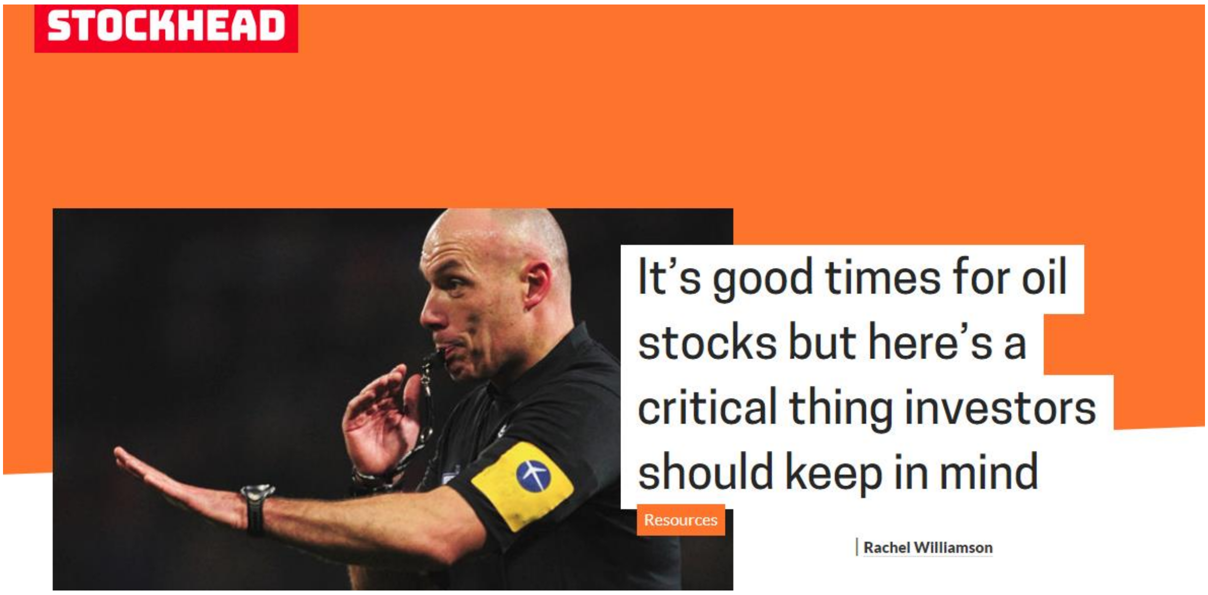

Oil prices will likely "remain in an upcycle" — but that will bring higher costs which will heap pressure on juniors still in the exploration phase.

That's the view of ratings agency S&P Global in a new report out this week.

For producers like Triangle Energy (ASX:TEG) and Buru Energy (ASX:BRU), it's less of a problem because they'll be selling higher priced oil.

For explorers without revenue, it could spell trouble.

That means **investors heading back into the oil sector after years of downturn** will need to take care when choosing stocks.

Key Petroleum managing director Kane Marshall says costs haven't started rising just yet, but he expects that beaten up oil services contractors will start putting up prices.

"I'm not sure that oil services costs have risen [yet], but naturally you'd expect that struggling oilfields services contractors will start to jack up prices and try to make some money," Mr Marshall told *Stockhead*.

"The problem we faced with Australia is we've had fairly nasty protracted downturn with not a lot of investment in the sector. You see that in Western Australia, where there's been a lot of contractors who've closed their doors."

New competition, likely to come in the Cooper Basin in Queensland first, could temper price rises. But that will depend on when (or whether) investors start putting money into the oil sector again.

Meantime, increasing costs could cause a shake-out among oil explorers who don't have the ready cash to survive.

Prices and acquisitions

S&P Global believes producers in Australia and Asia aren't likely to squander their wealth because memories of the last downturn — which began in such dramatic fashion in 2014 — are still fresh.

S&P has raised its assumptions for the Brent oil price benchmark although they remain below spot prices which last week breached $US80 a barrel.

S&P expects Brent to average $US65 for the rest of 2018 and $US60 next year — up from its earlier forecast of $60 this year and $55 next year.

"Oil prices remain in an upcycle, generating more free cash flow for many Asia-Pacific energy companies," S&P said in the report, *Asia-Pacific Oil And Gas Companies: Will High Oil Prices Go To Their Heads?*

"At the same time, spending is sloping downwards as major investment projects of recent years wind down."

Acquisitions will be a key area for companies when they have ready cash.

S&P believes merger and acquisition appetites are low for now, but could grow if oil prices remain high.

Oil merger and acquisition activity in Australia has been mixed in the last year.

AWE was successfully taken over by Japan's Mitsui in May.

But Santos (ASX:STO) has thrown a spanner in the works with Harbour Energy's $14.4 billion offer, after rejecting it as too low and too high risk.

At the smaller end of town, Aurora failed in its bid last year to take over struggling Molopo Energy (ASX:MPO).

https://stockhead.com.au/resources/its-good-times-for-oil-stocks-but-heres-a-critical-thing-investors-should-keep-in-mind/