

Wood Group (John) PLC

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Morgan Stanley mixed on oil services firms; ups Wood Group to 'overweight', cuts Petrofac to 'equal weight'

Morgan Stanley has issued a decidedly mixed review of mid-cap oil services groups, upgrading John Wood Group PLC (LON:WG.) while simultaneously downgrading Petrofac Limited (LON:PFC).

Wood Group, which the US investment bank upped to 'overweight' from 'equal weight', was added to Morgan Stanley's 'top pick' list as its analysts said that while the shares had fallen to "almost all-time lows" over the last year, they saw the FTSE 250 firm "making progress" towards delivering on its synergy and de-gearing targets.

READ: Wood Group thanks Donald Trump and Iraq as first-half profits soar
The upgrade followed a trading update from Wood last week, where the firm revealed "significant growth" in profits and forecast a "modest reduction" in its net debt by the end of its current financial year.

It wasn't all good news though, as Morgan Stanley also trimmed its target price for Wood Group to 700p from 770p amid a "softer" outlook for the wider oil services sector.

Petrofac, however, was downgraded to 'equal weight' from 'overweight' while its target price was slashed to 530p from 720p.

Morgan Stanley's analysts said that while they thought Petrofac was "well positioned" to grow its order backlog and acknowledged that management had delivered on asset sales and de-gearing, the stock's performance was still "strongly anchored" to an ongoing investigation by the UK's Serious Fraud Office (SFO) into the company's dealings in Saudi Arabia and Iraq.

READ: Petrofac shares lower despite 'in line' trading ahead of interims

The investigation, which began in 2017, has already claimed Petrofac's former head of sales, David Lufkin, who in February pleaded guilty to 11 counts of bribery in connection to various oil deals.

The fallout from the probe has also cost the company around £8bn in contracts that it lost out on as a result of the ongoing investigation.

Morgan Stanley said that volatility around the topic could "continue to outweigh developments elsewhere in the business", citing the fact that Petrofac is down to around 61% of its pre-investigation market cap.

In terms of positives, the US bank said a resolution to the probe would "likely" result in value creation, while high order intake would help assuage concerns around the risk to the company's ability to secure work in the Middle East.

"However, for the time being we prefer to stay on the sidelines", the bank said.

In late-morning trading on Wednesday, Wood Group's shares were up 1.2% at 466.5p, while Petrofac fell 1.8% to

Price: 372.1

Market Cap: £2.55 billion

1 Year Share Price Graph



Share Information

Code: WG.

Listing: LSE

52 week High Low
689.4 322.5

Sector: Energy

Website: www.woodgroup.com

Company Synopsis:

Provision of selected engineering design, production support and industrial gas turbine services to the oil and gas, and power generation industries.

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420.6p.

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