



Investment Ideas:

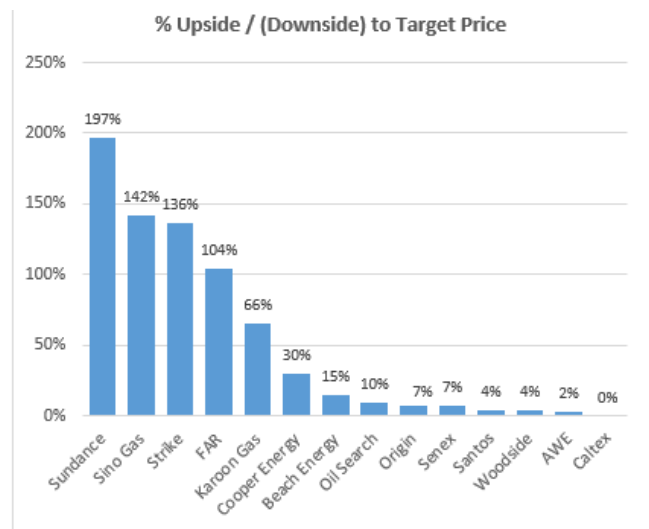
17 August 2016

Oil and Gas Plays: Larger cap stocks appear fully priced

The recovery in crude oil prices over the past two weeks has been partly driven by speculation that major oil producers may finally begin to cooperate to help support crude prices (especially after recent comments by the Russian and Saudi energy ministers). Also, production declines and disruptions have been seen at a number of key producers including Venezuela, Nigeria, and North America. Additionally, the International Energy Agency projected last week that crude oil markets would see a rebalancing within the next several months, with global oil inventories finally seeing a draw towards the end of the year. However, we note that IRESS consensus target prices indicate that one has to look to the smaller energy plays such as Sundance (SEA), Sino Gas (SHE), Strike (STX) to get significant upside potential. The larger plays – Santos, Origin, and Woodside -offer upside of (only) 4-7%. **The pick of the larger cap stocks appears to be Oil Search (OSH) and Beach Energy (BPT) with 10% and 15% upside respectively.**

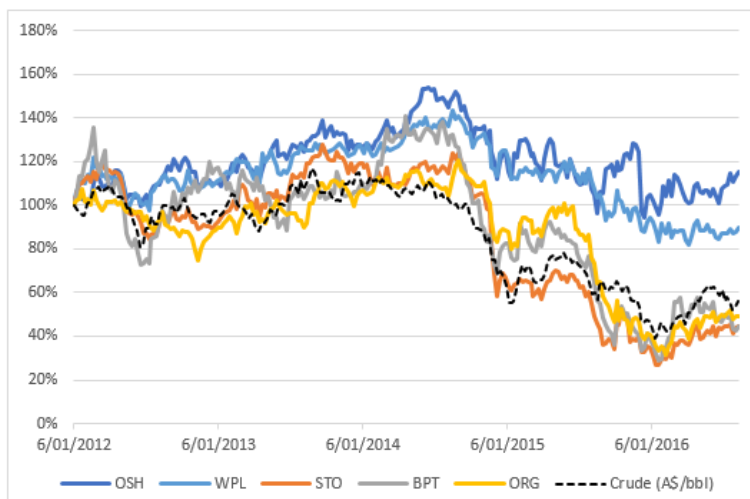
Upside / (downside) to consensus target prices

	Share Price (A\$)	Target Price (A\$)	% upside / (downside)
Sundance	0.17	0.49	197%
Sino Gas	0.11	0.26	142%
Strike	0.11	0.26	136%
FAR	0.08	0.16	104%
Karoo Gas	1.37	2.27	66%
Cooper Energy	0.27	0.35	30%
Beach Energy	0.59	0.68	15%
Oil Search	7.53	8.27	10%
Origin	5.80	6.23	7%
Senex	0.27	0.29	7%
Santos	4.94	5.16	4%
Woodside	28.11	29.17	4%
AWE	0.84	0.86	2%
Caltex	34.58	34.59	0%



Source: IRESS, compiled by State One Stockbroking

The "Big-5" versus the A\$ oil price (Base Jan 2012 = 100%)



Source: IRESS, compiled by State One Stockbroking

The "Big 5" ASX Energy Plays

Woodside Petroleum and Oil Search have significantly outperformed Santos, Beach Energy, Origin and the Australian dollar oil price, over the past four years.

In a rising oil price environment we would expect STO, ORG, and BPT to outperform WPL and OSH.

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