

## California Resources Corporation

## Negative ruling on Kern EIR forces market to recognize terminal decline thesis

Reiterate Rating: NEUTRAL | PO: 55.00 USD | Price: 49.62 USD

## Kern EIR officially in penalty box for indefinite period

CRC shares dropped 8% Wednesday following a negative ruling in the Lions v. Kern Co. court case, where Kern's accelerated drilling ordinance hung in the balance. The ruling sends the ordinance back to a lower court to oversee a rewrite that will align with certain environmental interests and subjects it to what appears to be a lengthy review process that includes a public comment period amongst other checks. As a practical matter, batch permitting is now off the table for an indefinite period. In the absence of those permits, CRC remains unable to execute a drilling program capable of holding production volumes – a predicament CRC has been in since 3Q22.

## Embracing the terminal decline thesis

With this defeat, we believe the market may need to accept the base case that CRC production is in terminal decline. That said, one redeeming aspect of the portfolio is that the decline rate is low – estimated at ~6%, entry-to-exit in 2024 as CRC runs a single rig drilling program plus workovers that amounts to \$160mm while facilities maintenance and corporate adds another \$50mm. For context CRC operates a portfolio focused on enhanced oil recovery compared to shale plays that decline 30%-40% annually, if unmitigated. Still, the outcome that is low decline with a skeleton capital program, is a strategy that optimizes FCF and preserves a better than PDP valuation for the E&P.

## PO lowered to \$55/sh. Remain Neutral

Adopting a 6% terminal decline as our base case, our PO drops \$9/sh from \$64 to \$55. Notably, this is 2x the move in the market yesterday, suggesting much of the risk was priced in after oral arguments in Jan, and which preceded the Aera merger (announced Feb 8<sup>th</sup>). With this update we offer pro-forma 3Q24 estimates. Our updated analysis of Aera assumes an ARO liability of \$700mm, a 6% decline, an associated capital program of \$225mm and drops our view of the Aera merger from positive \$4/sh to b/even, noting our prior base case had assumed a stay flat production outlook. From a positioning standpoint, we believe the worst case is now discounted in CRC shares, although upside is a call on oil leverage while realizing the value from a SOTP valuation that includes Huntington Beach and CCUS. Neutral.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.95	5.23	10.46	8.21	8.21
GAAP EPS	6.75	7.93	10.46	8.21	8.21
EPS Change (YoY)	462.5%	5.7%	100.0%	-21.5%	0%
Consensus EPS (Bloomberg)			5.74	7.46	10.76
DPS	0.68	1.16	1.24	1.24	1.24
Valuation (Dec)					
P/E	10.0x	9.5x	4.7x	6.0x	6.0x
GAAP P/E	7.4x	6.3x	4.7x	6.0x	6.0x
Dividend Yield	1.4%	2.3%	2.5%	2.5%	2.5%
EV / EBITDA*	3.2x	2.6x	1.7x	1.9x	1.9x
Free Cash Flow Yield*	9.1%	13.7%	22.9%	16.3%	16.3%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

08 March 2024

## Equity

## Key Changes

(US\$)	Previous	Current
Price Obj.	64.00	55.00

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## Stock Data

Price	49.62 USD
Price Objective	55.00 USD
Date Established	8-Mar-2024
Investment Opinion	C-2-7
52-Week Range	34.02 USD - 58.44 USD
Mkt Val (mn) / Shares Out (mn)	3,424 USD / 69.0
Free Float	97.8%
Average Daily Value (mn)	44.67 USD
BofA Ticker / Exchange	CRC / NYS
Bloomberg / Reuters	CRC US / CRC.N
ROE (2024E)	44.4%
Net Dbt to Eqty (Dec-2023A)	2.0%
ESGMeter™	High

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".

ARO – Asset Retirement Obligation

PO – price objective

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Timestamp: 08 March 2024 09:57AM EST

# iQprofile<sup>SM</sup> California Resources Corporation

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	18.4%	18.9%	25.9%	21.3%	20.4%
Return on Equity	20.8%	18.2%	44.4%	44.0%	32.6%
Operating Margin	28.5%	37.2%	33.4%	31.5%	31.5%
Free Cash Flow	311	468	784	559	559

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

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.8x	1.8x	1.4x	1.4x	1.4x
Asset Replacement Ratio	1.9x	0.8x	0.9x	1.2x	1.3x
Tax Rate	31.1%	24.6%	26.0%	24.3%	22.9%
Net Debt-to-Equity Ratio	15.3%	2.0%	43.4%	22.3%	22.3%
Interest Cover	15.3x	14.4x	9.4x	8.3x	8.3x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,643	2,155	3,762	3,518	3,206
% Change	29.1%	-18.5%	74.6%	-6.5%	-8.9%
Gross Profit	1,922	1,979	2,619	2,476	2,476
% Change	66.1%	3.0%	32.4%	-5.5%	0%
EBITDA	1,109	1,397	2,056	1,863	1,863
% Change	-16.7%	26.0%	47.2%	-9.4%	0%
Net Interest & Other Income	(51)	(60)	(133)	(133)	(133)
<b>Net Income (Adjusted)</b>	<b>384</b>	<b>372</b>	<b>830</b>	<b>738</b>	<b>600</b>
<b>% Change</b>	<b>426.0%</b>	<b>-3.1%</b>	<b>123.0%</b>	<b>-11.0%</b>	<b>-18.8%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	524	564	830	738	738
Depreciation & Amortization	198	225	394	371	371
Change in Working Capital	(57)	6	(100)	(100)	0
Deferred Taxation Charge	226	35	0	0	0
Other Adjustments, Net	(201)	(177)	0	0	0
Capital Expenditure	(379)	(185)	(340)	(450)	(450)
<b>Free Cash Flow</b>	<b>311</b>	<b>468</b>	<b>784</b>	<b>559</b>	<b>559</b>
<b>% Change</b>	<b>-33.3%</b>	<b>50.5%</b>	<b>67.6%</b>	<b>-28.7%</b>	<b>0%</b>
Share / Issue Repurchase	(312)	(141)	(200)	(200)	(40)
Cost of Dividends Paid	(59)	(81)	(98)	(111)	(111)
Change in Debt	0	(56)	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	307	496	982	1,230	1,477
Trade Receivables	326	216	216	216	216
Other Current Assets	231	217	217	217	217
Property, Plant & Equipment	2,786	2,770	2,681	2,760	2,861
Other Non-Current Assets	317	299	299	299	299
<b>Total Assets</b>	<b>3,967</b>	<b>3,998</b>	<b>4,394</b>	<b>4,721</b>	<b>4,721</b>
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	894	616	616	616	616
Long-Term Debt	592	540	1,640	1,640	1,640
Other Non-Current Liabilities	617	623	623	623	623
<b>Total Liabilities</b>	<b>2,103</b>	<b>1,779</b>	<b>2,879</b>	<b>2,879</b>	<b>2,879</b>
<b>Total Equity</b>	<b>1,864</b>	<b>2,219</b>	<b>1,515</b>	<b>1,842</b>	<b>1,842</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,967</b>	<b>3,998</b>	<b>4,394</b>	<b>4,721</b>	<b>4,721</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Oil & Gas Producers

## Company Description

California Resources Corporation is a spin off from Occidental Petroleum Co, and is an oil and gas exploration and production company. Assets are located across California with approximately 60% of the production mix skewed towards oil. Activity going forward will focus on high return steam and water flood assets though carbon capture represents a longer-term opportunity.

## Investment Rationale

CRC's plans to realign the corporate structure aims to attract better recognition of value for two discrete businesses and positions CRC as a break up story, where the first step is a monetization of Huntington Beach assets, followed by cost cuts, that are catalysts that differentiate CRC from peers but upside is limited. Neutral

## Stock Data

Average Daily Volume 900,306

## Quarterly Earnings Estimates

	2023	2024
Q1	2.63A	2.59E
Q2	0.52A	3.02E
Q3	1.08A	2.78E
Q4	0.98A	2.16E

# Recognizing terminal decline

## 6% is now the base case

The table below illustrates our updated valuation for CRC, which drops \$9/sh to \$55/sh, as we introduce guidance of a 6% entry to exit decline into our go-forward outlook, with an associated capital program of \$225mm for standalone CRC and \$450mm including Aera. Critically, this assumption assumes that CRC can secure enough permits through the state permitting ordinance to fulfill a 1 rig program (or perhaps 2 including Aera). Pending further clarity, this is our base case.

### Exhibit 1: CRC detailed DCF

We lower our PO to \$55

CRC Discounted Cash Flow valuation		12/2024	12/2025	12/2026	12/2027	12/2028	12/2029	12/2030	12/2031
Discount Rate	10%	2024	2025	2026	2027	2028	2029	2030	2031
Decline Rate									
Debt Adjusted Cash Flow		1,321	1,206	945	864	790	723	660	660
Capital Expenditures		(340)	(450)	(450)	(450)	(450)	(450)	(450)	(450)
Other (+/-)		-	-	-	-	-	-	-	-
Free Cash Flow		981	756	495	414	340	273	210	210
Present Value (2024-2031)	3,017								
Terminal Value (2032-2060)	1,721								
Total PV	4,738								
Less: Net Debt	2,084								
Adjustment 1:	599								
Adjustment 2:	700								
Synergies: NPV	1,000								
Equity Value	4,953								
Shares Outstanding	90.5								
Per Share	55								

Source: BofA Global Research

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We also update our blowdown valuation for Aera, assuming a 6% decline rate, a similarly sized capital program, and an estimated asset retirement obligation of ~\$700mm equal to year end 2022's obligation. Under these assumptions we see the deal breakeven vs \$2.1bn cost, suggesting that CRC struck a fair deal.

### Exhibit 2: Aera valuation

Assuming a 6% base decline

Aera Valuation (\$mn)	
NPV	2,141
Synergies	1,000
ARO	(700)
Hedge Book	(240)
	2,201

Date	Production			Price Deck			(\$27.00)			8.50%			(\$8.00)			26%		
	Oil	Gas	Boe	Decline	Brent	Socla	Revenue	Opex	Prod Tax	SG&A	DD&A	EBT	Tax	Net Income	EBITDA	Cash Flow	Capex	FCF
2024	68	22	72	0.00%	\$76.44	\$2.87	1,931	(710)	(164)	(200)	(210)	647	(168)	479	857	689	(225)	464
2025	64	20	68	6.00%	\$73.50	\$4.50	1,758	(667)	(149)	(200)	(198)	544	(141)	403	742	600	(225)	375
2026	60	19	64	6.00%	\$73.50	\$4.50	1,653	(627)	(140)	(200)	(186)	500	(130)	370	685	555	(225)	330
2027	57	18	60	6.00%	\$73.50	\$4.50	1,554	(589)	(132)	(200)	(175)	458	(119)	339	632	513	(225)	288
2028	53	17	56	6.00%	\$73.50	\$4.50	1,460	(554)	(124)	(200)	(164)	418	(109)	309	582	474	(225)	249
2029	50	16	53	6.00%	\$73.50	\$4.50	1,373	(521)	(117)	(200)	(154)	381	(99)	282	535	436	(225)	211
2030	47	15	50	6.00%	\$73.50	\$4.50	1,290	(490)	(110)	(200)	(145)	346	(90)	256	491	401	(225)	176
2031	44	14	47	6.00%	\$73.50	\$4.50	1,213	(460)	(103)	(200)	(136)	313	(81)	232	450	368	(225)	143
2032	42	13	44	6.00%	\$73.50	\$4.50	1,140	(433)	(97)	(200)	(128)	283	(73)	209	411	337	(225)	112
2033	39	12	41	6.00%	\$73.50	\$4.50	1,072	(407)	(91)	(200)	(120)	254	(66)	188	374	308	(225)	83
2034	37	12	39	6.00%	\$73.50	\$4.50	1,007	(382)	(86)	(200)	(113)	226	(59)	168	340	281	(115)	166
2035	35	11	36	6.00%	\$73.50	\$4.50	947	(359)	(80)	(200)	(106)	201	(52)	149	307	255	(115)	140
2036	33	10	34	6.00%	\$73.50	\$4.50	890	(338)	(76)	(200)	(100)	177	(46)	131	277	231	(115)	116
2037	31	10	32	6.00%	\$73.50	\$4.50	837	(317)	(71)	(200)	(94)	154	(40)	114	248	208	(115)	93
2038	29	9	30	6.00%	\$73.50	\$4.50	787	(298)	(67)	(200)	(88)	133	(35)	98	221	187	(115)	72
2039	27	9	28	6.00%	\$73.50	\$4.50	739	(280)	(63)	(150)	(83)	163	(42)	121	246	204	(105)	99
2040	25	8	27	6.00%	\$73.50	\$4.50	695	(264)	(59)	(150)	(78)	144	(37)	107	222	185	(105)	80
2041	24	8	25	6.00%	\$73.50	\$4.50	653	(248)	(56)	(150)	(73)	127	(33)	94	200	167	(105)	62



**Exhibit 2: Aera valuation**  
Assuming a 6% base decline

2023	21	7	22	6.00%	\$73.50	\$4.50	577	(219)	(49)	(150)	(65)	94	(25)	70	159	135	(105)	73
2043	21	7	22	6.00%	\$73.50	\$4.50	577	(219)	(49)	(150)	(65)	94	(25)	70	159	135	(105)	73

Source: BofA Global Research

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In this update we incorporate pro-forma estimates for the Aera merger from 3Q24, and latest management guidance.

**Exhibit 3: CRC Earnings Estimates**  
Updated ests for the Aera merger and EIR impact

	Q1	Q2	Q3	Q4	FY	BBG Consensus
2023A	2.63	0.52	1.08	1.21	5.46	5.20
2024E	2.59	3.02	2.78	2.16	10.46	5.80
Previous	1.13	1.16	1.69	1.28	5.26	n/a
2025E	2.00	1.96	2.29	1.96	8.21	7.37
Previous	1.33	1.24	1.68	1.40	5.66	n/a
2026E	8.21	8.21	8.21	8.21	8.21	10.35
Previous						n/a

Source: BofA Merrill Lynch Global Research, Bloomberg

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## Price objective basis & risk

### California Resources Corporation (CRC)

Our price objective of \$55/sh is based on ex growth DCF value using BofA's base case commodity view through 2024 and a Long-term (2025+) oil price assumption of \$75 Brent. We assume long-term HH natural gas of \$4.00. We apply a long-term (post-tax) weighted average cost of capital (WACC) of 9.6%, which is based on the BofA strategy team's assumed risk premium and a five-year monthly beta.

Upside risks to our PO are a higher sustaining commodity price than we have in our base case and faster than expected monetization of carbon capture/sequestration technology/acumen. Downside risks to our price objective are (1) regulatory risks in California, (2) project timing delays could impact our growth rates, and (3) as an oil leveraged company, a weak oil price environment would affect our estimates and valuation. (4) A slower than expected monetization of carbon capture/sequestration technology/acumen.

## Analyst Certification

I, Kalei Akamine, 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 - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	APA Corporation	APA	APA US	Doug Leggate
	Canadian Natural Resources	YCNQ	CNQ CN	Doug Leggate
	Canadian Natural Resources	CNQ	CNQ US	Doug Leggate
	Chesapeake Energy	CHK	CHK US	Doug Leggate
	Chevron Corp.	CVX	CVX US	Doug Leggate
	ConocoPhillips	COP	COP US	Doug Leggate
	Coterra Energy Inc	CTRA	CTRA US	Doug Leggate
	EQT Corporation	EQT	EQT US	John H. Abbott
	ExxonMobil Corp.	XOM	XOM US	Doug Leggate
	Granite Ridge Resources, Inc	GRNT	GRNT US	John H. Abbott
	Imperial Oil	IMO	IMO US	Doug Leggate
	Imperial Oil	YIMO	IMO CN	Doug Leggate
	Kimbell Royalty Partners	KRP	KRP US	John H. Abbott
	Magnolia Oil and Gas	MGY	MGY US	Noah Hungness
	Occidental Petroleum Corp.	OXY	OXY US	Doug Leggate
	Ovintiv Inc	YOVV	OVV CN	Doug Leggate
	Ovintiv Inc	OVV	OVV US	Doug Leggate
	Range Resources Corp	RRC	RRC US	Doug Leggate
	Suncor	YSU	SU CN	Doug Leggate
	Suncor	SU	SU US	Doug Leggate
<b>NEUTRAL</b>				
	California Resources Corporation	CRC	CRC US	Kalei Akamine
	CNX Resources	CNX	CNX US	John H. Abbott
	Delek US Holdings, Inc.	DK	DK US	Doug Leggate
	Devon Energy Corp.	DVN	DVN US	Doug Leggate
	Diamondback Energy Inc.	FANG	FANG US	Doug Leggate
	EOG Resources	EOG	EOG US	Doug Leggate
	Gulfport Energy Corporation	GPOR	GPOR US	Doug Leggate
	HF Sinclair Corporation	DINO	DINO US	Doug Leggate
	Marathon Petroleum Company	MPC	MPC US	Doug Leggate
	PBF Energy	PBF	PBF US	Doug Leggate
	Permian Resources Corporation	PR	PR US	Doug Leggate
	Phillips 66	PSX	PSX US	Doug Leggate
	Valero Energy Corp.	VLO	VLO US	Doug Leggate



## US - Large Cap Oils Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>	Chord Energy Corporation	CHRD	CHRD US	John H. Abbott
	Crescent Energy Company	CRGY	CRGY US	John H. Abbott
	Marathon Oil Corp.	MRO	MRO US	Doug Leggate
	National Fuel Gas Company	NFG	NFG US	John H. Abbott
	Northern Oil and Gas	NOG	NOG US	John H. Abbott
	Vital Energy Inc	VTLE	VTLE US	John H. Abbott
<b>RSTR</b>	Pioneer Natural Resources	PXD	PXD US	Doug Leggate

**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**

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$   
  
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 & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
 $\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$   
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  
 $\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$   
Sales  
  
Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

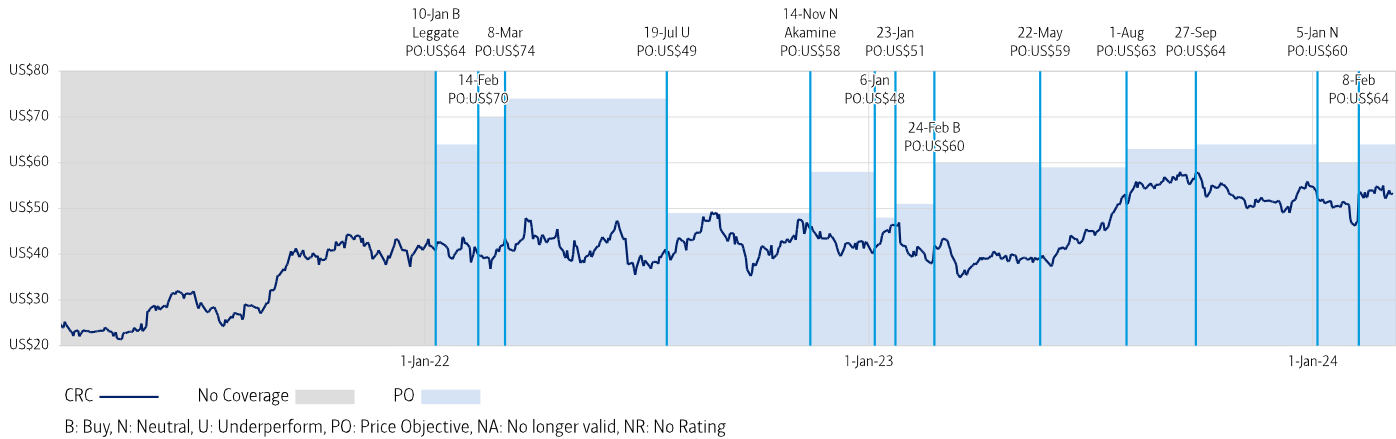
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# Disclosures

## Important Disclosures

### California Resources (CRC) Price Chart



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%

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