W&T Offshore (WTI) – Monthly Update

Upside to Volume and Free Cash Flow Estimates in 3Q

ENERGY |
Exploration & Production

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Fair Value: $6.00/Share (NAV = $7.50/Share)
Downside Case: $1.60/Upside Case $6.50: Risk/Reward: 1:1

Our Thesis
Our 4Q oil production estimate is 20.0 mb/d versus consensus at 18.9. Our assumption is that Gladden Deep results are not reflected in consensus numbers. Our EBITDA estimate of $62 MM compares with consensus of $59 MM.

We are now assuming $54 and $52.50/Bbl NYMEX oil prices for 4Q and 2020, $1 above the 2020-2022 strip. Our gas price assumption was trimmed slightly for both periods as well.

Our revised Fair Value, downside/upside case and NAV reflect a $52.50/Bbl mid-cycle oil price.

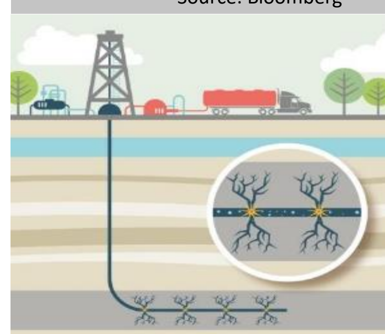
Upcoming Catalysts
Operational updates on Mahogany, Ewing Banks 910 and Virgo are what we will be listening for on the call. We have reflected the closing of the Mobile Bay acquisition in our estimates. The company stated at Barclay's it would be surprised if they are not able to complete at least one additional acquisition by year end as the majors focus more intently on shale now that the cost curve has been significantly reduced thanks to E&P outspends over the past four years. Drilling at Mobile Bay could occur in 2020, but 2021 sounds more likely. In the meantime the asset will generate free cash flow and WTI will seek to optimize the operation of two gas processing plants at Mobile Bay.

Performance Metrics
The company added ~$365 MM of reserves value in 2018 with $106 MM of drillbit expenditures. Excluding the impact of higher commodity prices during 2018 revisions and extensions of reserves resulted in an increase in the company's PV-10 of $307.6 and $53.6 MM, respectively. In addition higher oil prices drove a $571 MM upward revision in PV-10.

Upcoming Catalyst to Monitor
The company announced at the Barclay's conference last week it expects to tie in its Mississippi Canyon 800 Gladden Deep prospect (operated, in za JV program) roughly 3 months ahead of schedule, implying upside to 3Q numbers. This was the 9th JV well and the 10th is currently drilling.

Unsecured Bonds
The company's 9 ¾ notes due in 2023 traded yesterday at 95.03 with an 11.23% yield. We see EBITDA to cash interest coverage of 5.0x pro forma for a full quarter of the Mobile Bay transaction and believe the bonds are fully collateralized by PDP value at a $52.50/Bbl oil price.

Source: Bloomberg



Corporate Update	
Share Price	$4.21
Fair Value	$7.50
52-week range	3.38-9.88
Market Cap (MM)	$590.7
Shares Out. (MM)	140.3
ADV. 3 mo	2,217,900
NAV per share	$9.00
Net debt (MM)	$572.1
Net debt/2019 E EBITDA	2.2x
% Oil	52%

Financial Metric Forecasts Vs Consensus

	3Q 2019E	4Q2019	2019	2020E
Liquids Production (Mbopd)	20.0	22.7	20.1	23.0
Bloomberg Consensus	18.9	20.9		21.3
EBITDA ($ in MM)	$62	$71	$265	$275
Bloomberg Consensus	$59	$79		$296
Capital Expenditures ($ in MM)	$209	$42	$292	$195
Bloomberg Consensus	$41	$33		$147

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Key Investable Themes

1) Well Hedged But Still Heavily Exposed to Oil

2) Growth With Debt reduction in 2019 and 2020

3) Expanding Margins—cash costs decline to $21/boe in 2019

4) Well Positioned to Transact With $251 MM of liquidity

5) At $52.50/B oil price it trades at 38x free cash flow in 2019

W&T had the foresight to hedge more than half its 2019 oil production before crude prices collapsed in early October and then completed a debt refinancing to push out its earliest maturity to 2023 later in October just as the high yield energy market was on the verge of collapse. Now the company is in the unique position of being the one public company with a liquid stock and liquidity on its balance sheet that has the experience and team focused on the Gulf of Mexico to be able to successfully integrate both asset packages and private equity companies who need to find buyers given that we are in a market where it would be difficult to pull off an IPO. The company's existing infrastructure of platforms and processing facilities provide an opportunity to bring projects online sooner and extend the lives of existing production longer than would otherwise be possible creating value that it could accrete in an acquisition.

2019 drillbit F&D will benefit in a significant way from the company's drilling JV which will allow them to book ~30%-35% of reserves on a majority of its wells in exchange for committing 20% of the well cost. The company has had a drillbit F&D of $8/Boe over the past two years and a 93% drilling success rate since 2011.

The Gulf is the second largest U.S. hydrocarbon basin and is approaching a new record high production level. Returns of some Gulf projects rival those in the in the best parts of the Permian basin implying sub $40/Bbl breakeven prices. Technological improvements have been as significant in the Gulf as in shale plays as the quality of seismic data and reprocessing has created many new development opportunities that can be tapped from existing infrastructure.

EBITDA margins are expanding in the Gulf and cost pressures are minimal. This is a very different picture from the shale plays. In 2Q the company had a $0.12/Bbl differential vs NYMEX for $3.19/Bbl for the Permian. Lease operating expenses and F&D costs were not dissimilar from the Permian peers. With their infrastructure position, additional volumes can be added at a very low cost—providing unit cost cash operating synergies.

The company intends to transact in 2019 given relatively little competition in the Gulf (private equity money is focused on monetizing Gulf assets to re-deploy onshore).

Valuation. We calculate a floor for the stock of ~$1.60/share based on a PDP PV-10 per share NAV at a $52.50/Bbl benchmark oil price. The current enterprise value of $1.1 billion compares to the year-end 2018 PV-10 of $1.3 billion (assumes $65/B NYMEX oil price). The company also has 106 Mmboe of 2P reserves. Historically, its PV-10 increases each year without drilling success based on further production data availability. In other words, there is no reason PV-10 should not be a floor for valuation since the 2P reserves in the Gulf are low-hanging fruit versus shale projects which require incremental capital.

The enterprise value also equates to ~38x 2019 free cash flow of $36 MM and an implied 4.8x (2020) EBITDA multiple. An acquisition that creates higher per share growth in production, inventory and deleveraging on a per share basis is the "bet" we are making on the name.

Having re-structured their debt maturities in 2016 (no debt issues due until 2022), an upcoming significant exploration test and tangible improvement in the company's technical group over the past several years the story is very clean. At midyear the company announced it had more than replaced production for the first half with new reserves.

The Monza JV gives the company 30% interest in discoveries while they pay only 20% of the costs.

New Production Record in GOM. "With eight new developments cranked up or preparing to do so this year and another four lined up for 2020, the U.S. Gulf of Mexico (GoM) is on track to hit more oil production records in federal waters, according to the EIA, forecasting that oil production from new and existing fields in the GoM will rise to an average of 1.9mmbopd this year, even after accounting for shut-ins related to Hurricane Barry in July 2019, and to 2.0mm in 2020, up from 1.8mm in 2018. (Remember that the offshore rig count plummeted with the other markets post 2014 but US onshore is still up over 200% from the lows whereas offshore is still skating along the bottom. Momentum of activity.) The positive outlook (for production growth, not benefit to the OFS world) comes as the offshore industry continues to bring down costs and improve break-evens by modifying designs, working closely with suppliers, taking phased development approaches and utilizing existing infrastructure (tie-backs)." – EIA

Two new entrants in the Gulf (one as a result of the acquisition of Upstream Exploration), the other a de novo company.

Exhibit I. Recent Acquisitions In the Gulf Have all Been Close to Proved Developed Reserve Value

Exhibit 4: Gulf of Mexico M&A Transactions (2013-2018)

Date	Buyer	Seller(s)	Deal Value ($ in MM)	Deal Type	% Cash	Reserves (Mmboe)	Oil Reserves (Mmboe)	R/P	% Dvlpd	Production (Mboepd)	% Oil (of production)	Deal Value/P1 Rsvs (in $/boe)	Deal Value/daily flowing boe (in 000s)
10/10/2018	Murphy	Petrobras	900	JV	100%	60	58	4.0		41	97	15	22
8/6/2018	Kosmos Energy	Deep Gulf Energy LP& DG II & III I	1,225	Corp	73%					25	85	15[1]	49
6/18/2018	Cox	Energy XXI	322	Corp	100%	88	74	9.6	79	25	83	4	13
5/10/2018	Stone Energy	Talos Energy LLC	1,597	Corp		99	76			29	76	16	56
5/1/2018	Stone Energy	Shell; ExxonMobil; Anadarko	234	Property						6.1			38
4/12/2018	Fieldwood Energy	Noble Energy	480	Property		23	21	3.2		20	90	21	24
4/11/2018	Total; Statoil	Cobalt International Energy	339	Property									
4/11/2018	Total	Cobalt International Energy	181	Property									
4/5/2018	W&T Offshore	Cobalt International Energy	31	Property		1	1	1.1	100	3.328	95	24	9
12/20/2016	Talos Energy LLC	Sojitz	86	Property		9	7		40			10	
12/15/2016	Anadarko	Freeport-McMoRan Inc	2,000	Property		126		4.3		80	80	16	25
9/16/2013	Asiasons Capital L	Black Elk Energy	194	Corp									
12/13/2012	Talos Energy LLC	Helix Energy	610	Corp		38.9		6.7	42	16	72	16	38

[1]No 1P reserves provided by Kosmos

Source: Bloomberg & Company Reports

Disclosures

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