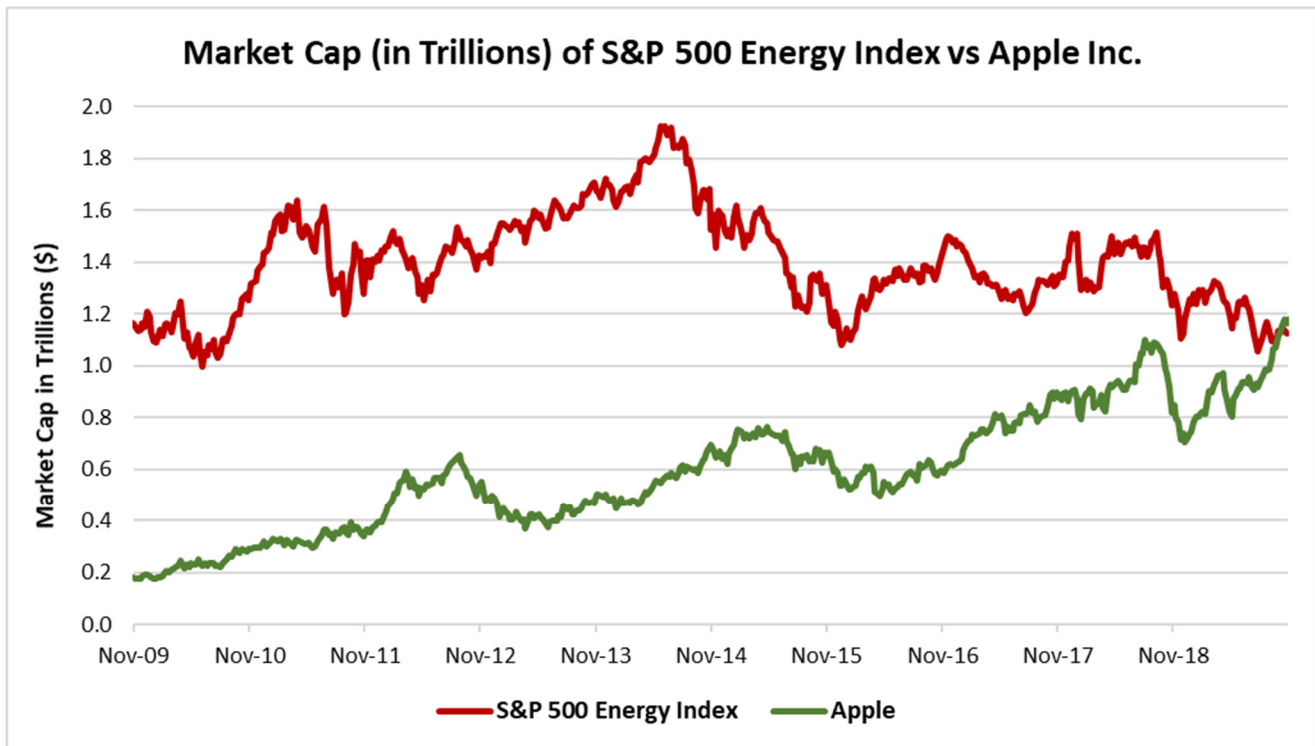


Apple vs. Energy

If your iPhone disappeared overnight, it would likely cause you a major annoyance. Major, but manageable. If oil and gas disappeared overnight, the world would unquestionably descend into chaos. With this in mind, we wanted to share an incredible statistic we came across last week: for the first time ever, the market cap of Apple surpassed that of the entire S&P 500 Energy Index, which includes the country's 28 largest energy firms such as Exxon Mobil and Chevron.¹ This statistic speaks as much to Apple's excellent execution over the last several years as it does to the extraordinarily challenging operating environment that energy firms have recently faced along with the exodus of capital from fossil fuel companies. Interestingly, both Apple and the S&P 500 Energy Index (i.e., the combined 28 companies) generated roughly \$58 billion in cash flows (after operating costs) over the last 12 months, which is a 4.8% free cash flow yield.² By this comparison, the similar valuations make more sense.



However, we think that what better explains the converging valuations is investor sentiment. Especially considering that energy firms' cash flows are likely to rise as investors have pressured firm to reduce costs and focus on shareholder returns. At one extreme is investor enthusiasm about Apple's long-term growth outlook; at the other is investor pessimism about the long-term demand outlook for oil and gas. While we do believe that renewable energy, electric vehicles and synthetic plastics will curtail conventional energy demand growth in the coming decades, eventually leading to a prolonged decline, it is unlikely that oil and gas are anywhere close to disappearing. For the contrarian investor, we think a chart like the one above is perhaps a signal to consider a moderate investment in a deeply oversold but economically vital sector. If interested in discussing potential opportunities, please don't hesitate to contact us. We hope you have an enjoyable Thanksgiving!

Sincerely,



Peter Karmin
Managing Member



Stuart Loren
Director

Citations and Disclosures

¹ Bloomberg (as of Nov. 25, 2019).

² Bloomberg (as of Nov. 25, 2019).

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Apple and S&P 500 Energy Index Company Appendix

Ticker	Company Name	Stock Price	Market Cap (\$ in Millions)	Enterprise Val. (\$ in Millions)	Net Debt to EBITDA	2020 PE Ratio	2020 EV/EBITDA	T12M Free Cash Flow (\$ in Millions)	T12M Free Cash Flow Yield (%)	Dividend Yield (%)	2019 YTD Total Return (%)
AAPL	Apple Inc	264.84	1,176,754.30	1,078,903.30	-1.28	17.83	12.53	58,896.00	5.00	1.16	70.43
XOM	Exxon Mobil Corp	68.81	291,142.41	345,710.41	1.37	19.11	7.68	8,220.00	2.82	5.06	5.76
CVX	Chevron Corp	118.15	223,425.46	249,637.46	0.65	17.16	6.11	19,015.00	8.51	4.03	13.03
PSX	Phillips 66	115.22	51,198.88	64,378.88	1.73	10.86	7.54	3,664.00	7.16	3.12	38.58
COP	ConocoPhillips	60.63	66,527.40	74,244.40	0.55	17.91	5.64	5,247.00	7.89	2.77	-0.57
SLB	Schlumberger Ltd	37.08	51,326.23	66,121.23	2.29	20.84	9.52	3,659.00	7.13	5.40	7.04
EOG	EOG Resources Inc	73.19	42,579.31	47,042.87	0.57	14.68	5.57	2,084.81	4.90	1.57	-15.07
MPC	Marathon Petroleum Corp	62.47	40,559.88	80,307.88	2.74	8.32	6.30	4,673.00	11.52	3.39	9.98
VLO	Valero Energy Corp	97.28	39,948.30	49,167.30	1.45	9.91	6.30	3,738.00	9.36	3.70	35.41
KMI	Kinder Morgan Inc/DE	19.98	45,242.68	82,712.68	4.27	19.17	10.71	3,299.00	7.29	5.01	36.25
OXY	Occidental Petroleum Corp	39.90	35,638.90	94,269.90	4.86	44.08	7.68	2,345.00	6.58	7.92	-31.95
OKE	ONEOK Inc	71.85	29,680.13	41,537.04	5.00	18.69	12.90	-1,574.19	-5.30	5.09	40.31
WMB	Williams Cos Inc/The	23.03	27,907.42	53,403.42	5.40	22.42	10.33	1,325.00	4.75	6.60	9.03
PXD	Pioneer Natural Resources Co	130.76	21,659.11	23,832.11	0.64	14.49	5.98	-464.00	-2.14	1.35	-0.03
HAL	Halliburton Co	21.17	18,578.73	28,453.73	2.40	15.34	7.26	389.00	2.09	3.40	-18.47
HES	Hess Corp	64.42	19,629.18	26,207.18	1.66	255.63	8.49	-431.00	-2.20	1.55	61.08
CXO	Concho Resources Inc	74.57	14,990.71	19,430.71	1.75	18.25	5.73	-539.00	-3.60	0.67	-27.04
BKR	Baker Hughes Co	22.62	23,241.77	28,359.77	1.12	17.06	8.12	165.00	0.71	3.18	8.52
FANG	Diamondback Energy Inc	76.66	12,299.54	18,418.54	1.77	8.82	4.92	-2,273.07	-18.48	0.98	-16.69
NBL	Noble Energy Inc	20.95	10,020.34	18,344.34	2.84	93.53	5.92	-599.00	-5.98	2.29	14.11
MRO	Marathon Oil Corp	12.05	9,639.14	14,208.14	1.09	26.31	4.49	117.00	1.21	1.66	-14.74
DVN	Devon Energy Corp	22.70	8,717.15	11,900.15	1.22	14.88	4.70	-184.00	-2.11	1.59	1.68
APA	Apache Corp	23.40	8,799.25	19,455.25	2.15	-	4.97	-284.00	-3.23	4.27	-7.59
NOV	National Oilwell Varco Inc	22.50	8,679.29	10,708.29	1.96	24.97	10.79	225.00	2.59	0.89	-11.91
FTI	TechnipFMC PLC	19.43	8,684.23	9,353.13	0.26	12.88	5.93	-32.60	-0.38	2.68	1.54
HFC	HollyFrontier Corp	53.07	8,564.15	10,990.30	0.90	9.93	6.19	1,538.92	17.97	2.64	6.01
COG	Cabot Oil & Gas Corp	16.69	6,806.22	7,981.30	0.73	12.85	6.81	1,020.84	15.00	2.40	-24.08
XEC	Cimarex Energy Co	47.90	4,876.71	7,194.18	1.48	8.94	4.37	-125.60	-2.58	1.67	-21.13
HP	Helmerich & Payne Inc	39.79	4,315.09	4,393.54	0.10	46.21	6.66	397.35	9.21	7.14	-11.98

Source: Bloomberg (as of Nov. 25, 2019).

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