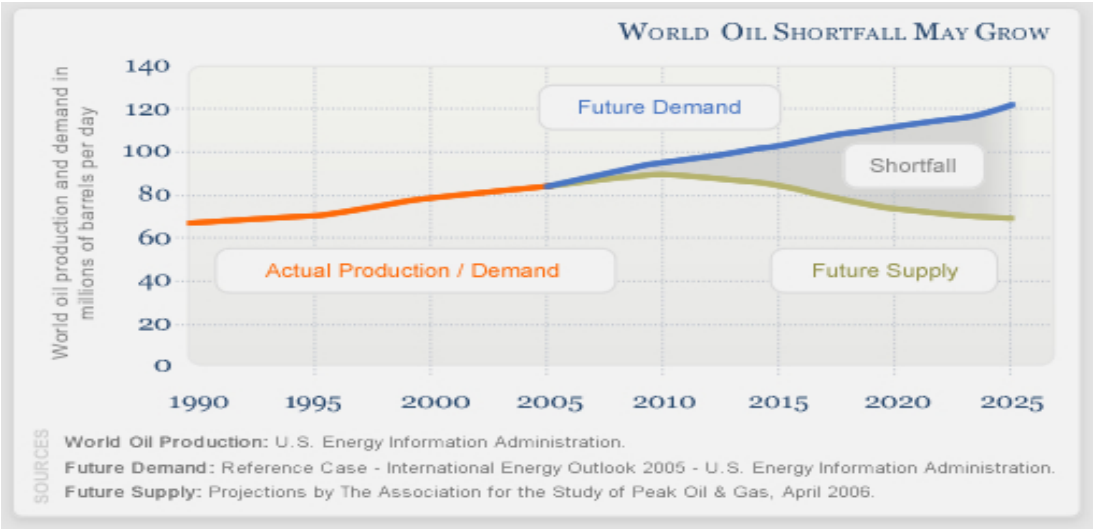
Profitability:

To compute a forecast of the revenue of Oasis Petroleum, the forecast oil price has to be taken into consideration. According to the 10-K and my own calculations:

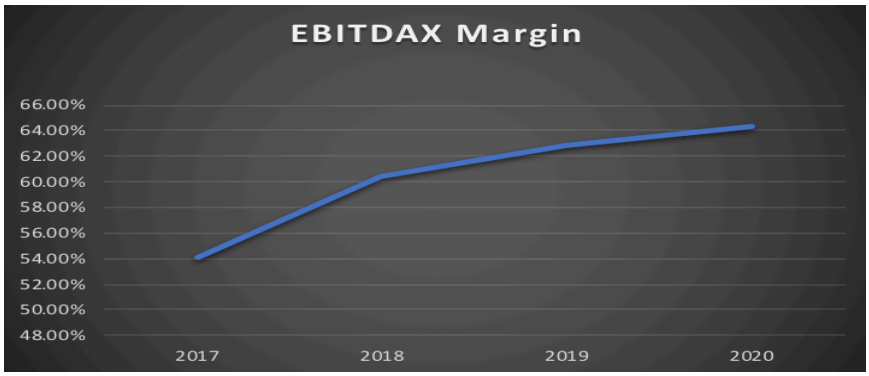
Total volume production in M	2017	2018	2019	2020
Crude oil	18,818	21,818.00	25,045.35	28,750.10
Natural Gas	31,946	34,578	37,316	40,270
Average Realized prices	**2017**	**2018**	**2019**	**2020**
Crude oil Price	48.52	65	69.4	74
Natural Gas	2.81	3.00	3.20	3.42
Total revenues in M (whitout Purchased oil and gas sales and mistream service revenue)	**1,002,818**	**1,521,900**	**1,857,654**	**2,265,190**

This chart from the World Bank provides the forecast for the oil price for the next three years, and we will assume that the production for the next three years will increase by 15%. I only changed the production of the oil and the production of the gas because they are the main activities of the company. Furthermore, the forecast for the natural gas was computed as follows: ln (3.5/5) with 3.5 for the price of the natural gas in July 2015 and 3 the natural gas price for July, 2016.





According to the chart, the demand of the oil will increase faster than the supply, so logically, the price of the oil will increase. It is going to be beneficial for OAS. Moreover, the operating cost of the company will decrease in the next few years. Thus, the profitability of Oasis Petroleum will increase.



Competitive Strengths

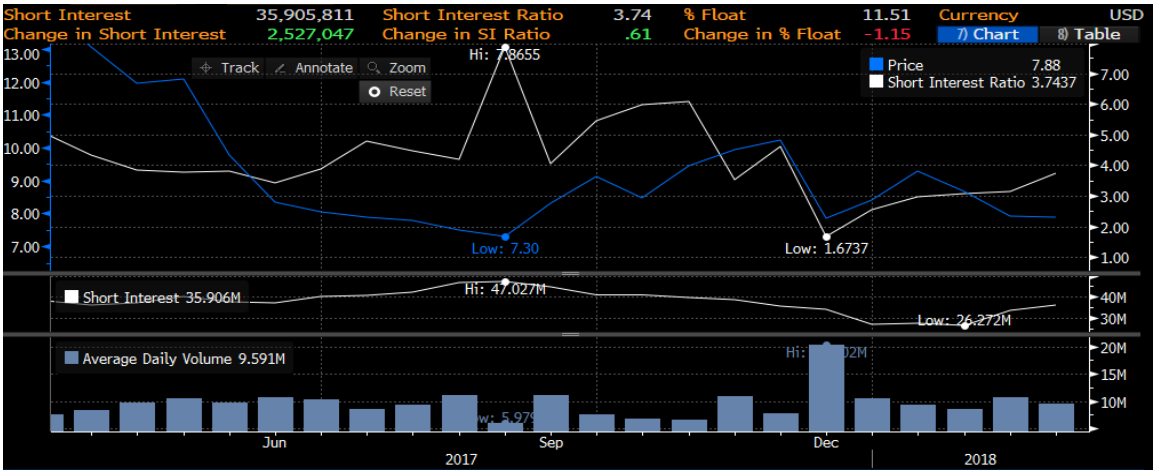
Even if there are many risk in this sector as it said earlier in this paper, the company has many competitive strengths. According to the 10-K, the company has a substantial leasehold position in North America's, a management team with high skill in operating and acquisition and the company has a control of their operating for the majority of their portfolio.

Their aggressive development in the Williston Basin allow the company to have a huge potential growth compared to their competitors.

Ownerships:

Ownership Type	02/25/18	Curr↓	Change
11) Investment Advisor	61.41	61.49	+0.08
12) Hedge Fund Manager	19.47	19.36	-0.11
13) Private Equity	12.52	12.45	-0.07
14) Pension Fund	2.69	2.69	0.00
15) Individual	1.49	1.54	+0.05
16) Bank	0.79	0.79	0.00
17) Sovereign Wealth Fund	0.53	0.62	+0.09
18) Insurance Company	0.56	0.55	-0.01
19) Brokerage	0.35	0.33	-0.02
20) Government	0.13	0.13	0.00
21) Foundation	0.05	0.05	0.00

As the chart shows us, 61.49% is owned by Investment Advisor and 19.36% by Hedge Fund Manager. In less than one month, the percentage owned by Hedge Fund decreased by 0.11%. It means that Hedge Fund Manager has not an interest in buying the stock because they mitigate in this stock and in the company growth. However, the short interest ratio (SIR) of OAS is 11.51%, which shows that investors are bullish concerning this stock. Furthermore, the short Interest Ratio is 3.74 which is a good sign for the thought of investors about the company.



Conclusion:

Oasis Petroleum is a company in the energy company specialized in the oil and gas production. As the paper demonstrated, the company is very sensitive to the price of the oil and gas. In 2015 and 2016, the revenue and the EBITDAX of the company decreased because of the drop off of the oil and gas prices. However, the forecasts of the production for the company and the forecast of the oil and gas prices should increase the revenue of OAS and the profitability should increase too in a mid-term range. As the write-up showed the stock of OAS will increase thanks to the rise of the oil and gas prices in few years even if the short interest is increasing since a year from now.

Oasis Petroleum Inc. (oas)

CENTER FOR GLOBAL FINANCIAL STUDIES

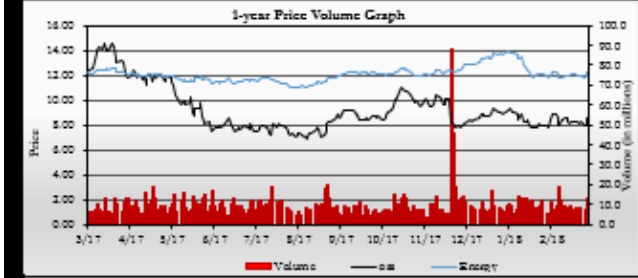
NEUTRAL

Analysis by Al Capone

3/23/2018

Current Price:	$8.29	Intrinsic Value	$8.32
Divident Yield:	0.0%	Target Price	$9.50

Target 1 year Return: 14.6%
Probability of Price Increase: 68%



Description

Oasis Petroleum Inc., an independent exploration and production company, focuses on the acquisition and development of onshore unconventional oil and natural gas resources in the North Dakota and Montana regions of the Williston Basin, and Permian Basin.

General Information

Sector	Energy
Industry	Oil, Gas and Consumable Fuels
Last Guidance	February 12, 2018
Next earnings date	May 7, 2018

Market Assumptions

Estimated Equity Risk Premium	5.00%
Effective Tax rate	21%

Market Data

Market Capitalization	$2,630.94
Daily volume (mil)	10.28
Shares outstanding (mil)	317.36
Diluted shares outstanding (mil)	237.88
% shares held by institutions	109%
% shares held by investment Managers	47%
% shares held by hedge funds	21%
% shares held by insiders	1.48%
Short interest	11.31%
Days to cover short interest	3.92
52 week high	$15.27
52-week low	$6.69
Volatility	62.61%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
12/31/2016	-3.00%	-34.98%
3/31/2017	4.05%	65.70%
6/30/2017	-7.34%	47.32%
9/30/2017	7.16%	-27.41%
12/31/2017	13.31%	-32.81%
Mean	2.84%	3.56%
Standard error	1.0%	4.8%

Market and Credit Scores

Recommendation (STARS) Value--0
Recommendation (STARS) Description--0
Quality Ranking Value--NR
Quality Ranking Description--Not Ranked
Short Score--1
Market Signal Probability of Default % (Non-Ratings)--3.229%
CreditModel Score (Non-Ratings)--bb

Industry and Segment Information

LTM Revenues by Geographic Segme	LTM Revenues by Business Segments
United States--100%	Exploration and Production--90%
--	Midstream Services--15%
--	Well Services--12%
--	Eliminations---17%
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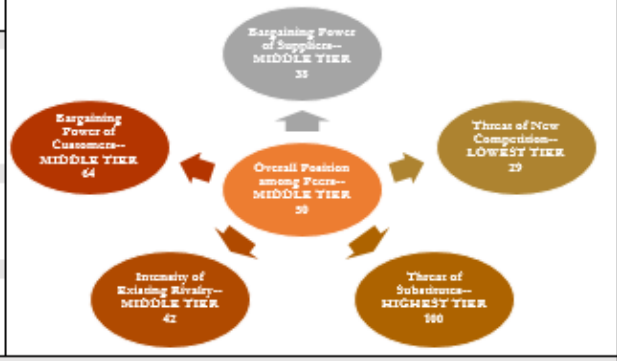
Peers

Whiting Petroleum Corporation	SM Energy Company
Diamondback Energy, Inc.	RSP Permian, Inc.
Parsley Energy, Inc.	WPX Energy, Inc.
Gulfport Energy Corporation	Denbury Resources Inc.
Energen Corporation	Newfield Exploration Company

Management	Position	Total Compensation Growth	Stock Price Growth During Tenure
Nunz, Thomas	Chairman and Chief Executive Officer	41.99% per annum over 5y	1.94% per annum over 5y
Reid, Taylor	President, Chief Operating Officer and Directo	30.53% per annum over 5y	1.94% per annum over 5y
Lou, Michael	Chief Financial Officer and Executive Vice Pres	20.09% per annum over 5y	1.94% per annum over 5y
Lorentzatos, Nickolas	Executive Vice President, General Counsel and	-5.32% per annum over 4y	0.69% per annum over 4y
Krall, Lara	Vice President of Accounting and Controller		
Hill, Greg	Senior Vice President of Marketing & Midstream		

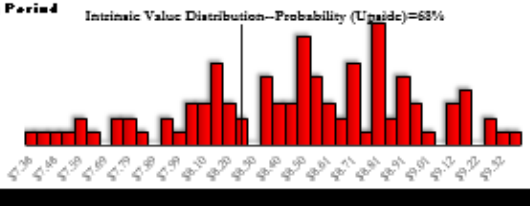
Profitability	ttm (LTM)	ttm Historical	Peers' Median (LTM)
Return on Capital (GAAP)	0.7%	8.02%	5.16%
Operating Margin	4%	15.20%	55.40%
Revenue/Capital (GAAP)	0.18	0.53	0.09
ROE (GAAP)	3.3%	26.0%	14.9%
Net margin	8.4%	22.9%	21.5%
Revenue/Book Value (GAAP)	0.40	1.13	0.69
Invested Funds	**ttm (LTM)**	**ttm Historical**	**Peers' Median (LTM)**
Cash/Capital	0.3%	8.2%	4.1%
NWC/Capital	-1.5%	-3.5%	-2.4%
Operating Assets/Capital	101.2%	95.3%	98.3%
Goodwill/Capital	0.0%	0.0%	0.0%
Capital Structure	**ttm (LTM)**	**ttm Historical**	**Peers' Median (LTM)**
Total Debt/Market Capitalization	0.38	0.57	0.44
Cost of Debt	7.3%	6.8%	107.0%
CGFS Rating (Z-score, Z-score, and default Probability	BB		
WACC	9.2%	9.0%	93.2%

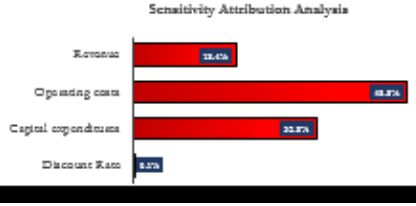
Porter's 5 forces (Scores are percentiles)



Valuation

Forecast Assumptions	Explicit Period (6 years)	Continuing Period
Revenue Growth CAGR	10%	2%
Average Operating Margin	51%	48%
Average Net Margin	12%	17%
Growth in Capital CAGR	4%	2%
Growth in Claims CAGR	0%	2%
Average Return on Capital	6%	9%
Average Return on Equity	7%	9%
Average Cost of Capital	10%	11%
Average Cost of Equity Ke	12%	12%





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