(Riboldi (Banor): “With oil like this we’re looking at equity again”

By Federico Simonelli, 17 May 2016

It was late 2015 and Luca Riboldi, Chief Investment Officer at Banor SIM (in the photo) and advisor for the Banor SICAV Italy Long Short Equity fund, was explaining that in the medium term oil would settle out at around 50 dollars.

A forecast that’s turned out to be correct, as the levels reached for crude in recent days have shown. Brent is nearing 50 dollars, while WTI is around 47.8.

So, says Riboldi, who’s speaking to Citywire from Milan, the time has come to begin extracting profits from commodities, and to place your bets on certain stocks in that sector again.

Background

But let’s take a step back and analyse what’s happening with crude. “The number of wells in America”, explains the asset manager, “has fallen by 60–70% in the last 12 to 18 months because, with break-even at 50–55 dollars, many shale oil companies have been forced out of the business.

However, there was something of a gap between the fall in the number of rigs and the ones that went on producing because drilling had already gone ahead. So American oil production, at around 9.5 million barrels/day at the start of 2015, didn’t fall. At the end of the year, we were seeing 9.2, 9.3 million”.

This gap contributed to the delay in the recovery of the oil price. “But”, the specialist continues, “since the end of the year they’ve been closing some of the wells and we’ve seen a fall in US production of about 30,000 barrels per week.

We’re talking about around 100,000 barrels/month. And on an annual basis, that makes 1.2 million barrels/day less, which means that by the end of 2016 US production will be around 8–8.2 million barrels”.

Balance and money

What does this scenario mean? That at the end of 2016, supply and demand will essentially be in balance again. “At that point, it’s clear that what determines the oil price is the level above which the Americans will resume production, assuming that OPEC doesn’t intend to either increase or decrease.

At the same time, we’re fairly cautious about any further weakening of the dollar. So to date, with the break-even point for shale oil production falling, to around 48 dollars, and the dollar staying at 1.10–1.15, I don’t see oil going much above 52 dollars per barrel”.

Investment: moving away from the commodity

For the rest of 2016, says Riboldi, prices are unlikely to range above the 55 dollar level.

“We’re saying that 44–55 could be the level for the next six months. In this situation we’ve obtained profits from the commodity, we placed our bet earlier on and now we’re reaping the benefit.

Against a background of stabilisation in the oil sector, some companies, like Saipem for example, that are restructuring their internal costs and preparing for a world where the oil price is no longer 100 dollars, but 50–60, could be a good opportunity for equity purchases, from a perspective of around 3 years”.

As for the majors, “Eni’s dividends are much more sustainable then before and it’s still a good company. This is turning into an industry that needs to be considered selectively, but right now I prefer to look at equity and energy again, rather than the commodity”.