Market Vectors Oil Services ETF 31/03/2017 **TRD-MIN-001**

OIH USD $37.09 Core **MED.** **B**

Black gold on the comeback trail

The oil sector has experienced its fair share of volatility over the past decade with prices recovering from their lows in the 20's to reach a pre-GFC peak of around $150 a barrel. Some stability was seen in the more recent years, although the relative calm was rudely awakened by OPEC's decision to open the floodgates late last year, and take on disruptive entrants to the energy sector. The ensuing sell off saw oil prices halve and dampened sentiment towards the energy sector.

Energy prices have staged a recovery more recently and we believe that oil prices have bottomed, with support (for WTI crude, chart below), now resting at around $53. Although Saudi Arabia has determinedly lifted production to force prices down putting the squeeze on higher cost competition and importantly, the US shale gas industry, **total new supply is now falling and this will tighten up prices.**

Looking at the charts we don't see the price of oil going back towards $150 a barrel anytime soon. However we do believe that energy prices will eventually stabilise and consolidate within a higher a higher price band between $65 and $85 a barrel. Near term, a retest of support at $53 is probable and we would see any broader weakness within the energy sector as a buying opportunity.

Given our view that the lows in the oil price are over we believe now is the right time to be adding exposures to the sector. This includes not only high quality oil producers, but also oil services companies, which are the 'butlers' to the energy sector. Oil service companies' fortunes are heavily tied to the oil sector and their pain (and joy) is shared. **We expect a re-rating of the oil producers will also flow through to the service companies as activity across the industry accelerates again with higher (and more stable oil prices).**

Accordingly, we have identified the Market Vector Oil Services ETF (NYSE, OIH) as a low-cost vehicle offering a diversified exposure to several favourable dynamics with the energy sector.

The ETF sold off significantly over the last year but has also been following much of the energy sector of late, with its price breaking to the upside, rallying around 15 percent from a trough on 17th March.

Consequently, we recommend the Market Vectors Oil Services ETF as a Buy to Members with a medium appetite for risk.

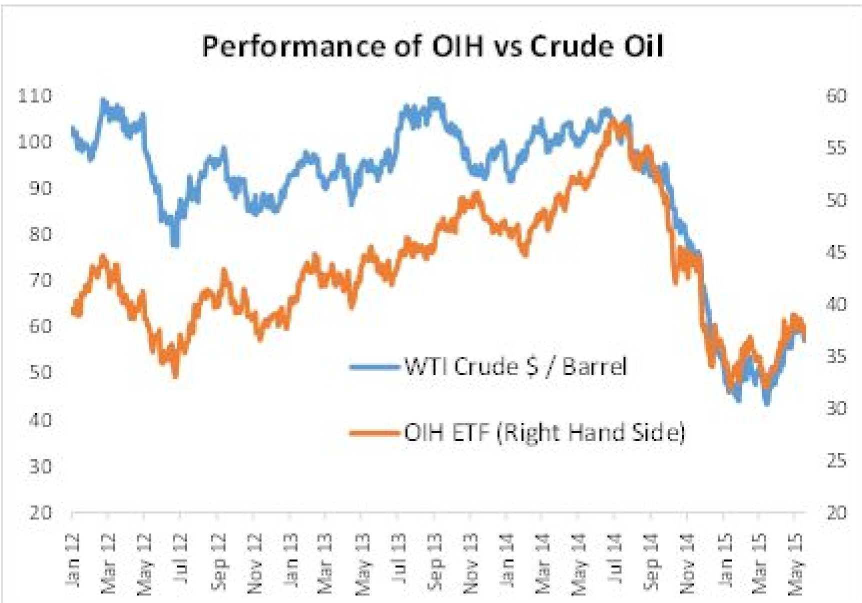
Fat Prophets ETF Overview - OIH

Fat Prophets Rating:	Low	Medium	High
Conviction			✓
ETF Providers Stability			✓
Risk		✓	
Liquidity			✓
Index Tracking Error			✓
ETF Structure	Physically Backed with Underlying Shares		
Total Expense Ratio	35 bps		

Turning to the charts, given the preceding selloff the share price continues to consolidate above the multiyear lows of $31.61. With the current levels bouncing off the key resistance at $40 suggests that we are likely to see an extended move sideways prior to the next challenge on the overhead barrier.

Sentiment has turned on Energy Services…

The recent rally in the OIH fund has been driven by multiple factors, a key being positive sentiment driven by the recent rally in the oil price, with WTI crude now nearly at US$60 a barrel, up from mid-$40 a barrel as recently as March. Our view is the oil price has bottomed, and we recap our rationale in more detail below.



Source: Eikon data

We have seen a supply response in the industry with significant closures of US oil rigs, and in our view the worst is now over in terms of negative sentiment. **The latest US oil production numbers showed U.S. oil stockpiles rose by 1.9 million barrels** last week which was less than expected, **and provided another sign that the oil market is coming back into balance.** While production and rig count normalisations may be a while away, the key here is that we are certainly close to the bottom of the market correction, in our view.

We are also encouraged by the latest earnings season which has generally been better for energy stocks than expected, with a number coming in ahead of depressed consensus analyst estimates, particularly for the oil majors. We see this as another sign that market pricing of the energy sector is overly pessimistic.

Another positive sign is growing M&A activity within the energy sector. The big deal recently being Royal Dutch Shell's takeover offer of the perennially "undervalued" BG Group. The swoop may not be the last with oil majors potentially starting to see value, and are considering acquisitions as an easier means to boost reserves with prices at low levels. We would not be surprised if there was further 'industry consolidation' in the months ahead. This may also include oil services companies for similar reasons.

OIH provides not only an exposure to a recovery in the oil price, but also a normalisation in production volumes. OIH is appealing as even if prices remain around the US$60 a barrel level, there should be an eventual tailwind for the sector as production picks up with more oil rigs coming back online, as well as the continuation of the US shale boom.

We think the fact that oil is now moving higher against prevailing negative sentiment is a positive sign, resulting in confidence that energy prices have bottomed. **This has been reflected in the energy services sector, given their close linkages to energy producers, which have also broken out to the upside.**

There are fundamental supporting factors for the rally in oil prices. In the US there has been a record decline in rigs which will at some point cause a slowdown in national oil production. Rising demand and weaker US production will reduce the inventory overhang in coming months and put upward pressure on prices. **We are also seeing the demand side for energy expand with the lower prevailing prices. China in particular is incurring record energy imports as prices have fallen.**

The US shale gas industry is now in retreat. According to the recently released March 2015 'Drilling Productivity Report" from the U.S. Energy Information Administration (which covers U.S. shale oil & shale gas production until February, with projections to April), US shale oil production growth will be stagnant this month, and will likely make its peak.

We are now seeing deferred investment in the sector which will support prices over the medium to longer term.

<u>The global energy and energy services sectors now appear due a rerating and this comes at a time when the energy price itself is bottoming out on bad news and sentiment.</u> **We believe the recent outperformance within the sector should continue.**

Fund Composition

The Market Vectors Oil Services ETF's current top-10 portfolio holdings shown below make up circa 69 percent of the funds weighting at 30th April. While including the main players in the energy services sector, we believe the fund provides good diversification across subsectors such as onshore/offshore drilling, and the US shale space.

Top 10 Holdings (%) as of 04/30/15 — View All Holdings »

Total Holdings: 26

Holding Name	Ticker	Shares	Market Value (US$)	% of Net Assets
Schlumberger Ltd	SLB US	2,997,702	283,612,586	19.72
Halliburton Co	HAL US	3,280,328	160,572,056	11.16
Baker Hughes Inc	BHI US	1,485,883	101,723,550	7.07
National Oilwell Varco Inc	NOV US	1,587,517	86,376,800	6.00
Cameron International Corp	CAM US	1,362,251	74,678,600	5.19
Helmerich & Payne Inc	HP US	847,668	66,092,674	4.59
Weatherford International Ltd	WFT US	4,150,395	60,388,247	4.20
Ensco Plc	ESV US	2,132,784	58,182,348	4.04
Fmc Technologies Inc	FTI US	1,305,193	57,559,011	4.00
Tenaris Sa	TS US	1,751,975	53,873,231	3.75
Top 10 Total (%)				**69.72**

These are not recommendations to buy or to sell any security. Securities and holdings may vary.

Source: Market Vectors

Top billing goes to Schlumberger, a giant in the sector which provides products and services from exploration through to production. The company has not been immune to the decline in the oil price in any stretch, and has also been busily reacting to protect margins.

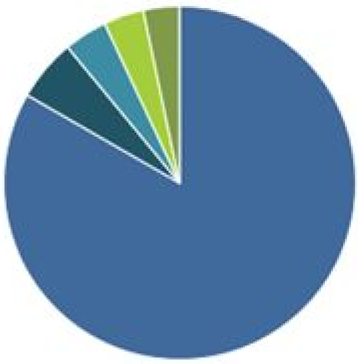
Schlumberger recently announced that it was cutting another 11,000 jobs, bringing total cuts this year to 20,000 or 15 percent of the workforce. Such action has been necessary though as the company adjusts to lower levels of activity and has ultimately ensured cash flows have remained strong and the balance sheet robust.

The cost cutting to protect margins at Schlumberger is not isolated with peers such as Haliburton and Baker Hughes also sharpening their pencils. Indeed both have sought to go to greater lengths to deliver efficiencies (circa $2 billion), and are engaging in a merger. We believe there are likely to be further such instances across the sub-sector.

Across the services sector though a general tone from management is that as an industry upswing does come, technological advances and general efficiencies over time should mean that the costs put back on will not be to the same degree as those that have been taken out. Therefore it is reasonable to expect margin expansion across the sector which bodes well for valuation re-ratings.

By region the fund is focussed on the US as shown below. We also note that circa 80% of the funds holdings haver a market cap greater than USD 5 billion, so there are no liquidity concerns with the fund.

Country Weightings (%) as of 04/30/15



Country	% of Net Assets
U.S.	83.4
SWITZERLAND	5.7
UNITED KINGDOM	4.0
NETHERLANDS	3.7
BERMUDA	3.3
Other	-0.2

Source: Market Vectors

Summary

We see the Market Vectors Oil Services ETF as a low-cost vehicle offering a diversified exposure to several favourable dynamics with the energy sector.

Our view is the Energy Services sector is oversold, and that the current re-rating can continue, which should result in further outperformance. We are attracted to the sector on a medium term view, as it should benefit from an eventual normalisation in terms of both energy prices and volumes.

Consequently, we recommend the Market Vectors Oil Services ETF as a Buy to Members with a medium appetite for risk.

Disclosure: The Market Vectors Oil Services ETF is held in the Fat Prophets Global Opportunities Model.

DISCLAIMER

Fat Prophets has made every effort to ensure the reliability of the views and recommendations expressed in the reports published on its websites. Fat Prophets research is based upon information known to us or which was obtained from sources which we believed to be reliable and accurate at time of publication. However, like the markets, we are not perfect. This report is prepared for general information only, and as such, the specific needs, investment objectives or financial situation of any particular user have not been taken into consideration. Individuals should therefore discuss, with their financial planner or advisor, the merits of each recommendation for their own specific circumstances and realise that not all investments will be appropriate for all subscribers. To the extent permitted by law, Fat Prophets and its employees, agents and authorised representatives exclude all liability for any loss or damage (including indirect, special or consequential loss or damage) arising from the use of, or reliance on, any information within the report whether or not caused by any negligent act or omission. If the law prohibits the exclusion of such liability, Fat Prophets hereby limits its liability, to the extent permitted by law, to the resupply of the said information or the cost of the said resupply. As at the date at the top of this page, Directors and/or associates of the Fat Prophets Group of Companies currently hold positions in: ASX-listed Australian stocks: AAC, AGO, AJA, ALG, AMC, ANZ, APA, APG, AVG, AWC, BCI, BHP, BKN, BOQ, BPT, BRL, BRU, BTR, BWP, CBA, CDD, CFE, CGL, CKF, CNQ, COL, CVO, CZL, DHG, DLS, DNX, DUE, ELD, ENV, EVN, FID, FMG, FPP, GJT, GMG, GOR, GPT, GXL, HUB, IAU, IFL, IGO, ILU, IMF, IPL, JHX, MAI, MFG, MGR, MHI, MML, MMS, MND, NAB, NCM, NEC, NECN, NMG, NUF, OBS, ORE, OSH, OVH, OZL, PAN, POS, PPS, PRG, PXG, QBE, RIO, RXL, RRS, S32, SAR, SDG, SFR, SGP, SHL, SLR, SPK, STO, SUN, SYD, TAM, TLS, TME, TPM, VOC, WBC, WFD, WES, WHC, WOW, WPL, WSA. International stocks: Activision Blizzard, Alibaba Group, Amadeus IT, Apple, Arcos Dorados, Bank of China, Barrick Gold, Baidu, BNP Paribas, BP, Caixabank, China Life Insurance, China Mobile, China Overseas Land & Investment, China Taiping, China Vanke, Cisco Systems, Citigroup, Coeur, Corning Inc., Country Garden, Credit Agricole, Credit Suisse, D.R. Horton, Dai-Ichi Life Holdings, Daikin Industries, Danone, Dr. Reddys Laboratories, ENAV, Euronext, Fanuc, FedEx, Fresnillo, Fukuoka Financial Group, Glanbia, Google (Alphabet), Heidelberg Cement, Heineken, ICICI Bank, Inpex Corporation, James Hardie, KONE Corp., Lennar Corp., LVMH, MGM China, Mitsubishi Corp., Mitsubishi UFJ, Mitsui Fudosan, Mizuho Financial Group, Nintendo, Nippon Telegraph and Telephone, Nissha Printing Co., Nomura Holdings, Panasonic, PICC Property & Casualty, Powerhouse Energy, PPHE Hotel Group, Randgold Resources, Reliance Industries, Resona Holdings, Riverstone, Royal Dutch Shell, Sands China, Societe Generale, Sony Corporation, SPDR Gold Trust ETF, Square Enix, Sumitomo Chemical, Sumitomo Mitsui Financial Group, Tata Motors, TE Connectivity, Telepizza, Tencent, THK Co., Toyota Motor, VanEck Vectors Junior Gold Miners ETF, Volkswagen, Walt Disney, Wynn Macau, Wynn Resorts, XTD, Yaskawa Electric, Zillow. These may change without notice and should not be taken as recommendations.

Snapshot OIH

Market Vectors Oil Services ETF

Latest Closing Price: $37.09

The VanEck Vectors Oil Services ETF seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the VanEck US Listed Oil Services 25 Index. The Index is intended to track the overall performance of U.S.-listed companies involved in oil services to the upstream oil sector, which include oil equipment, oil services, or oil drilling.

Market Capitalisation:1.08bn

Copyright © 2000 - 2016 Fat Prophets. All rights reserved. No portion of this website may be reproduced, copied, or in anyway reused without written permission from Fat Prophets.