

## Liberty Energy

## Staying course on resilience and retooling

Reiterate Rating: NEUTRAL | PO: 20.00 USD | Price: 19.57 USD

## Retooling for the future in a strong and resilient present

LBRT's partnership-based commercial model, and best-in-class operational performance, has allowed it to gain significant market share. It has only idled 1 fleet while overall frac activity has fallen 50-60 fleets (~20% from 2022-23 peak). Simultaneously, ever growing E&P focus on efficiencies has let LBRT differentiate from its commoditized peers while protecting pricing/margins. Mgmt. continues to invest in further driving technological & operational differentiation by growing its digi electric/hybrid fleets, continuing diesel to dual-fuel upgrades & expanding its LPI natural gas delivery platform. We think this would help LBRT transition from <1/2 natural gas-powered fleet at YE23 to as much as 90% by YE24. We see flattish US frac services demand in 2024; we are tweaking our 2024E Adj. EBITDA +2% to \$1,065mm but keep our 2025E Adj. EBITDA unchanged at \$1,135mm (both -8% vs. Cons). This bumps our DCF-based PO from \$19 to \$20; reiterate Neutral.

## Some lingering pricing/margin risk amidst flattish demand

We think the frac industry's continued newbuild push for more gas-powered electric & dual fuel fleets, while simultaneously force idling/retiring legacy fleets, in a flattish frac demand environment likely caps pricing/margin through 2024. To be clear, we don't expect a big decline in leading edge pricing, but we do suspect realized average pricing may continue to grind down as active fleets reprice (at a still very healthy pricing level).

## Peak-ish earnings in flattish US market keeps us at Neutral

We continue to believe that LBRT is a best-in-class Pressure Pumper. And it continues to further differentiate itself with big investments in a strong suite of technology/ancillary offerings, including digiFrac and LPI gas delivery platform. However, a flattish US Land market in 2024, and some lingering pricing risk in frac, partially offset by LBRT's further substantial investment in fleet upgrades and LPI, suggest to us that 2024 EBITDA may have to decline modestly from 2023. And while our updated 2024E Adj. EBITDA of \$1,065mm is -12% YoY and 8% below Cons, it is still very strong. That leads to our point on valuation, where LBRT is trading at 3.5x our 2024E EBITDA (including \$38mm in non-cash stock compensation expense), which is below mid-cycle frac valuation of 4-5x EBITDA, but not unreasonable in our view as industry is at/near peak earnings. Thus, we reiterate our Neutral rating on LBRT on a balanced risk/reward over the next 12-months.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.22	3.23	2.23	2.48	2.85
GAAP EPS	2.13	3.15	2.17	2.42	2.77
EPS Change (YoY)	NM	45.5%	-31.0%	11.2%	14.9%
Consensus EPS (Bloomberg)			3.01	3.42	1.90
DPS	0.05	0.22	0.28	0.28	0.28
Valuation (Dec)					
P/E	8.8x	6.1x	8.8x	7.9x	6.9x
GAAP P/E	9.2x	6.2x	9.0x	8.1x	7.1x
Dividend Yield	0.3%	1.1%	1.4%	1.4%	1.4%
EV / EBITDA*	4.1x	2.9x	3.3x	3.1x	2.8x
Free Cash Flow Yield*	2.3%	9.1%	12.4%	12.4%	13.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

25 January 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	19.00	20.00

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## Stock Data

Price	19.57 USD
Price Objective	20.00 USD
Date Established	25-Jan-2024
Investment Opinion	C-2-7
52-Week Range	11.18 USD - 21.25 USD
Mkt Val (mn) / Shares Out (mn)	3,379 USD / 172.7
Free Float	91.0%
Average Daily Value (mn)	58.18 USD
BofA Ticker / Exchange	LBRT / NYS
Bloomberg / Reuters	LBRT US / LBRT.N
ROE (2024E)	18.5%
Net Dbt to Eqty (Dec-2023A)	5.6%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

LBRT = Liberty Energy

Adj. / Cons = Adjusted / Consensus

E&amp;P = Exploration &amp; Production

LPI = Liberty Power Innovations

DCF = Discounted Cash Flow

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Timestamp: 25 January 2024 09:59PM EST

# iQprofile<sup>SM</sup> Liberty Energy

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	26.6%	26.7%	15.4%	14.8%	14.8%
Return on Equity	29.9%	33.3%	18.5%	17.3%	16.8%
Operating Margin	12.1%	16.1%	11.6%	12.0%	12.6%
Free Cash Flow	78	308	420	418	465

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.3x	1.6x	2.6x	2.3x	2.1x
Asset Replacement Ratio	1.4x	1.4x	1.1x	1.0x	1.0x
Tax Rate	NM	24.3%	24.2%	24.5%	24.5%
Net Debt-to-Equity Ratio	11.7%	5.6%	-11.5%	-23.2%	-32.7%
Interest Cover	22.1x	27.8x	20.7x	22.9x	26.1x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	4,149	4,748	4,514	4,834	5,257
% Change	67.9%	14.4%	-4.9%	7.1%	8.7%
Gross Profit	1,000	1,399	1,250	1,330	1,435
% Change	351.3%	39.8%	-10.6%	6.4%	7.9%
EBITDA	843	1,211	1,065	1,135	1,230
% Change	613.8%	43.6%	-12.1%	6.6%	8.4%
Net Interest & Other Income	(94)	(30)	(26)	(25)	(25)
<b>Net Income (Adjusted)</b>	<b>408</b>	<b>556</b>	<b>375</b>	<b>417</b>	<b>479</b>
<b>% Change</b>	<b>NM</b>	<b>36.0%</b>	<b>-32.4%</b>	<b>11.2%</b>	<b>14.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	409	556	376	418	480
Depreciation & Amortization	323	422	505	516	528
Change in Working Capital	(278)	(98)	18	(26)	(34)
Deferred Taxation Charge	(12)	0	24	0	0
Other Adjustments, Net	89	27	38	40	42
Capital Expenditure	(452)	(599)	(541)	(530)	(550)
<b>Free Cash Flow</b>	<b>78</b>	<b>308</b>	<b>420</b>	<b>418</b>	<b>465</b>
<b>% Change</b>	<b>NM</b>	<b>292.0%</b>	<b>36.5%</b>	<b>-0.5%</b>	<b>11.3%</b>
Share / Issue Repurchase	(125)	(203)	0	0	0
Cost of Dividends Paid	(9)	(38)	(48)	(48)	(48)
Change in Debt	(9)	(188)	(2)	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	44	37	391	746	1,147
Trade Receivables	586	587	690	752	832
Other Current Assets	327	330	337	367	407
Property, Plant & Equipment	1,362	1,645	1,682	1,696	1,718
Other Non-Current Assets	257	434	410	417	425
<b>Total Assets</b>	<b>2,576</b>	<b>3,034</b>	<b>3,510</b>	<b>3,979</b>	<b>4,530</b>
Short-Term Debt	1	0	0	0	0
Other Current Liabilities	648	639	767	833	919
Long-Term Debt	217	140	138	138	138
Other Non-Current Liabilities	212	413	398	390	383
<b>Total Liabilities</b>	<b>1,079</b>	<b>1,192</b>	<b>1,303</b>	<b>1,362</b>	<b>1,440</b>
<b>Total Equity</b>	<b>1,497</b>	<b>1,841</b>	<b>2,207</b>	<b>2,617</b>	<b>3,090</b>
<b>Total Equity &amp; Liabilities</b>	<b>2,576</b>	<b>3,034</b>	<b>3,510</b>	<b>3,979</b>	<b>4,530</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Oil Services

## Company Description

Liberty is a leading North American energy services firm that offers one of the most innovative suites of completion services and technologies to onshore oil and natural gas exploration and production companies. Liberty was founded in 2011 with a relentless focus on developing and delivering next generation technology for the sustainable development of unconventional energy resources in partnership with our customers. Liberty is headquartered in Denver, Colorado.

## Investment Rationale

We see LBRT as a best in class Pressure Pumper with advantaged technology, including in electric frac, strong vertical integration and deep customer relationships. However, we think loosening S/D balance and thus weakening pricing in frac could lead to modestly lower than expected earnings in 2024, despite moderately strengthening demand. We rate LBRT shares Neutral on this lingering frac pricing risk and better risk/reward elsewhere in our coverage.

## Stock Data

Average Daily Volume 2,972,719

## Quarterly Earnings Estimates

	2023	2024
Q1	0.92A	0.50E
Q2	0.87A	0.58E
Q3	0.88A	0.64E
Q4	0.55A	0.51E



## Price objective basis & risk

### Liberty Energy (LBRT)

Our PO of \$20 is derived from our discounted cash flow valuation, which we believe is a better method to value LBRT than EV/EBITDA in these market conditions. We forecast earnings & cash flow through 2030, which we believe is the limit of market recognition, and then forecast a terminal growth of -3% due to potential disruptions from the energy transition while using a 7.7% WACC.

Downside risks to our price objective are: 1) lower O&G prices, 2) aggressive pricing from its competitors leading to weaker pricing power, 3) technical & operational issues, 4) new entrants, 5) market share loss, 6) cost inflation from labor/logistical bottlenecks.

Upside risks to our price objective are 1) higher O&G prices, 2) tighter Pressure Pumping S/D balance and higher pricing in 2024, 3) market share gain on new electric fleets, 4) FCF/share accretive acquisitions, 5) cost deflation.

## Analyst Certification

I, Saurabh Pant, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Oil Services and Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Atlas Energy Solutions	AESI	AESI US	Saurabh Pant
	Baker Hughes Co.	BKR	BKR US	Saurabh Pant
	ChampionX Corp.	CHX	CHX US	Saurabh Pant
	Chart Industries	GTLS	GTLS US	Saurabh Pant
	Halliburton Company	HAL	HAL US	Saurabh Pant
	Helmerich & Payne	HP	HP US	Saurabh Pant
	NOV Inc.	NOV	NOV US	Saurabh Pant
	Patterson-UTI Energy	PTEN	PTEN US	Saurabh Pant
	SLB	SLB	SLB US	Saurabh Pant
	TechnipFMC plc	FTI	FTI US	Saurabh Pant
	Weatherford International	WFRD	WFRD US	Saurabh Pant
<b>NEUTRAL</b>				
	Liberty Energy	LBRT	LBRT US	Saurabh Pant
	ProFrac	ACDC	ACDC US	Saurabh Pant
<b>UNDERPERFORM</b>				
	Cactus Inc.	WHD	WHD US	Saurabh Pant
	Core Laboratories	CLB	CLB US	Saurabh Pant
	Transocean	RIG	RIG US	Saurabh Pant

## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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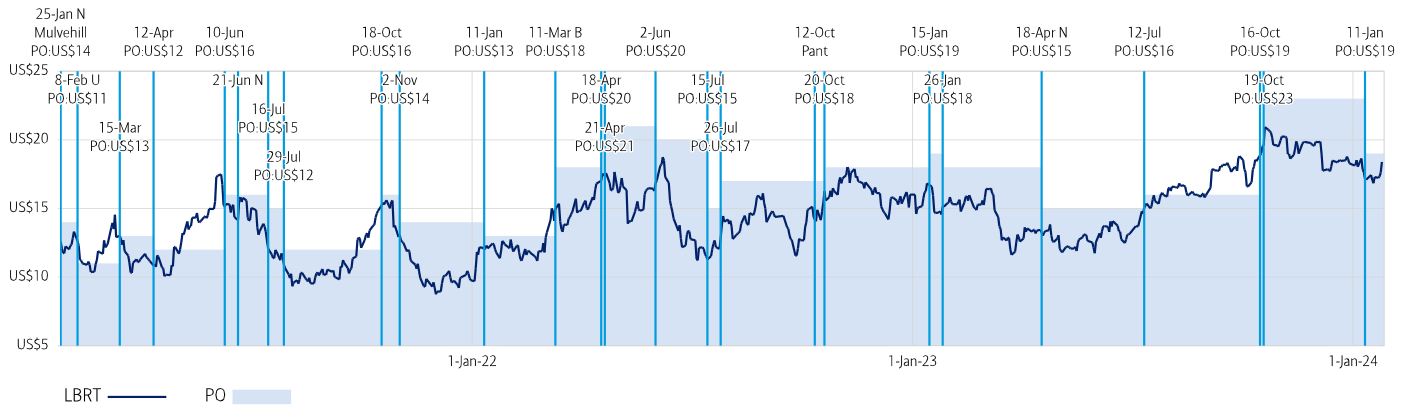
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### Liberty Energy (LBRT) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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